DONGXIANG

Annual Report 2010

China Dongxiang (Group) Co., Ltd. 中國動向（集團）有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 3818

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Vision

By uniting OUTSTANDING INDIVIDUALS and
striving for MANAGERIAL EXCELLENCE,
we'll lead the SPORTS FASHION industry,
all with JOY and PASSION

Mission

To be the most PIONEERING and
DESIRED SPORT-LIFE BRANDS

DONGXIANG

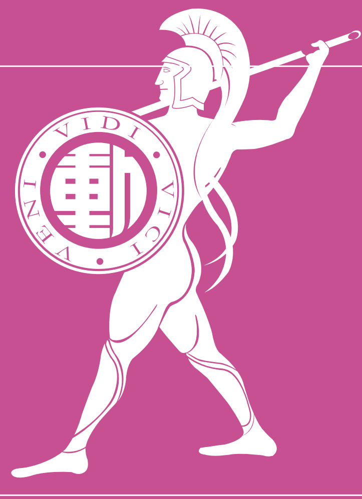

KAPPA

CORPORATE INFORMATION

Executive Directors	Mr. Chen Yihong (Chairman) Mr. Qin Dazhong (Vice Chairman) Ms. Sandrine Zerbib (Chief Executive Officer)
Non-Executive Director	Mr. Gao Yu
Independent Non-Executive Directors	Mr. Xu Yudi Dr. Xiang Bing Mr. Jin Zhi Guo
Auditor	PricewaterhouseCoopers Certified Public Accountants
Legal Advisers	Norton Rose Hong Kong Conyers Dill & Pearman Hylands Law Firm
Investor Relations Consultant	IPR Ogilvy Ltd.
Authorised Representatives	Mr. Gao Yu Ms. Wai Pui Man
Company Secretary	Ms. Wai Pui Man
Principal Share Registrar and Transfer Office	Butterfield Fulcrum Group (Cayman) Limited Butterfield House 68 Fort Street P.O. Box 705 Grand Cayman KY1-1107 Cayman Islands

Corporate Information

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
Registered Office	Cricket Square, Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Principal Place of Business in Hong Kong	Office Unit 9, 13/F Tower Two, Lippo Centre No. 89 Queensway Hong Kong
Head Office in People's Republic of China	Building 21, No. 2 Jingyuanbei Street, Beijing Economic-Technological Development Area, Beijing 100176, People's Republic of China
Principal Bankers	Industrial and Commercial Bank of China (Asia) Bank of Communications China Merchants Bank
Website	www.dxsport.com



2010

- "Robe Di Kappa" Brand being officially launched in China
- First Kappa TVC launched on CCTV-5
- Kappa P-A.C, a young and fashionable product line, developed by Mr. Michael Michalsky, renowned German designer, being launched
- Ms. Sandrine Zerbib being appointed as CEO, Executive Director and Chairman of the Executive Committee
- Mr. Terence Hon being appointed as the CFO and member of the Executive Committee

2009

- The Group entered into an agreement with Michael Michalsky, the former global creative director of Adidas, for the development and launch of a new collection under the Kappa Brand
- Kappa on-line flagship store was opened on Taobao (http://kappa.mall.taobao.com). On 11 November, Kappa Taobao store achieved a single-day sales of RMB4.03 million, breaking the single-day sales record for online sales of sportswear goods in China
- Grand launch of a new brand slogan for Kappa Brand, being "We Are One", was held in the PRC market for the first time

2008

- Completed the acquisition of Phenix Co., Ltd. ("Phenix") and entered the ski and outdoor sportswear market by introducing its creative and experienced design and R&D team
- Became a constituent stock of the Morgan Stanley Capital International China Index as of the market close on 25 November 2008

2007

- China Dongxiang (Group) Co., Ltd. incorporated and listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange") on 10 October 2007
- The SAP system launched to improve information management system
- Cooperation with University of the Arts London started to strengthen research & development capabilities
- Co-branding with world class brands such as Pepsi and Peugeot Citroën

2006

- The Group purchased all rights to Kappa Brand in PRC and Macau
- Morgan Stanley invested in the Group
- Kappa became China's 3rd largest international sportswear brand

2005

- The Group further acquired the rest 80% equity interest in Beijing Dongxiang held by Li Ning
- Current management re-positioned Kappa as fashionable sportswear
- The Group signed Rukka licensing agreement for China

2004

- The Group acquired 20% equity interest in Beijing Dongxiang through its subsidiary Shanghai Leide Sporting Goods Co., Limited

2002

- Beijing Dongxiang Sports Development Co., Limited ("Beijing Dongxiang") was established and Mr. Chen Yihong and Mr. Qin Dazhong became chairman and general manager respectively
- Kappa Brand entered into China

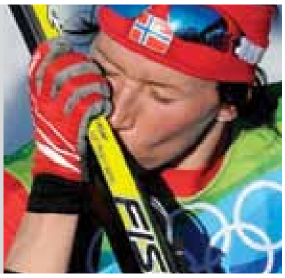

ITALIA
ITALIA

MAJOR EVENTS IN 2010

FEBRUARY >> MARCH >> APRIL >> MAY >> JUNE >>

• **BRAND MARKETING**

>> Kappa and Phenix Brands under China Dongxiang Group sponsored Norway Olympic Committee and Norwegian Ski Federation in the 21st Winter Olympic Games in Vancouver



• **CORPORATE**

>> First Robe Di Kappa store officially opened at The Place, Beijing on 24 February

• **BRAND MARKETING**

>> Crossover with BMW and became the "BMW Mission 3" partner

• **BRAND MARKETING**

>> The Group sponsored the "GIGABYTE Stars War International Digital and Electronics Contest" organized by Information Centre of General Administration of Sport of China and Shanghai Sports Association

• **COMMUNITY SERVICE**

>> The Group donated relief materials worth over RMB6 million to victims of the earthquake in Yushu county, Qinghai province and mobilized employees to take part in such donations

• **BRAND MARKETING**

>> Kappa's first brand image TV commercial being launched on CCTV-5

>> Robe Di Kappa's Brand promotion campaign preluded with a music performance titled "Weekend Surprise"

• **BRAND MARKETING**

>> Kappa collaborated with Bazaar and Bazaar Men's Style for new graphic fashion image and launched the "Soccer Frenzy" carnival at the World Cup Opening Ceremony on 11 June

>> Sponsored the "DreamBoat Soccer Team's trip to South Africa"

JULY >> AUGUST >> OCTOBER >> NOVEMBER >> DECEMBER >>

- **BRAND MARKETING**

>> Mr. Michael Michalsky X Kappa P-A.C Series being officially launched at Kappa P-A.C, "Pack Away Concept" press conference

>> The Group sponsored drama series by Stan Lai in the 2010 classical drama season. By connecting P-A.C "Pack Away Concept" with trendy leisure lifestyle Lai's classical drama represents, further enhanced the brand artistic value

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- **BRAND MARKETING**

>> Kappa Golf on-site show held at "Entertainment and Sports Celebrity Golf Competition" which was sponsored by the Group with many celebrities attended

- **COMMUNITY SERVICE**

>> Kappa, Music Radio, the China Children and Teenagers' Fund co-organized "2010 I Want to Go to School Kappa 1200 Charity Event"

- **BRAND MARKETING**

>> Through sponsorship in "China Open" as the Platinum Sponsor, further promoted Kappa's image of integrating sports and fashion

- **COMMUNITY SERVICE**

>> The Group sponsored the "I Want to Go to School Kappa 1200 Charity Event" golf competition in Beijing and Shanghai

- **CORPORATE**

>> Ms. Sandrine Zerbib being appointed as CEO, Executive Director and Chairman of the Executive Committee

- **BRAND MARKETING**

>> The Group Offered full support to the "HSBC Golf Championship" in Shanghai

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- **CORPORATE**

>> Mr. Terence Hon being appointed as the CFO and member of the Executive Committee

>> The Group received "The Excellence of Listed Enterprise Award 2010" by Capital Weekly

FIVE-YEAR FINANCIAL HIGHLIGHTS

(All amounts in Renminbi millions unless otherwise stated)

		Year ended 31 December				
	Note	**2010**	2009	2008	2007	2006
Sales		**4,261.6**	3,970.4	3,322.2	1,711.0	858.9
Operating profit		**1,741.4**	1,697.3	1,331.7	724.7	385.6
Profit before income tax	1	**1,837.4**	1,796.3	1,470.1	726.5	372.1
Profit attributable to equity holders of the Company	1	**1,463.7**	1,459.8	1,221.8	688.8	306.5
Non-current assets		**950.5**	838.3	543.0	407.6	344.5
Current assets		**7,441.7**	7,073.4	6,750.5	5,815.3	506.1
Current liabilities		**871.5**	552.2	569.9	315.2	237.8
Net current assets		**6,570.2**	6,521.3	6,180.6	5,500.1	268.3
Total assets		**8,392.2**	7,911.8	7,293.5	6,223.0	850.6
Total assets less current liabilities		**7,520.7**	7,359.6	6,723.5	5,907.7	612.8
Equity attributable to equity holders of the Company		**7,515.0**	7,354.2	6,719.4	5,901.8	307.5
Gross profit margin (%)		**59.7**	60.4	58.5	58.5	62.4
Net profit margin (%)	1	**34.3**	36.8	36.8	40.3	35.7
Earnings per share	1, 2					
— basic (RMB cents)		**25.83**	25.76	21.54	14.92	7.10
— diluted (RMB cents)		**25.82**	25.76	21.54	14.86	7.07
Total assets per share (RMB cents)	2, 3	**148.11**	139.63	128.60	134.78	19.70
Debt to equity holders' equity ratio (times)	4	**0.12**	0.08	0.09	0.05	1.77

Notes:

1. The figures in 2008 and 2007 are calculated after excluding the one-off gains, RMB145,950,000 from the acquisition of Phenix for the year ended 31 December 2008 and RMB44,742,000 from interest income of over-subscription monies to the Global Offering for the year ended 31 December 2007 respectively, as they are more meaningful for comparison.

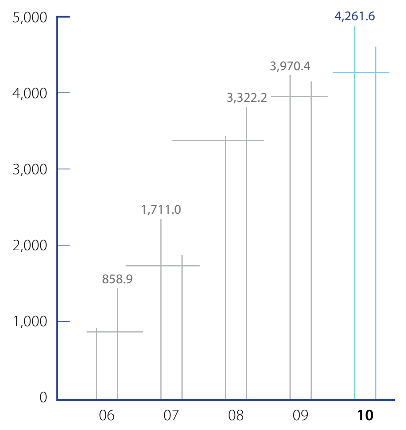
2. The comparative figure for the year ended 31 December 2006 is calculated based on the assumption that 4,319,000,000 shares, and shares in relation to the pre-IPO share options upon exercise have been in issue since 1 January 2006.

3. The number of ordinary shares used in the calculation for the year ended 31 December 2010, 2009, 2008 and 2007 are 5,666,053,000 shares, 5,666,066,000 shares, 5,671,551,000 shares and 4,617,162,000 shares, which are the weighted average number of shares for the year.

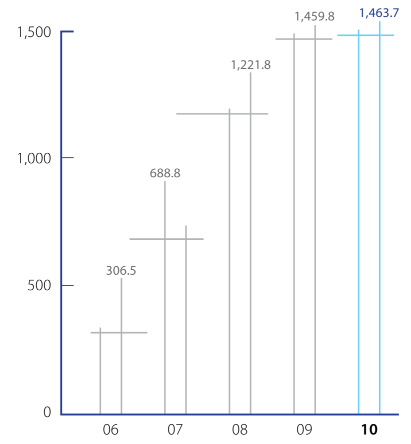
4. The debt to equity holders' equity ratio is based on total liabilities divided by equity attributable to equity holders of the Company as at 31 December for the year.

(All amounts in Renminbi millions unless otherwise stated)

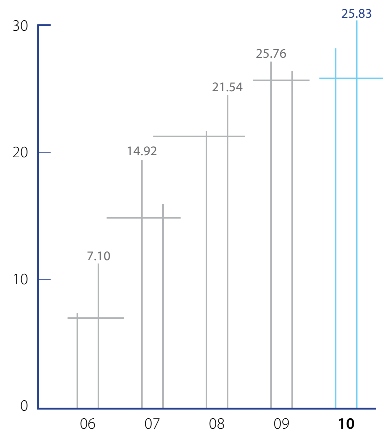
SALES



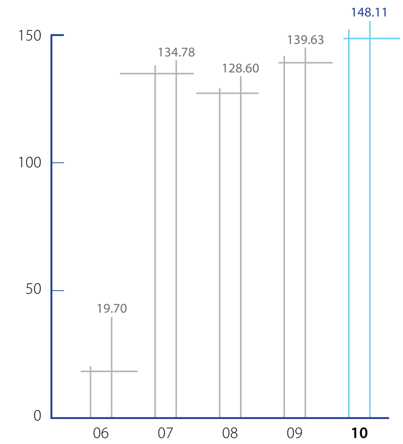
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY



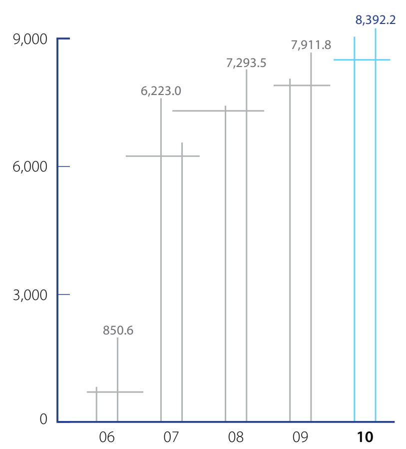
EARNINGS PER SHARE — BASIC (RMB CENTS)



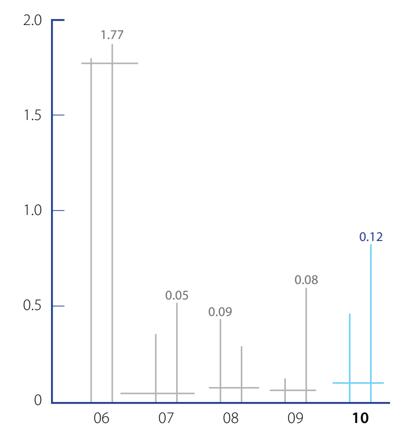
TOTAL ASSETS PER SHARE (RMB CENTS)



TOTAL ASSETS



DEBT TO EQUITY HOLDERS' EQUITY RATIO (TIMES)



CHAIRMAN'S STATEMENT

Dear shareholders:

China's sports goods industry is undergoing a transformation. For the past few years, a variety of brands have risen to prominence and the market has grown rapidly. Today, the industry faces a new series of challenges, including intensifying competition and inventory excess. In 2010, both brand operators and retailers in the market faced correlated business pressure. Despite the challenges, we still see a good prospect of rapid growth in the retail market given the ongoing rapid economic development. We believe that China's sports goods industry will continue to grow steadily and significantly. As a major market player, China Dongxiang is ready to make self-adjustment and capitalize on the market expansion. We will apply pertinent approaches to strive for business growth.

In a market fraught with challenges, we still managed to achieve encouraging results. For the 12 months ended 31 December 2010, the Group recorded a turnover of RMB4,261.6 million, representing a 7.3% year-on-year increase. During the year, the Group's gross profit margin remained at a satisfactory level at 59.7%. Profit attributable to equity holders of the Company amounted to RMB1,463.7 million, up 0.3% year-on-year. Basic earnings per share were RMB25.83 cents, up 0.3%. According to our dividend policy, we propose to distribute 30% of profit attributable to equity holders for the year ended 31 December 2010 as dividend. Given the strong cash position, the board of directors of the Company has recommended to distribute an additional 40% of profit attributable to equity holders of the Company for the year ended 31 December 2010. As a result, the total dividend payout ratio for the year ended 31 December 2010 will be 70%.

Considering the intensifying competition in the industry, as well as rising operation cost of distributors, we have adopted a more prudent expansion policy in this year. As at 31 December 2010, the number of our Kappa Brand retail stores in China increased by 240 to reach 3,751. The Robe Di Kappa Brand was also launched in the mainland market during the year. A total of 20 Robe Di Kappa Brand retail shops, including a flagship store in Wangfujing, Beijing, were opened. The addition of Robe Di Kappa Brand to our brand portfolio paved way for our product diversification and enhancement. All this reflected the Group's prudent strategy to expand its sales network and boost its sales efficiency with a view to delivering good business results.

To further strengthen the brand image of Kappa, the main brand of our product portfolio, we launched a variety of brand promotional activities, including the brand's first TV commercial aired on CCTV's sports channel CCTV-5. The advertisement featured young and energetic models in fashionable Kappa Brand sportswear and accessories, highlighting the perfect mélange of fashion and sportswear of Kappa Brand products. During the 2010 World Cup, Kappa held a range of promotional campaigns. In addition, it collaborated with Harpers' Bazaar and sponsored a series of sports events. All these have effectively strengthened Kappa's Brand reputation.

Product quality and product innovation form the propelling force for business growth at the Group. We have developed a range of new technologies at our world-class R&D center in Japan. The innovations are set to inject new life to our new products in the future. Our new product lines have been pursued by the market, with no exception for Kappa P-A.C series which was launched in 2010, marked by simple and stylish looks.

The year 2010 marked the third anniversary of the Company after listing on HKEx. We have been making relentless efforts to expand our sales network and build our brands. Amid market changes, we have embarked on a new development path and we look forward to penning a new chapter for our business. One of the important figures leading the Company's change of direction is the appointment of Ms. Sandrine Zerbib as Chief Executive Officer and Executive Director in November 2010. Ms. Zerbib has 17 years of experience in the sports industry in the PRC. With her profound industry knowledge and highly analytical mind, she will help the Company grasp growth opportunities and steer the Group to another period of high growth.

With retail sales continuing to grow, crediting to China's persistent economic growth, we believe the compound annual growth rate of the market will stand at a rate in low to mid-teens for the period from 2011 to 2015. In particular, the rate for smaller cities will increase rapidly. With urbanization accelerating and people's consumption power continuing to increase, market demand for sporting goods will move from the low-to-mid range to the mid-to-high end, and there will be a shift of consumers' preference from sports functionality to fashion and personal style.

Chen Yihong
Chairman

Having placed ourselves on the pulse of market development, we now have to properly adjust our market strategy. We will leverage our talents and resources from the R&D center in Japan to further improve our merchandise. In 2011, we will refine our sales network, carefully evaluate the geographic coverage of our sales points, and restructure our sales teams. In addition, we will establish strategic cooperative partnerships through our main distributor, GX Retail Group, so as to enhance the service standard and efficiency of our retail stores. We will provide sufficient training and other forms of support to our distributors, as well as exert more influence on the retail end with a goal to boosting operating efficiency and productivity of the retail stores.

In addition to traditional sales channels, the Group will also place great importance on the online sales platform. We have recently made a strategic investment along with SINA Corporation in an e-commerce company Mecox Lane Limited in a move that has widened the scope of our online sales platform. We also plan to work together with Mecox Lane Limited, with an expectation to selling a bigger variety of sports goods with higher value through e-commerce sale. This move illustrates our determination to and strength in developing the online sales business segment.

The sport-and-fashion positioning of Kappa Brand has long been established. In 2011, we will step up efforts to promote this core brand value, strive for continuous growth of the brand in the sportswear market. We will also meticulously widen our product portfolio to capture the changing demand on both sides of the sportswear market spectrum, by continuously combining style and functionality. We plan to launch the Phenix Brand in the PRC in 2011. The move will set our foot in the ski and outdoor apparel market in the PRC. The Phenix Brand, coupled with our stylish sports brands of Robe Di Kappa, X-nix and inhabitant, will stand us in good stead promoting the idea of combining functionality with style in the sportswear market.

Inevitably, we will be facing challenges to our Kappa business in the year 2011. Amid the ever-changing business environment, it also brings us more business opportunities to which we shall be able to pursue further growth of the Group in the long term. We believe that our growth dynamics will forge ahead through the operations of e-commerce, multi-brands and brand building integrated with retailing business. We are confident that the new management led by Ms. Sandrine Zerbib together with our strong financial position will become our new growth engine.

Last but not least, on behalf of the Board, I would like to express wholehearted thanks to all our shareholders and business partners for their constant support. I would also like to thank all employees of the Group. We believe that with our collective efforts, Company will overcome all challenges along the way, carve out a better future and bring more lucrative returns to our shareholders.

Chen Yihong
Chairman
Hong Kong, 22 March 2011

BRAND PORTFOLIO

The Group is committed to becoming one of the best multi-brand sportswear enterprises in the PRC. The Kappa Brand is our first brand and with the strong presence and network developed through the Kappa Brand, it has established solid foundation for us to implement a multi-brand strategy. After the acquisition of Phenix in 2008, the Group owned the brands of Phenix, X-NIX, and inhabitant as well. In order to explore high end sportswear fashion market, the Group launched Robe Di Kappa, a sister brand of Kappa, in the PRC in 2010. We plan to launch the Phenix Brand in the PRC. The move will set our foot in the ski & outdoor apparel market in the PRC.

By utilising management's extensive experience in the sportswear industry and our strong financial resources, we will endeavor to identify and explore opportunities to operate more international brands in the PRC and/or regional markets.

Kappa

- A renowned Italian sportswear brand founded in 1978
- Since 2002, the Group has been operating the Kappa Brand in the PRC market
- Enriched with Italian fashion elements, Kappa emerges as a leader in the China sports fashion market

ROBE DI KAPPA

- A sister brand of Kappa launched in Italy in 1960
- The concept of "sports of connotation" is blended into sports product lines, giving them a touch of Italian humanistic spirit
- Committed to integrating quality, fashion details and stylish expression by providing customers with the unique experience that goes far beyond the apparel items themselves.

DONGXIANG

phenix

- A top international ski brand with great emphasis on functional performance and fashionable style of equipment through excellence in every detail
- Its simple design yet eye-catching design represents a perfect blend of function and fashion
- It reflects detail-attentive peculiar styles of Japanese designers, and their R&D philosophy of positively absorbing the design features of other products and industries.

X-nix

- An apparel brand for snowboarding.
- With a mix of functional and fashionable senses, it covers a diverse range of equipment and ornaments.
- It assures customers of the joy and fun in snowboarding in any weather conditions, as proven by series of tests under the support of top snowboard athletes.

inhabitant

- The youth is the main target audience of this brand.
- The product line covers almost all of the extreme sports including surfing, snowboarding, extreme wakeboarding, riding bicycles and skateboards, etc., as well as other entertainment areas of life such as DJ are covered.
- Endeavor is made to constantly provide typical types of fashionable and popular sports equipment and everyday clothing.

MACROECONOMIC AND INDUSTRY REVIEW

Macroeconomic Review

The global economy faced a number of uncertainties in 2010. Although the U.S. economy steered clear of a double dip recession in the aftermath of the financial crisis, the outbreak of the European debt crisis cast a shadow over prospects for economic recovery. Nevertheless, the Chinese economy maintained healthy and steady growth against the backdrop of a moderate currency policy. Chinese economic growth remained startling, with annual GDP rising 10.3% on the previous year to approximately RMB 40,000 billion, allowing China to surpass Japan as the world's second-largest economy. China's trade picture was also encouraging. Imports and exports combined scaled a new record of approximately RMB 3,000 billion in 2010, up 34.7% on the year, showing that export demand had returned to levels witnessed before the financial crisis.

Domestic demand remained relatively buoyant as a significant jump in local incomes stoked consumption despite rising inflation and tightening monetary policy by the government to tighten bank and money market rates. The value of retail sales last year topped RMB 15,000 billion, up 18.4% compared with the previous year. Consumption in urban areas grew at a faster pace than in rural regions, with big-ticket purchases leading the way.

According to China's National Bureau of Statistics, domestic demand boosted GDP growth 9.5 percentage points, contribution to growth was 92.1%. While risks associated with the global financial markets linger, expansion of domestic demand is expected to remain a key approach for maintaining the growth of the Chinese economy in a steady and rapid manner, thereby fostering favorable business conditions for enterprises.

Industry Review

The growth picture of the Chinese sportswear industry has moderated from one in which annual growth rates of 30% from 2004 to 2007 and even 45% in 2008, the year of the Beijing Olympics, to those in the mid-teens.

At the same time, competition among industry players has intensified as a result of the rapid development of local sports brands. In particular, the casual and lifestyle sector of the sports industry is growing faster than the sports performance sector. Established local and international companies that have made a name in the sports performance arena have all been trying to break into the casual sports market, while international casual wear brands have also made aggressive inroads into China.

Over the years, the Chinese sportswear market has developed into a relatively mature sector with dwindling opportunities for new stores. Rising rental and labor costs were exerting more pressure on sportswear retailers.

Overall expenditure in the sportswear market as a percentage of consumers' apparel spending was declining and moving closer to levels seen in more mature markets. However, sportswear consumption in China remains relatively muted by global standards. We can thus expect to see the growth trend in the sector to continue, albeit at a lower rate than in the period of 2006 to 2010.

Rapidly rising incomes and accelerated urbanization will drive China's sportswear market in the future. It is expected that, in the next five years, the CAGR of the sportswear market will reach approximately 12.0%, with faster growth coming from lower-tier markets and the mid-to-high end segment.

BUSINESS REVIEW

2010 marked a turning point for the Group, with the focus placed on strengthening its foundations to maintain growth and seize emerging opportunities. The Group made adjustments to its operating strategies to propel business growth. During the year, the Group dedicated its efforts to brand building and marketing, successfully enlarged its brand portfolio and enhanced its product design and research and product development.

Brand Building and Marketing

In 2010, Kappa, the core brand of the Group, continued to adopt "We are One" as its brand building and marketing slogan. The Group reinforced its promotional efforts through its first television commercial, a series of World Cup South Africa marketing activities and cooperation with magazines and sports events.

Kappa TV commercial

Between May and October 2010, the Group has launched Kappa brand image TV commercials that featured the sports in season on CCTV-5, which is the main sports broadcaster in mainland China. The TV commercials have also been aired in Anhui TV, Zhejiang TV, Liaoning TV, Nanjing TV, Beijing TV, etc. On the back of this marketing channel, the Group has successfully conveyed the brand theme of fusing sports and fashion.

Kappa's Promotion Activities for the 2010 FIFA World Cup South Africa

Besides the TV commercial, Kappa also launched a World Cup marketing campaign dubbed "Soccer Frenzy" during the period of the 2010 FIFA World Cup South Africa from 11 June to 11 July 2010, which included:

— The "Kappa World Team" Series Video

The Group produced the "Kappa World Team" series video which was shown on the Kappa activity website by integrating a series of official visual references inspired by the World Cup. The video showed football players sporting the three theme colors of red, green and white, catching a football in different postures. By presenting a combination of dynamic visuals, the video demonstrated Kappa's spirit of combining sports and fashion.

— Penetration Through the Internet

Through the most frequently-visited online platforms in China including www.163.com, www.hi.qq.com, www.kaixin001.com, www.renren.com, www.youku.com and www.baidu.com, Kappa targeted the young consumer segment to promote Kappa's World Cup activities and Kappa product.

The Kappa public homepage on www.kaixin001.com was officially launched in the first half of 2010. Through www.kaixin001.com, the online platform for youngsters with the largest user population in the PRC, Kappa presented its brand fundamentals, products, history and activities, etc. in a language spoken by the young generation on its public home page.

— Kappa Art Show

During the World Cup period, Kappa organized street art shows on Beijing's Wangfujing shopping street and Solana ("藍色港灣") shopping park, where works of various artists were displayed and promoted through a combination of online activities.

— Kappa Celebrity Campaign

Kappa sponsored the "DreamBoat Soccer Team" and launched the "DreamBoat and Kappa Team Up for the 2010 World Cup South Africa".

The 2010 World Cup South Africa marketing campaign successfully beat a number of other World Cup marketing efforts and was awarded "Best World Cup Marketing Campaign on the Internet" in the "Internet Sports Marketing Awards" with the support of www.163.com, Cheung Kong Graduate School of Business, marketing professionals, media representatives and 400 million internet surfers who voted on the best sports marketing by brands or corporations.

Crossover with Bazaar

Kappa cooperated with *Bazaar* magazine to create a new graphic fashion image and officially presented it to the *Bazaar* and *Bazaar Men's Style* issues between June and October, 2010. The new graphic image integrates fashion and sports, and was the result of the combined creative work of our stylists, fashion advocates and column editors of *Bazaar*.

In addition, *Bazaar* joined hands with Kappa to launch the "Soccer Frenzy" carnival and invited the "DreamBoat Soccer Team" to support the event.

Crossover with BMW

Kappa joined forces with BMW and became the official Clothing Sponsor for the "BMW Mission 3" event. The alliance with a world-class, high-end brand significantly enhanced Kappa's brand image.

Sports Sponsorships

China Open

During the year, the Group sponsored the China Open, a top integrated tennis event held by three international tennis organizations including ATP, WTA and ITF. Kappa was not only the Platinum Sponsor of the China Open, but also became the title sponsor of the event "Kappa-CRT", with the goal of promoting tennis to the public. Kappa further promoted its brand by extending its promotional activities for the China Open to its retail outlets.

The Group cooperated with BasicNet S.p.A. ("BasicNet"), the other owner of the Kappa Brand, together with licensees of Kappa in other countries in a series of sporting sponsorships, including:

— Co-sponsorship of Italian Serie A Club AS Roma

— Co-sponsorship of German Bundesliga Club Borussia Dortmund

— Official sponsorship of team clothing for Virgin Racing F1 Team

2010 Kappa Golf

The Kappa Brand launched a series of TV campaigns and sponsorships under "Kappa Golf" during 2010. One of the major events was the "Hole in One Kappa" golf day organized in August 2010. The golf games featured different celebrities and Kappa organized a product launch show for the Kappa Golf series. Kappa also offered its full support to the HSBC Golf Championship, which was held in Shanghai, China in November 2010.

Expanding Brand Portfolio

Robe Di Kappa Business

Apart from developing the Kappa Brand, the Group continues to enrich its brand portfolio. Its efforts included the introduction of Robe Di Kappa ("RDK"), Kappa's sister brand in China. Robe Di Kappa brings a new attitude and perspective towards sports and leisure to the world — the inner beauty of sports, with its artistically innovative line of products. The first Robe Di Kappa outlet was officially opened in Beijing in February 2010. The number of outlets had grown to 20 by the end of 2010.

Brand image of Robe Di Kappa was built by communicating with consumers through a series of artistic marketing activities, including the "2010 Fall/Winter Fashion Collection" and music performances, as well as the introduction of a special selection CD, "The Choice of RDK", in September.


ROBE DI KAPPA


phenix

Other Brands and Markets

During the year, the Group engaged in the active preparation of the introduction of Japanese ski and outdoor brand, Phenix, to China. Phenix, Japan's largest ski brand by market share, has gained strong recognition internationally. Its products have been distributed to countries in Europe and North America. In order to mitigate the effects of the high seasonality of ski, Phenix has expanded into the outdoor segment, a move which is highly suitable for its development in the China market.

Furthermore, the Group also owns X-nix, a snowboard sportswear brand, and inhabitant, a sportswear brand with products covering various extreme sports.

Sales Network

In the China market, the Group has adopted an "exclusive distributor" policy to sell the Group's products to a limited number of distributors. Under this policy, the Group typically appoints only one primary distributor in one designated geographical market. We believe that such a policy effectively reduces disorderly competition within the same area among distributors selling the same brand, while enhancing the profitability and loyalty of distributors. It also enables the Group to engage in tighter cooperation with local retailers. As of 31 December 2010, the Group had 38 distributors who directly or indirectly operated 3,751 retail outlets selling Kappa Brand products in China. This represented a net increase of 240 retail outlets compared with 3,511 retail outlets as of 31 December 2009. In addition, the number of retail outlets selling Robe Di Kappa reached 20. The distribution of retail outlets covered all major provincial cities and other large urban areas and towns in China.

Apart from traditional sales in retail outlets, the Group placed increased emphasis on internet sales. Through joint efforts with www.taobao.com, the leader of e-commerce in China, consumers are able to purchase Kappa products over the internet. Online sales of Kappa products grew by over 300% in 2010. The Group believes that online sales can complement physical retail outlets and serve as an effective platform for brand promotion. The Group aims to devote its efforts to the establishment of an integrated online sales platform while at the same time tapping into multiple popular internet channels to promote sales. On 11 November 2010, also known as "Singles Day" in China, Kappa's daily internet retail sales reached approximately RMB 11.0 million, with the number of visitors to the Group's online store hitting 1.5 million.

Design and Development

The Group believes that product differentiation has always been one of the most important factors contributing to our success. The Group developed and launched several new product lines by leveraging on Phenix's strengths in product design and R&D, featuring in-house as well as freelance designers of different nationalities.

The Group worked with renowned designer Mr. Michael Michalsky to develop Kappa P-A.C and launched the first collection in July 2010, targeting young consumers (age 20-30) in central urban areas of first-tier cities. The concept of P-A.C — "Pack Away Concept" originated from designer Mr. Michalsky's observation of youngsters around the world. Nowadays, urban youth are fond of carrying various portable gadgets (e.g. MP3s, mobile phones, PSPs, make-up kits etc.) for convenient use at anytime. With this in mind, Mr. Michael Michalsky's design team created the latest Kappa P-A.C series to cater to the needs of these customers. Applying a simple and fashionable design that harmonizes with light and soft materials, the Kappa P-A.C series demonstrates the Group's determination in advocating a diversified product portfolio and its marketing strategies.

Phenix Co., Ltd., our subsidiary in Japan, developed a number of new technologies during the year, including curve zippers and embossment patterns, which added various new elements to the Group's up-and-coming products. Leveraging on R & D personnel and softwares of Phenix Co., Ltd., advanced technologies used in sportswear production have been transferred from Japan to our R & D center in Taicang, Jiangsu, the PRC. The exchange of personnel within the two technical centres enabled the Group to leverage on synergies related to the design and R&D of its products.

FINANCIAL REVIEW

Our sales in 2010 was RMB 4,261.6 million, representing a growth of 7.3% from 2009. Profit attributable to equity holders of the Company for the year ended 31 December 2010 reached RMB 1,463.7 million, representing a 0.3% growth compared with RMB 1,459.8 million for the year ended 31 December 2009.

Key Financial Performance by Segments

		Group (Note 3) Year ended 31 December			**China Segment (Note 1) Year ended 31 December**			**Japan Segment (Note 2) Year ended 31 December**		
	Note	**2010 *RMB million***	2009 *RMB million*	**change**	**2010 *RMB million***	2009 *RMB million*	**change**	**2010 *RMB million***	2009 *RMB million*	**change**
Key items of consolidated income statement										
Sales		**4,261.6**	3,970.4	7.3%	**3,649.9**	3,403.1	7.3%	**611.7**	567.3	7.8%
Gross profit		**2,545.7**	2,399.4	6.1%	**2,277.3**	2,143.2	6.3%	**268.4**	256.2	4.8%
Operating profit	3	**1,741.4**	1,697.3	2.6%						
Profit attributable to equity holders of the Company	3	**1,463.7**	1,459.8	0.3%						
		RMB cents	*RMB cents*							
Basic earnings per share		**25.83**	25.76	0.3%						
Diluted earnings per share		**25.82**	25.76	0.2%						
Profitability ratios										
Gross profit margin		**59.7%**	60.4%	-0.7% pt	**62.4%**	63.0%	-0.6% pt	**43.9%**	45.2%	-1.3% pts
Operating profit margin		**40.9%**	42.7%	-1.8% pts						
Effective tax rate		**20.3%**	18.7%	1.6% pts						
Net profit margin		**34.3%**	36.8%	-2.5% pts						
Key operating expenses ratios (as percentage of sales)										
Advertising and marketing expenses		**9.3%**	7.4%	1.9% pts	**9.5%**	7.1%	2.4% pts	**8.3%**	9.3%	-1.0% pt
Employee salary and benefit expenses		**4.6%**	4.6%	0.0% pt	**3.6%**	3.3%	0.3% pt	**10.5%**	12.3%	-1.8% pts
Design and product development expenses	3	**2.8%**	2.3%	0.5% pt						
		in days	*in days*	*in days*	***in days***	*in days*	*in days*	***in days***	*in days*	*in days*
Working capital efficiency ratios										
Average trade receivable turnover days	4	**47**	36	11	**37**	24	13	**109**	107	2
Average trade payable turnover days	5	**72**	70	2	**65**	61	4	**100**	107	-7
Average inventory turnover days	6	**60**	61	-1	**45**	44	1	**121**	129	-8
Asset ratios										
Current ratio	7	**8.5 times**	12.8 times		**8.5 times**	10.9 times		**2.0 times**	2.0 times	

Notes:

1. The China segment is principally engaged in the wholesale of sport-related products under Kappa Brand in the PRC and Macau. It is also engaged in international business under Kappa Brand as well as domestic businesses under the Phenix brand and RDK brand.

2. The Japan segment is principally engaged in sales of sport-related products under the Kappa, Phenix and other brands in Japan.

3. The Group results represent the aggregation of the results of the China segment and Japan segment. There are certain financial income and distribution costs (eg. design and product development expenses) that cannot be allocated or split into the China segment and Japan segment. Thus, the calculations of segmental operating profit, segmental profit attributable to equity holders and segmental design and products development expenses as a percentage of sales are not meaningful.

4. Average trade receivables turnover days equal to the average of the opening and closing trade receivable balances divided by sales and then multiplied by the number of days in the relevant periods.

5. Average trade payables turnover days equal to the average of the opening and closing trade payable balances divided by cost of goods sold and then multiplied by the number of days in the relevant periods.

6. Average inventory turnover days equal to the average of the opening and closing inventory balances divided by cost of goods sold and then multiplied by the number of days in the relevant periods.

7. Current ratio equals to the closing current assets divided by the closing current liabilities.

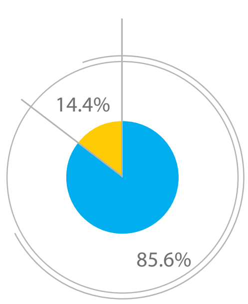
Sales

Sales analyzed by geographical segments, business segments and product categories

	Year ended 31 December						
	2010			2009			
	RMB million	**% of product/ brand mix**	**% of Group sales**	*RMB million*	% of product/ brand mix	% of Group sales	**Change**
CHINA SEGMENT							
Kappa Brand							
Apparel	**2,718.1**	**74.8%**	**63.8%**	2,577.6	75.9%	64.9%	5.5%
Footwear	**790.9**	**21.8%**	**18.5%**	682.8	20.1%	17.2%	15.8%
Accessories	**123.5**	**3.4%**	**2.9%**	133.9	4.0%	3.4%	-7.8%
Kappa Brand total	**3,632.5**	**100.0%**	**85.2%**	3,394.3	100.0%	85.5%	7.0%
International business and others	**17.4**		**0.4%**	8.8		0.2%	97.7%
CHINA SEGMENT TOTAL	**3,649.9**		**85.6%**	3,403.1		85.7%	7.3%
JAPAN SEGMENT							
Phenix Brand	**393.0**	**64.3%**	**9.2%**	375.4	66.2%	9.5%	4.7%
Kappa Brand	**218.6**	**35.7%**	**5.2%**	191.0	33.7%	4.8%	14.5%
Others	**0.1**	**0.0%**	**0.0%**	0.9	0.1%	0.0%	-88.9%
JAPAN SEGMENT TOTAL	**611.7**	**100.0%**	**14.4%**	567.3	100.0%	14.3%	7.8%
THE GROUP TOTAL	**4,261.6**		**100.0%**	3,970.4		100.0%	7.3%

Sales analysis by geographical segments

The Group

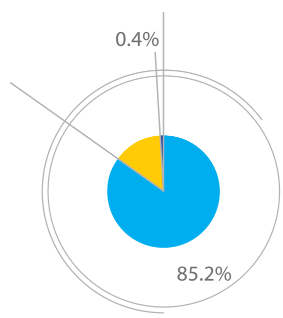


85.6% China Segment

14.4% Japan Segment

Sales analysis by business

China Segment

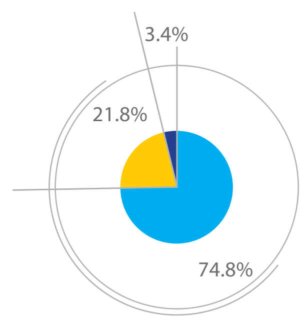


85.2% Kappa Brand

0.4% International business and others

Sales analysis by products categories

Kappa Brand (China Segment)



74.8% Apparel

21.8% Footwear

3.4% Accessories

China Segment

Kappa Brand

The Kappa Brand business, the core business of the Group, accounted for 85.2% (2009: 85.5%) of the Group's total sales for the year ended 31 December 2010. The sales of Kappa Brand products increased by RMB 238.2 million compared with the year ended 31 December 2009. Such increase was mainly driven by 5.5% and 15.8% growth in sales of apparel and footwear product, respectively. Increase in sales of footwear was mainly due to the introduction of new concepts, such as lightweight running shoes and casual footwear, by the Group in the financial year. In addition, the number of Kappa Brand retail outlets directly or indirectly operated by the Group's distributors increased from 3,511 as of 31 December 2009 to 3,751 as of 31 December 2010, a net increase of 240.

Apparel was the major product of the Kappa Brand in China and its sales represented 74.8% (2009: 75.9%) of the brand's total sales. The proportion of footwear and accessories amounted to 21.8% (2009: 20.1%) and 3.4% (2009: 4.0%), respectively.

International Business and Others

As of 31 December 2010, the international sourcing and Rukka distribution business had been terminated completely.

During the year, the international business of the Group involved selling of Kappa Brand products designed, developed and manufactured by the Group to the Kappa licensees outside the PRC, Macau and Japan under the license granted by BasicNet.

RDK products were launched in the first half of 2010. As of 31 December 2010, distributors of the Group opened 20 retail outlets in the PRC. At present, we are seeking other sales channels and markets for further development.

Japan Segment

The sales in the Japan segment for the year ended 31 December 2010 increased by RMB 44.4 million (or 7.8%) to RMB 611.7 million from RMB 567.3 million for the year ended 31 December 2009. The growth was mainly due to the combined effects of channels development, branding and sales promotion by Phenix, despite an overall slowdown of the Japanese economy in 2010. As a result, the market share has been secured and even expanded.

Unit average selling prices and total units sold of Kappa Brand products in China Segment

The unit average selling prices ("ASP") and total units of Kappa Brand products sold in the China segment are analysed as follows:

	Year ended 31 December					
	2010		2009		**Change**	
	ASP *RMB*	**total units sold** *in '000*	ASP *RMB*	total units sold *in '000*	**ASP**	**total units sold**
Apparel	**157**	**18,407**	160	16,117	-1.9%	14.2%
Footwear	**184**	**4,582**	179	3,814	2.8%	20.1%

Notes:

1. ASP represent the sales for the year, before deduction of provisions for sales return, divided by the total units sold for the year.

2. Accessories cover a wide range of products that vary significantly in terms of ASP. We believe that the ASP analysis of this product category is not meaningful.

As a result of our additional support and discount provided by the Group to our distributors as well as the effect of product mix, the ASP for apparel products for the year ended 31 December 2010 dropped slightly to RMB 157 from RMB 160 for the year ended 31 December 2009.

The ASP of footwear products increased from RMB 179 for the year ended 31 December 2009 to RMB 184 for the year ended 31 December 2010, a growth of 2.8%, which was largely driven by our continuous effort in improving design as well as research and development of footwear products this year.

In addition, total footwear product units sold recorded 20.1% year-on-year growth as compared to the year ended 31 December 2009. Its robust growth in volume as well as in ASP demonstrate that our footwear products are well received by our customers. As a result, the proportion of the sales of footwear to our Kappa Brand products has been increased to 21.8% (2009: 20.1%).

Cost of Goods Sold and Gross Profit

For the year ended 31 December 2010, the cost of goods sold by the Group amounted to RMB 1,715.9 million (2009: RMB 1,571.0 million), which represented an increase of RMB 144.9 million (or 9.2%). The gross profit of the Group was RMB 2,545.7 million (2009: RMB 2,399.4 million), representing an increase of RMB 146.3 million (or 6.1%). The overall gross profit margin of the Group for the year ended 31 December 2010 was 59.7% (2009: 60.4%), representing a decrease of 0.7 percentage point.

The gross profit margin analyzed by geographical, business segments and product category are detailed as follows:

	Year ended 31 December		
	2010 gross profit margin	2009 gross profit margin	**Change** % pts
China segment			
Kappa Brand:			
Apparel	**64.4%**	65.3%	-0.9
Footwear	**55.4%**	54.5%	0.9
Accessories	**64.8%**	63.9%	0.9
Kappa Brand overall	**62.4%**	63.1%	-0.7
International business and others	**55.3%**	24.5%	30.8
China segment overall	**62.4%**	63.0%	-0.6
Japan segment	**43.9%**	45.2%	-1.3
Group overall	**59.7%**	60.4%	-0.7

China

The gross profit margin of Kappa Brand in China segment were 62.4% and 63.1% for the years ended 31 December 2010 and 2009, respectively, representing a drop of 0.7 percentage point. Such decrease was mainly due to our further support and discount provided to our distributors this year as the Group further emphasized on the importance of a healthy development of the retail sales channel. With this objective, the Group has taken proactive actions to assist them to clear their inventory. As such, for this year, the Group has made a stock return provision of RMB 155.1 million. In addition, starting from second half of the year, our production cost for apparel was under greater pressure from escalating costs of raw materials and labor in the PRC.

The gross profit margins of footwear products and accessories increased to 55.4% (2009: 54.5%) and 64.8% (2009: 63.9%), respectively. The increase was mainly driven by increase in product prices as well as effective cost control.

Japan

The gross profit margin in Japan segment for the year ended 31 December 2010 was 43.9%, which was lower than 45.2% for the year ended 31 December 2009. The drop was mainly due to the impact of stock clearance, the increase in production cost resulting from the rise in costs of raw materials and labor as well as higher discount provided for our distributors and customers.

Other Gains, Net

Other gains for the year ended 31 December 2010 mainly represented subsidy income from the government amounted to RMB 199.1 million (2009: RMB 109.1 million), and dividend income from investment in GX Group of RMB 19.4 million (2009: nil).

Distribution Costs and Administrative Expenses

Distribution costs and administrative expenses mainly comprised advertising and marketing expenses, employee salaries and benefit expenses, design and product development expenses, legal and consulting expenses as well as logistic fees. For the year ended 31 December 2010, total distribution costs and administrative expenses amounted to RMB 1,030.4 million (2009: RMB 815.8 million), accounted for 24.2% (2009: 20.5%) of the Group's total sales. The increase was primarily due to expanded efforts in advertising and marketing, product design and development.

Advertising and marketing expenses as a percentage of sales was 9.3% (2009: 7.4%). Further to the "We Are One" slogan campaign launched last year, the Group has launched its Winter Olympics and World Cup advertising campaigns as well as its first television commercial to further promote our brand. In addition, further emphasis has been placed on our well-built marketing strategies, such as China Open and entertainment marketing, in association with the effective promotion campaign for P-A.C. Series with "Pack-away Concept", thus the advertising and marketing expenses went up significantly.

Design and product development expenses as a percentage of sales for the year was 2.8% (2009: 2.3%). The increase was mainly due to the ongoing development of the Kappa P-A.C series jointly designed and developed with Mr. Michael Michalsky, the former global creative director of Adidas, since the second half of 2009. Meanwhile, closer collaboration with University of the Arts of London has been fostered by introducing additional overseas design teams.

Our logistic fees represented 2.2% (2009: 1.6%) of the Group's total sales for the year ended 31 December 2010. Such increase was mainly due to increase in rental rate as well as area expansion of our warehouses in the PRC.

Operating Profit

For the year ended 31 December 2010, operating profit of the Group was RMB 1,741.4 million, an increase of RMB 44.1 million (or 2.6%) compared with RMB 1,697.3 million for the year ended 31 December 2009. The operating profit margin was 40.9% for the year ended 31 December 2010 compared with 42.7% for the year ended 31 December 2009, a drop of 1.8 percentage points. The change in the operating profit margin was mainly due to a drop in gross profit margin and an increase in expense ratio, partially offset by an increase in other gains.

Finance Income, Net

For the year ended 31 December 2010, net finance income mainly comprised interest income of RMB 84.2 million (2009: RMB 107.3 million), and income derived from investment in treasury bonds and treasury products of RMB 30.9 million (2009: RMB 1.9 million) partially offset by a foreign exchange losses of RMB 16.6 million (2009: exchange gains of RMB 0.8 million).

Share of Profits/(Losses) of Jointly Controlled Entities and Associated Companies, Net

For the year ended 31 December 2010, share of net profit of jointly controlled entities and associated companies amounted to RMB 2.2 million (2009: losses of RMB 10.6 million). This mainly represented the share of profits of the six joint ventures with our distributors amounted to RMB 2.7 million (2009: losses of RMB 10.6 million) under equity method of accounting.

Taxation
For the year ended 31 December 2010, income tax expense of the Group amounted to RMB 373.5 million (2009: RMB 336.4 million). The effective tax rate was 20.3% (2009: 18.7%). Such change was primarily due to the increase in income tax rate of our major operating subsidiaries established in the Shanghai Pudong New Area from 20% for 2009 to 22% for 2010.

Effective from 1 January 2008, the subsidiaries of the Group incorporated in the PRC are subject to corporate income tax at the rate of 25% in accordance with the Corporate Income Tax Law of the PRC (the "New EIT Law") as approved by the National People's Congress on 16 March 2007. The EIT rate applicable to subsidiaries of the Group established in the PRC is reduced to 25% for those with original applicable EIT rates higher than 25%, or gradually increase to 25% over a 5-year period from 2008 to 2012 for those with original applicable EIT rates lower than 25%, where appropriate. The major operating subsidiaries of the Group established in the Shanghai Pudong New Area are entitled to preferential income tax rate of 22% in 2010 (2009: 20%).

Profit Attributable to Equity Holders of the Company and Net Profit Margin
Profit attributable to equity holders of the Company for the year ended 31 December 2010 was RMB 1,463.7 million (2009: RMB 1,459.8 million), and net profit margin of the Group was 34.3% (2009: 36.8%).

Final Dividend and Final Special Dividend
The Company's normal dividend policy is distribution of 30% of the Group's net profits available for distribution for the relevant period. After taking into consideration of the Group's profitability in 2010 and strong cash position, we would like to distribute an additional 40% in order to enhance shareholders value.

The Company has paid an interim and interim special dividend for the six months ended 30 June 2010 of RMB 4.16 cents and RMB 4.16 cents per ordinary share, respectively, with a total amount of RMB 471.5 million.

The Board of the Company has recommended the distribution of a final dividend and a final special dividend of RMB 3.59 cents and RMB 6.17 cents per ordinary share, respectively (totaling RMB 9.76 cents per ordinary share) for the year ended 31 December 2010.

The final dividend and final special dividend, subject to approval by the shareholders of the Company at the annual general meeting to be held on 12 May 2011, will be paid in Hong Kong Dollars based on the rate of HKD 1.00 = RMB 0.8415 being the official exchange rate of Hong Kong dollars against Renminbi as quoted by the People's Bank of China on 21 March 2011. The dividend will be paid on or about 19 May 2011 to shareholders whose names appear on the register of members of the Company on 12 May 2011.

FINANCIAL POSITION

Working capital efficiency ratios

China Segment

The average trade receivable turnover days for the years ended 31 December 2010 and 2009 were 37 days and 24 days, respectively, average debtors' turnover in 2010 increased by 13 days from 2009. During the year, we have extended credit limit and credit terms to support our major distributors whose working capital has been affected by the retail market. The Group will continue to implement a sound credit management policy, review and adjust such credit policy, when necessary, to adapt to industry environment.

The average trade payable turnover days for years ended 31 December 2010 and 2009 were 65 days and 61 days respectively. This was in line with the Group's major policy to repay trade debts to its suppliers and manufacturers within 60 to 90 days.

As the Group has maintained a consistent inventory management system, the average inventory turnover days for the years ended 31 December 2010 and 2009 were 45 days and 44 days respectively.

Japan Segment

The average trade receivable turnover days, average trade payable turnover days and average inventory turnover days were 109 days, 100 days and 121 days, respectively for the year ended 31 December 2010 as compared to 107 days, 107 days and 129 days, respectively for the year ended 31 December 2009. As our management policies on procurement and sales remained unchanged with effective implementation, the above turnover days have maintained substantially constant.

Liquidity and financial resources

As at 31 December 2010, cash and bank balances (including long term bank deposits) of the Group amounted to RMB 5,027.9 million, a decrease of RMB 1,099.5 million compared with a balance of RMB 6,127.4 million as of 31 December 2009. This decrease mainly due to (1) investments in the treasury bonds issued by the Ministry of Finance of the PRC and investments in capital guaranteed treasury products offered by PRC commercial banks amounting to RMB 1,089.6 million, (2) payment of 2009 total final dividends, 2010 total interim dividends for an aggregate amount of RMB 1,205.2 million, (3) equity investments in GX Group and an entity totalling RMB 103.7 million, (4) share repurchase for setting up an employee restricted share award scheme totaling RMB 87.1 million, and (5) partially offset by the net cash generated from operating activities of RMB 1,443.6 million for the year.

As at 31 December 2010, net assets attributable to our equity holders was RMB 7,515.0 million (31 December 2009: RMB 7,354.2 million). The Group's current assets exceeded current liabilities by RMB 6,570.2 million (31 December 2009: RMB 6,521.3 million). The Group also had a very strong liquidity position. The current ratio as of 31 December 2010 was 8.5 times (2009: 12.8 times), such change was primarily due to provisions for sales return in accordance with prevailing market condition as well as deposits prepaid by our distributors were higher than those as of 31 December 2009. As at 31 December 2010, the Group had no outstanding bank loans or other borrowings.

Pledge of assets

As at 31 December 2010, the Group had approximately RMB 36.1 million (31 December 2009: RMB 37.3 million) were held in banks as guarantee deposit for the issue of letters of credit for our business in Japan market.

Capital commitments and contingencies

As at 31 December 2010, the Group had capital commitment for contracted but not provided for of RMB 8.4 million (2009: nil).

As at 31 December 2010, the Group had no contingent liabilities.

Foreign exchange risk

The functional currency of the Company is US Dollars owing to the fact that its business is transacted in US Dollars. During the Global Offering in October 2007, the Company received its proceeds in HK Dollars. The proceeds were either deposited in bank accounts denominated in HK Dollars or converted into US Dollars and deposited in bank accounts denominated in US Dollars. As a result, the exchange differences arising from appreciation or depreciation of the US Dollars against the Company's HK Dollars bank deposits, were recognized as exchange gains or losses in the Company's income statement. The exchange gains or losses were not significant because HK Dollars are pegged to US Dollars. The Company's financial statements expressed in US Dollars were translated into Renminbi for the Group's reporting and consolidation purposes. The foreign exchange differences from the translation of financial statements is not recognised in the income statement. Instead, it should be recognised as a separate component of equity of the Group.

The major operations of the Group were mainly carried out in the PRC and transacted in Renminbi. Except for foreign exchanges losses for the year mainly derived from our unutilized capital in foreign currencies in the PRC, the exchange rate risk of the Group was insignificant.

Nevertheless, we continue to monitor the foreign exchange exposures and, if necessary, will take prudent measures such as hedging to minimize our potential exposures.

Significant investments and acquisitions

For the year ended 31 December 2009, the Group acquired a 30.0% equity interest in each of the six joint ventures in the PRC for a total consideration of RMB 169.5 million. The joint ventures were set up by the Group's six major distributors in Beijing and nearby areas, Shandong, Shaanxi, Ningxia, Hangzhou, Shanxi, Shenyang, Tianjin and Nanjing.

In 2010, the Group entered a reorganization agreement with Han Bo Jia Ye (Beijing) Company Limited ("Han Bo Jia Ye"), our associate in Beijing, other five associates and our distributors in Sichuan and Chongqing. Upon completion of such reorganization, 100.0% of equity interests in other five associates and those distributors in Sichuan and Chongqing were directly held by Han Bo Jia Ye, in turn, the Group acquired 22.05% of equity interests in Han Bo Jia Ye through transfer of 30.0% of equity interests in other five associates and further capital injection of RMB 82.7 million by the Group into Han Bo Jia Ye.

In October 2010, the Group acquired 3.0% of equity interests in one of our key distributors at a cash consideration of RMB 21.0 million.

Except as mentioned above, the Group has made no significant investment or any material acquisition or disposal of subsidiaries during the year ended 31 December 2010.

Application of net Global Offering proceeds

The net proceeds after deduction of related expenses from Global Offerings in October 2007 were approximately HKD 5,176.9 million (equivalent to RMB 5,013.9 million). As of 31 December 2010, the net proceeds were utilized as follows:

	Total net proceeds *HKD million*	**Utilized** *HKD million*	**Unutilized** *HKD million*
Develop existing brands and expand brand portfolio	2,743.8	247.3	2,496.5
Expand and improve distribution network	1,294.2	389.1	905.1
Enhance design and development capabilities	258.8	258.8	—
Establish new operating headquarter	258.8	6.1	252.7
Payment of special dividend declared prior to the Global Offering	238.3	238.3	—
Working capital and other general purposes	383.0	383.0	—
Total	5,176.9	1,522.6	3,654.3

The above usages were consistent with the disclosure in the Company's prospectus dated 25 September 2007. The unutilized net proceeds have been deposited with licensed banks in Hong Kong or the PRC.

HUMAN RESOURCES

As of 31 December 2010, the Group had approximately 507 employees throughout the PRC (As of 31 December 2009 : 460 employees). Phenix Co., Ltd. had approximately 250 employees in Japan (As of 31 December 2009 : 247 employees). In order to cope with our business expansion, the Group still has to recruit more talented employees in all departments.

The Group deployed a work-value and performance based remuneration scheme to its employees under which KPI and annual bonuses were awarded to high performance employees on top of their basic salary. The Group also implemented long-term cash-settled performance based employees benefit plan (also known as Performance Unit Plan) with key employees to reward long-term contribution from employees. In addition, the Group will further implement new long-term benefit plan so as to motivate and reward those employees for their long-term contribution to our growth.

OUTLOOK

Notwithstanding the challenges faced by sportswear brand operators resulting from market competition and pressure on operating costs, the growth trend of the Chinese economy is expected to continue in the foreseeable future. Under the macro environment of accelerated urbanization and a persistent rise in personal incomes, the Group is confident in the ability of the market to develop in the mid- to long-term and in prospects for business growth.

The Group aims to strengthen its brand identity and further benefit from its differentiation to supply the market with a greater variety of products. The Group will extend its product range to cover more market segments and seek to strengthen its sports performance product range by focusing on the areas of soccer, tennis and training. The Group will also extend its style and fashion product range while rejuvenating its existing core casual range by adopting a new approach to the design of logos and national themes.

The Group is also targeting expansion in its footwear products, notably through the introduction of "Curves", a footwear line designed especially for women and meant to help shape women's bodies when they walk and wear Curves in daily life. It is inspired by women's body curves and the latest body-building trends. This footwear series balances function with fashion.

The Group will also optimize on its product creation by strengthening R&D efforts. It will further leverage its resources at the technical centre in Japan.

To raise awareness of end-user needs, the Group will shift its focus from wholesale to retail management by providing stronger support to distributors and from visual merchandising and training to assortment. This new approach will enable the Group get closer to the market pulse and tighten partnerships with retailers. Among other things, the Group is expanding its DRP system to cover a larger number of stores in order to collaborate more tightly with retailers. The Group aims to enhance its brand experience at its point of sales through the provision of direct training to distributors on both management issues and the management of store fronts. In this respect, the Group will leverage its partnership with GX, a sport retail group in which the Group holds a 22.05% share. The Group will also implement systematic action to consolidate sub-distribution and tighten retail management to ensure service quality and enhance retailers' profitability.

At the same time, the Group will review its store portfolio in close partnership with distributors in order to reallocate resources to best-performing stores to boost sales and efficiency and to develop systematic identification of areas for store portfolio growth. The Group will also look into further segmentation of its retail outlets and explore opportunities in casual locations, especially in department stores.

Apart from traditional sales outlets, the Group will also actively explore the development of online sales platforms. For e-commerce, the Group will expand Kappa's official online store to a greater number of Internet channels. The Group will also work on the establishment of the iKappa website. Not only will it serve as a self-operated online sales channel, it will also serve as a multi-purpose platform covering marketing, customer service, brand education, feedback on new products and a forum for Kappa fans. The Group will also leverage on its investment in Mecox Lane Limited (Nasdaq:MCOX), which operates one of China's leading online platforms for apparel and accessories, to expand its online sales business. We believe that the launch of these e-commerce platforms will facilitate us in reaching our target customers in an efficient and cost-effective way.

Following the opening of the first RDK store in Beijing in 2010, the RDK series was popularly welcomed by the public and achieved satisfactory results. Looking ahead, the Group will further promote the RDK series through various marketing campaigns. The Group expects to open no less than 50 RDK stores in China in 2011.

After the acquisition of Phenix, a Japanese outdoor and ski brand, in 2008, the Group will officially introduce the brand to the Chinese market in 2011.

INVESTOR RELATIONS REPORT

1.

2.

3.

4.

1. 2. & 4. Press Conference & Investor Conference for 2010 interim results announcement

3. The Excellence of Listed Enterprise Award 2010

The Group has always believed that the maintenance of investor relations is a long-term systematic and important task. The Group's management and investor relations team have been committed to build strong bilateral communication channels with investors. On one hand, we continue to help investors understand our business better, through transparent, accurate, and timely disclosure of our corporate financial performances and operations. On the other hand, we promote corporate integrity, self-discipline, and standardized operations, continuously improve the Group's management and governance structure, in order to maximize corporate values and shareholders' interests.

For the year 2010, we summarize the investor relations achievements as below:

RESULTS ANNOUNCEMENT AND ROAD SHOW

Right after the announcements of the 2009 annual results and the 2010 interim results, in March and August 2010, respectively, the Group held investor presentation and press conference to timely disclose the latest business performance, future development direction and strategies in the same afternoon. Meanwhile, presentation materials and webcast of the event were openly available on the company website the day after, for public viewing.

In order to provide investors a more comprehensive review of our business, particularly overseas shareholders, we launched post result NDRs after each results announcement. As total of 105 one-on-one/group meetings were hosted in Hong Kong, Singapore, the United States and the United Kingdom, we provided efficient face-to-face communication channel for our investors. While introducing the Group's recent performances, development strategies and future prospects, we also received valuable suggestions and feedbacks regarding our business concept and operation strategies from investors.

INVESTMENT SUMMITS

In 2010, our top managements and investor relations team took part in 9 investment summits, which held by investment banks, aiming to enhance our interaction and communications with global investors. During these sessions, a total of 88 one-on-one/group meetings were conducted.

ONGOING DAILY COMMUNICATION

In daily operation, the Group conducts multi-channel and multi-level communication with investors and analysts, which include:

Company Visits and Telephone Conferences

In 2010, a total of 130 face-to-face meetings and telephone conferences (including 5 global investors conference call) were conducted with investors and analysts. Furthermore, in order to communicate more effectively and directly, the management team frequently traveled to Hong Kong to meet with investors and analysts on a regular basis.

Investors Store Visits

In 2010, based on the needs of our investors and analysts, and for them to better understand our operation, we arranged 25 stores visits in Beijing, Sichuan, Hangzhou, Shenzhen, Guangzhou, etc.

Sales Fair Visits

In May 2010, we invited several investors and analysts to attend 2010 Q4 sales fair and arranged conferences with the top management, so that they can understand our products, operations and strategies, as well as the latest situation and development of the retail market, from a more straight-forward and in-depth perspective.

At the same time, we have always released the results of sales fairs in an accurate, transparent and timely manner.

Company Website

We continuously and timely update Investor Relations Section in our corporate website (http://www.dxsport.com) to disseminate the Group's relevant information, so that investors can update the development about us. Meanwhile, we have investor relations e-mail box to receive inquiries and suggestions rose by investors, and responded them promptly.

Investor Phone Inquiry Services

We provide investor phone inquiry services, which are handled and answered by investor relations department. We ensure smooth lines within working hours, in order to provide timely responses to various issues and inquiries from shareholders, potential investors and analysts.

MEDIA RELATIONS

Since its listing, the Group has been committed to maintaining a close relationship with the domestic and foreign media through activities including press releases, media briefings and management interviews. We also engage top class public relations firm to provide professional PR advices. Thus, we are able to disseminate our business strategy and financial performance to shareholders and the general public in a more efficient and effective manner.

ANNUAL GENERAL MEETING

In accordance with the The Rules Governing the Listing of securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), we regularly organize annual general meetings, in which we discuss the Group's business strategies and investment plans equitably and transparently, in order to maintain and respect the legitimate rights and interests of all shareholders, especially for small and medium ones.

ACCOMPLISHMENTS AND PROSPECTS

In 2010, the Group's management hosted over 323 one-on-one meetings and conference calls (including road shows, investor summits, daily activities, and etc.) with investors and analysts.

At the same time, as at the end of 2010, the top management maintained dialogues with over 980 investors and analysts around the world, thereby establishing a strong and extensive investor database. In addition, a total of 25 analysts have issued research reports about our developments.

By end of year 2010, the group honored with "The Excellence of Listed Enterprise Award 2010" by Capital Weekly. The purpose of this award is to recognize the outstanding performance of listed enterprises in Hong Kong. A total of 13 award-winning enterprises were selected out of the 1,300 listed enterprises in Hong Kong. The criteria of selection include corporate governance, investor relations, business strategies, social responsibilities as well as financial performance.

The Group also accredited the "Corporate Awards 2010 — Gold Award for Investor Relations" by The Asset Magazine. As the winner of this award, China Dongxiang Group takes initiative to disclose the Company's operations and future prospects regularly and has established effective channels for communication with investors, maintaining high transparency of information and communication, which is fully recognized by capital market and professionals worldwide.

Looking ahead, spearheaded by the Group's management, we will continue devoting efforts to build positive and proactive investor relations by communicating regularly with shareholders, analysts, potential investors and public groups. We will adhere to transparent, accurate, and timely manner to disseminate our latest results, and further tap into capital market, so as to construct a long-term stable and reasonable shareholder structure.

Meanwhile, we encourage all shareholders, analysts, potential investors to share with us their views and valuable suggestions about the Group via the following channels, including mail, e-mail and telephone, in order for us to constantly improve our corporate operation and administration. Contact details are described in the following "other important information".

DIRECTORS

Our Board is responsible and has general powers for the management and conduct of our business. The table below shows certain information in respect of members of our Board:

Name	Age	Position
Mr. Chen Yihong (陳義紅)	52	Chairman and Executive Director
Mr. Qin Dazhong (秦大中)	42	Vice Chairman and Executive Director
Ms. Sandrine, Suzanne, Eléonore, Agar Zerbib ("Sandrine Zerbib")	49	Chief Executive Officer and Executive Director
Mr. Gao Yu (高煜)	37	Non-Executive Director
Mr. Xu Yudi (徐玉棣)	59	Independent Non-Executive Director
Dr. Xiang Bing (項兵)	48	Independent Non-Executive Director
Mr. Jin Zhi Guo (金志國)	54	Independent Non-Executive Director

Executive Directors

Mr. Chen Yihong (陳義紅), aged 52, is our founder, chairman and executive director. Mr. Chen is primarily responsible for our overall corporate strategies, planning and business development. Mr. Chen has extensive experience in the sporting goods industry in China. From 1991 to 2005, Mr. Chen was the vice-general manager, general manager and chief executive officer of Beijing Li Ning Sports Goods Co., Ltd. (北京李寧體育用品有限公司) and the executive director of Li Ning Company Limited, a company listed on Hong Kong Stock Exchange. Mr. Chen has completed "China CEO Program" of Cheung Kong Graduate School of Business (長江商學院) in 2009.

Mr. Qin Dazhong (秦大中), aged 42, is our vice chairman and executive director. Mr. Qin is primarily responsible for our Company's new business development and the matters relating to government liaison. Mr. Qin joined Beijing Dongxiang as general manager since October 2002 and has 13 years of experience in the operation of sportswear companies. From 1997 to 2002, he held various positions at Beijing Li Ning Sports Goods Co., Ltd. (北京李寧體育用品有限公司) where he was responsible for its corporate planning, international business and financial control. Prior to joining the sportswear industry, he worked for the National Audit Office of the PRC (中國國家審計署). He has a Bachelor's degree in economics from Zhongshan University (中山大學) and an executive Master's in business administration degree from Guanghua School of Management of Peking University (北京大學光華管理學院) in 2002.

Ms. Sandrine Zerbib, aged 49, is our chief executive officer and executive director. Ms. Zerbib is primarily responsible for our Company's overall strategic planning and management of our Company's business. Ms. Zerbib has been working in the sports industry in China for the last 17 years. From August 1994 to March 2003, Ms. Zerbib was employed by Adidas China as managing director to create and develop the China business of Adidas from its naissance stage to its present leading position. From April 2003 to June 2007, she served as the president of Adidas Greater China Area.

Non-Executive Director

Mr. Gao Yu (高煜), aged 37, is our non-executive director. He is currently the managing director of the Private Equity Division of Morgan Stanley Asia Limited, and he primarily focuses on private equity investment activities in China. He is also a non-executive director of both Belle International Holdings Limited (百麗國際控股有限公司) and Sparkle Roll Group Ltd (耀萊集團有限公司), two companies listed on the main board of Hong Kong Stock Exchange. Prior to joining Morgan Stanley Asia Limited, he worked in Citigroup's Investment Banking Division in Asia for about five years. Mr. Gao had also worked in Donaldson, Lufkin & Jenrette Inc's Capital Markets Group in New York. Mr. Gao graduated from Stanford University with a Master's degree in engineering economic systems and operations research as well as from Tsinghua University (清華大學) in Beijing with dual Bachelors' degrees in engineering and economics.

Independent Non-Executive Directors

Mr. Xu Yudi (徐玉棣), aged 59, an independent non-executive director of the Company. Mr. Xu obtained qualifications as a certified public accountant and senior auditor in the PRC. He is a senior accountant of the Chinese Institute of Certified Public Accountants. He obtained his master degree in economics from the Institute for Fiscal Science Research under the State Ministry of Finance (財政部財政科學研究所). He is currently a director of China Citic Group (中國中信集團公司) and consultant of Group Strategy and Planning Department. For the period between 1994 and 2009, Mr. Xu was the vice president and general accountant of China Leasing Company Limited (中國租賃有限公司), president and chairman of Citic International Cooperation (中信國際合作公司), vice president and vice chairman of Citic Constructions Co. Ltd. (中信建設有限責任公司). Prior to that, he was a lecturer of Tianjin Commercial School (天津財貿學校) and also the officer, division chief, deputy director, deputy delegate and director of National Audit Office. He was also an intern at the Office of Auditor General of Canada from 1983 to 1985.

Dr. Xiang Bing (項兵), aged 48, is our independent non-executive director. Dr. Xiang obtained a Doctoral degree in accounting from the University of Alberta in Canada. He has over 13 years of teaching experience in the academic field. Dr. Xiang is currently the founding dean and professor of the Cheung Kong Graduate School of Business (長江商學院).

He is an independent non-executive director, committee member of the audit committee and remuneration committee of Dan Form Holdings Company Limited (丹楓控股有限公司), HC International, Inc. (慧聰網有限公司), Enerchina Holdings Limited (威華達控股有限公司), Sinolink Worldwide Holdings Limited (百仕達控股有限公司) and Longfor Properties Co. Ltd. (龍湖地產有限公司).

He is an independent non-executive director, committee member of the audit committee, remuneration committee and nomination committee of Peak Sport Products Co., Limited (匹克體育用品有限公司)

He is also an independent non-executive director and committee member of remuneration committee of Little Sheep Group Limited (小肥羊集團有限公司). All of the above mentioned companies are listed on the Hong Kong Stock Exchange.

He is an independent non-executive director of Yunan Baiyao Group Co., Ltd. (雲南白藥集團股份有限公司), a company listed on the Shenzhen Stock Exchange. He is also an independent non-executive director and committee member of audit committee and strategic committee of Guangzhou Automobile Group Co., Ltd. (廣州汽車集團股份有限公司), a company listed on the Shenzhen Stock Exchange.

Dr. Xiang currently serves as independent non-executive director and committee member of audit committee, remuneration committee and nomination committee of LDK Solar Co., Ltd. (江西賽維LDK太陽能高科技有限公司). Dr. Xiang also serves as independent non-executive director and committee member of audit committee of E-House (China) Holdings Limited (易居（中國）控股有限公司). All of the above mentioned companies are listed on the New York Stock Exchange.

Dr. Xiang also serves as independent non-executive director and committee member of audit committee and remuneration committee of Perfect World Co., Ltd., (完美時空網絡技術有限公司), a company listed on Nasdaq.

Between 2006 and 2008, Dr Xiang was an independent non-executive director and a committee member of the audit committee of Jutal Offshore Oil Services Limited (巨濤海洋石油服務有限公司), a company listed on the Hong Kong Stock Exchange.

Between 2001 and 2007, Dr. Xiang was a director of Shaanxi Qinchuan Machine Development Co., Ltd. (陝西秦川機械發展股份有限公司) and Guangdong Midea Electric Appliances Co., Ltd. (廣東美的電器股份有限公司). Between 2006 and 2008, Dr. Xiang was a director of Shenzhen Terca Technology Co., Ltd. (深圳市特爾佳科技股份有限公司). Between 2004 and 2008, Dr. Xiang was a director of TCL Corporation (TCL集團股份有限公司). All of the above-mentioned companies are listed on the Shenzhen Stock Exchange.

Between 2004 and 2006, Dr. Xiang was a director of Wuhan Jianmin Pharmaceutical Groups Co., Ltd. (武漢健民藥業集團股份有限公司) which is a company listed on the Shanghai Stock Exchange.

Mr. Jin Zhi Guo (金志國), aged 54, is an independent non-executive director of the Company. Mr. Jin is a senior economist with EMBA at China Europe International Business School and Ph.D at Qingdao University. Mr. Jin had served in various positions including assistant to plant manager of Tsingtao Brewery No. 1, general manager of Tsingtao Brewery (Xi'an) Company Limited, general manager of Tsingtao Brewery North Office, assistant to general manager, president and vice-chairman of Tsingtao Brewery Co., Ltd.. Mr. Jin is the chairman of Tsingtao Brewery Co., Ltd. (青島啤酒股份有限公司), a company listed on The Stock Exchange of Hong Kong Limited (Stock Code: 00168) and The Shanghai Stock Exchange (Stock Code: 600600). Mr. Jin is also the chairman and the CEO of Tsingtao Brewery Group Company Limited. Mr. Jin has extensive experience in strategic management, sales and marketing management and capital operations. Mr. Jin was awarded "2007 CCTV Top 10 Economic-Figures". He is the national representative of the 10th and 11th National People's Congress.

Mr. Jin is a current director of QKL Stores Inc., a company listed on the NASDAQ (Ticker Symbol: QKLS) since September 2009. Since August 2010, he has been an independent director of Hunan Jiuzhitang Co., Ltd. (九芝堂股份有限公司), a company listed on the Shenzhen Stock Exchange Company Limited (Stock code: 000989), and a member of its strategic committee, nomination, remuneration and evaluation committee under its board.

SENIOR MANAGEMENT

Mr. Hon Ping Cho, Terence (韓炳祖) is the chief financial officer of the Company. He has over 25 years experience in auditing, accounting and finance. Prior to joining our Company in December 2010, he was appointed to various senior positions in Hong Kong listed companies including the group finance director of TOM Group Limited, and company secretary and head of finance of Ng Fung Hong Limited. Mr. Hon was also an audit manager of an international accounting firm from 1986 to 1993. Mr. Hon holds a Master's degree in business administration (financial services) from The Hong Kong Polytechnic University. He is a fellow member of the Association of Chartered Certified Accountants, a member of the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants in England and Wales.

Mr. Sun Jianjun (孫建軍), graduated from Beijing Institute of Economy (北京經濟學院) (now known as Capital University of Economics and Business (首都經濟貿易大學)) with a Bachelor's degree in economics in 1989, and he obtained a Master's degree in business administration from China Europe International Business School. Prior to joining us, he worked for Beijing Shunmei Garment Co., Ltd. (北京順美服裝有限公司) as workshop supervisor and was then promoted to deputy factory head, responsible for sales and finance. Also, he was marketing director of Beijing Li Ning Sports Goods Co., Ltd., (北京李寧體育用品有限公司), general manager of Shanghai Edo Sports Company Limited (上海一動體育有限公司) and executive director of Renhe Oriental Investment Company (仁和東方投資公司). He has 21 years of experience in relevant industry. He joined the Group in April 2008 and is the head of Phenix Co., Ltd.

Ms. Fu Ruo (傅婼) is the vice president of brand marketing system of the Company. She is responsible for design and development, product marketing and also brand communication. Ms. Fu has more than 10 years experience in the sports industry. Prior to joining our Company in April 2010, she worked in Adidas responsible for the whole marketing procedure. Before getting into the sports industry, Ms. Fu worked in an apparel company in Shanghai engaging in garment sourcing and export business. Ms. Fu holds EMBA in economics & management from Antai College and Bachelor degree of law from East China University of Political Science and Law.

Mr. Zeng Hong (曾泓) is the vice president of supply chain system of the Company. He is responsible for product development, mass production and logistic of the Company. Mr. Zeng has over 26 years experience in the industry. Prior to joining the Company in March 2010, he worked for a few major U.S. brands such as Converse, Kenneth Cole Production, Skechers and Stride Ride. He studied business management at the State University of New York in New York State.

As a leading sportswear brands management player in China, the Group upholds a philosophy of contributing to the social welfare of the community, while maximizing corporate economic efficiency. It is our longstanding tradition to grow with our community, employees, customers, suppliers, investors, shareholders and other partners in harmony.

ENVIRONMENTAL PROTECTION

As an integral and responsible global corporate citizen, the Group is highly aware of the importance of environmental protection to the achievement of social and business sustainability. Therefore, we have made dedicated efforts in reducing environmental pollution caused by daily business operations through a variety of measures.

We work hard to promote the causes of energy saving and environment protection within the company. For example, we launched a "green week" activity to enhance the information technology efficiency of the computer operation system that our employees use. We also encourage our employees to lead a low-carbon work style and lifestyle. Seizing the Company's anniversary on 18 April, we launched a week-long low-carbon promotion campaign to raise employees' awareness of the benefits of a low-carbon life.

Not only we participate in the World Wildlife Fund Earth Hour campaign held on the last Saturday of March annually, we also have our in-house switch-off campaign, "Dongxiang One Hour", of which all lights, air-conditioners, computers and other electrical appliances within the company are switched off during lunch hour to reduce energy consumption. This is complemented by our relentless efforts to promote low-carbon life style to our staff including implementation of smoke-free workplace policy, waste recycling and reuse, green travel, and etc.

CHARITY ACTIVITIES

In addition to actively promoting environmental protection, the Group has played a vital part in a host of charitable campaigns and activities. In 2010, we launched and participated in a variety of charitable activities, including:

Health Express Charity Expedition

In 2010, China Foundation for Lifeline Express and Lifeline Express Hong Kong Foundation co-organized the Lifeline Express Heilongjiang Expedition 2010, a driving trip to northeast China to raise funds for Lifeline Express. The Group sponsored the event and deployed five volunteer employees to take part in the expedition.

Fund Raising

At 7:49 am on 14 April 2010, an earthquake on 7.1 Richter scale hit Yushu county in the Tibetan Autonomous Prefecture, Qinghai. As a Chinese enterprise with a strong sense of corporate social responsibility, the Group contacted China Charity Federation immediately after the event and launched emergency disaster relief operations. The Group also donated RMB6 million worth of warm cotton clothes to victims in the quake-stricken areas. Employees were also mobilized to lend a helping hand and take part in warm clothes donation campaigns.

I Want to Go to School Charity Event

In 2010, Kappa, together with MusicRadio, the China Children and Teenagers' Fund organized "2010 I Want to Go to School Kappa 1200 Charity Event", with an aim to extend care to the living and education of children in impoverished areas. The event was an extension of the "Love 5003 Project" in 2009. In 2010, we adopted a "one-to-one" approach. Every RMB1,200 of donation can serve as a three-year subsidy for one child. Sponsors can communicate with the sponsored children via letters or actual visits, creating a happier childhood for them with love and material support. As one of the organizers of the event, the Group made relentless efforts by going all the way to the impoverished regions and hosting road shows in six cities, demonstrating Kappa's unswerving determination to help the needy. A total of 4,190 children received subsidies through the event, and more than RMB5.0 million funds were raised.

STAFF DEVELOPMENT

Human resources, as a kind of important strategic resources for modern enterprises, play a vital part in the improvement of management efficiency and the enhancement of productivity. While growing rapidly, the Group assigns great values to its human resources management systems and talent training.

Continuous Efforts to Optimize Scientific Management Systems for Human Resources

Over the past few years, the Group has been in collaboration with MERCER, an internationally renowned human resources consulting firm. Having established a comprehensive human resources management system that encompasses an efficient organizational structure, salaries and benefits, performance management and long-term incentives, the Group promptly grasped an understanding of the development of the human resources market, with a view to enhance the competitive power of its human resources management system and improving its various systems. By optimizing human resources management systems, we step up the Group's standardized management processes, improve employees' satisfaction and cohesion, and deepen the image of the Group as an excellent employer.

Pooling of Talent

Driven by its dynamic development, the Group's demand for talent has kept surging in recent years. Therefore, this trend will make recruiting, selecting and retaining talent as a top priority for the Group. In 2010, the Group continued to recruit nearly 100 professional talents to take up key positions. Distinct graduates of the University of the Arts London were hired as trainees through a collaborative initiative. In addition, the Group has forged cooperation with Cheung Kong Graduate School of Business, a renowned business school on the mainland, regarding talent recommendation and recruitment.

Staff Training and Development

In line with rapid business growth, the cultivation of personnel quality is indispensable to the Group. According to the different training needs and characteristics of staff at different levels, the Group has put into place a comprehensive training curriculum scheme. The training scheme covers multi-angle and multi-level curriculum.

The Group has improved and diversified its talent training methods, which include group workshops, counselling training, as well as recommendation for the management's participation in EMBA and MBA re-education programmes. At the same time, by building and improving the related systems and processes for training and talent development, we encourage employees to continuously improve their competencies.

In 2010, the Group continued to run the "Top Talent Development Project", through which it recruited and trained 10 managers in key positions. In addition, the Group summed up the talent training experience from the programme, with a view to establishing the programme as a sophisticated talent management and development system. The Group will continue to advance the programme within the Company so as to cultivate more talents for the sake of its business growth.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to ensuring high standards of corporate governance in the interests of shareholders and devotes considerable effort to identifying and formalising best practices. This corporate governance report (this "Report") describes how the Company has applied the principles and the code provisions as set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Listing Rules.

The Company has complied with all the code provisions set out in the CG Code contained in Appendix 14 of the Listing Rules, except one deviation from code provision E.1.2 of the CG Code. The chairman and executive director, Mr. Chen Yihong could not attend the annual general meeting of the Company held on 12 May 2010 due to business engagement at the Company's trade fair in Beijing. The former chief executive officer, the non-executive director and the company secretary attended the annual general meeting to ensure effective communication with the shareholders of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS ("MODEL CODE")

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as its own standard for securities transactions of the directors and, having made specific enquiries, confirms that the directors of the Board have complied with the required standard for the year ended 31 December 2010.

THE BOARD OF DIRECTORS

The overall management of the Company's business is vested in the Board. Pursuant to the Articles of Association and the Terms of Reference of the Executive Committee adopted by the Board, the Board has delegated the day-to-day management of the Company's business to the Executive Committee (see details in pages 48 to 49 below), and focuses its attention on matters affecting the Company's overall strategic policies, finances and shareholders related matters. These include financial statements, dividend policy, significant changes in accounting policies, annual operating budget, strategies for future growth, major financing arrangements, major investments and risk management strategies.

As at the date of this Report, the Board comprises seven members, consisting of three executive Directors and four non-executive Directors, of whom three are independent non-executive Directors.

Executive Directors:
Mr. Chen Yihong *(Chairman)*
Mr. Qin Dazhong *(re-designated from Chief Executive Officer to Vice Chairman with effect from 29 November 2010)*
Ms. Sandrine Zerbib *(Chief Executive Officer)* (appointed on 29 November 2010)

Non-Executive Director:
Mr. Gao Yu

Independent Non-Executive Directors:
Mr. Xu Yudi
Dr. Xiang Bing
Mr. Jin Zhi Guo (appointed on 1 July 2010)

Biographies of the directors are set out on pages 40 to 42. None of the member of the Board has any relationship (including financial, business, family or other material or relevant relationships) among members of the Board. The composition of the Board is well balanced with each director having sound knowledge, experience and/or expertise relevant to the business operations and the future development of the Group. All directors are aware of their collective and individual responsibilities to the shareholders and each ensures that he can give sufficient time and attention to the affairs of the Group.

The Company has received confirmation from each independent non-executive Director about his independence under the Listing Rules, and continues to consider each of them to be independent.

In accordance with Article 87 of the Company's articles of association, Mr. Chen Yihong and Mr. Xu Yudi shall retire from the office by rotation and, being eligible, shall offer themselves for re-election at the forthcoming AGM.

In accordance with Article 86(3) of the Company's articles of association, Mr. Jin Zhi Guo and Ms. Sandrine Zerbib shall hold office until the forthcoming annual general meeting ("AGM") of the Company and shall then be eligible for re-election at the AGM.

Mr. Gao Yu (re-elected as non-executive Director on 12 May 2010) and Mr. Qin Dazhong (re-elected as executive Director on 12 May 2010) and Dr. Xiang Bing (re-elected as independent non-executive Director on 14 May 2009) shall hold office until they are required to retire in accordance with the Company's articles of association.

At each AGM of the Company, at least one third of the directors (or, if the number of directors is not divisible by three, such number as is nearest to and less than one third) must retire as directors by rotation, provided that every director shall be subject to retirement at an AGM at least once every three years. A retiring director shall be eligible for re-election and shall continue to act as a director throughout the meeting at which he retires.

To ensure a balance of power and authority, the role of the chairman and the chief executive officer is segregated and performed by Mr. Chen Yihong and Ms. Sandrine Zerbib respectively. There is a clear distinction between the chairman's responsibility for the management of the Board and the chief executive officer's responsibility for the management of the day-to-day operations of the Group's business.

As permitted under its Articles of Association, the Company has arranged directors' liability insurance for which the directors do not have to bear any expense.

BOARD AND COMMITTEES MEETINGS

In 2010, the Board held 6 meetings. The attendance of the directors at Board meetings and principal Board Committee meetings held in 2010 is set out in the table below.

	Board meetings in 2010	Attendance of Audit committee meetings in 2010	Remuneration committee meetings in 2010
Executive Directors			
Chen Yihong	#5/6	N/A	1/1
Qin Dazhong	6/6	N/A	N/A
Sandrine Zerbib (appointed on 29 November 2010)	1/1	N/A	N/A
Non-Executive Director			
Gao Yu	6/6	N/A	N/A
Independent Non-Executive Directors			
Xu Yudi	6/6	3/3	1/1
Xiang Bing	6/6	2/3	1/1
Jin Zhi Guo (appointed on 1 July 2010)	*4/4	2/2	N/A
Mak Kin Kwong (resigned on 1 July 2010)	2/2	1/1	N/A

\# To avoid potential conflict of interest, Mr. Chen Yihong did not form part of the quorum and is abstained from voting at board meeting held on 7 September 2010.

* One out of total attendance was attended by Mr. Jin Zhi Guo's alternate director, Mr. Chen Yihong.

BOARD COMMITTEES

As an integral part of good corporate governance, the Board has established the following Board Committees to oversee particular aspects of the Company's affairs. Each of the Audit, Remuneration and Executive Committees is governed by its respective Terms of Reference, which are available on the Company's website at www.dxsport.com. All Committees are provided with sufficient resources to discharge their duties, and they are also authorised to obtain external legal or other independent professional advice if they consider it necessary to do so.

AUDIT COMMITTEE

Members: Mr. Xu Yudi (chairman), Dr. Xiang Bing and Mr. Jin Zhi Guo. The Committee consists solely of independent non-executive Directors, all of whom have extensive financial experience.

Under its Terms of Reference, the duties of the Audit Committee include financial and efficiency aspects as described below. Amongst other things, the Committee is required to oversee the relationship with the Company's external auditor, to review the financial information of the Company, and to review and monitor the Company's financial reporting system and internal control. The Committee is primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and approving the remuneration and terms of such engagement. The Committee discusses with the external auditor the nature and scope of audit and reporting obligations before the audit commences, and is responsible for reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. Apart from giving pre-approval of all audit services, the Committee also develops and implement policy on the engagement of external auditor to supply non-audit services.

With respect to financial information of the Company, the Committee monitors the integrity of financial statements, annual and interim reports and accounts, together with the preliminary announcement of results and other announcements regarding the Company's financial information to be made public. Apart from considering issues arising from the audit, the Committee discusses any matters that auditor may wish to raise either privately or together with executive directors and any other persons. The Committee is also required to review the effectiveness of the Company's financial controls, internal control and risk management systems. In addition, the Committee has to ensure co-ordination between the internal and external auditor, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function.

The Audit Committee met three times in the year of 2010. The major work performed by the Audit Committee in 2010 included:

(i) Review and recommend the Board's approval of the 2010 external audit plan and 2010 internal audit plan;

(ii) Review and recommend the Board's approval of the 2009 annual financial statements and 2010 interim financial statements;

(iii) Review and approval of connected party transactions entered into by the Group;

(iv) Review of the 2010 external audit report and internal audit report;

(v) Approval of the remuneration and terms of engagement of PricewaterhouseCoopers for the 2010 audit.

REMUNERATION COMMITTEE

Members: Dr. Xiang Bing (chairman), Mr. Chen Yihong and Mr. Xu Yudi. Among the three members, Mr. Chen Yihong is an executive Director and the remaining two members are independent non-executive Directors.

Under its Terms of Reference, the principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration, determining the remuneration packages of all executive Directors and making recommendations to the Board of the remuneration of non-executive Directors, and reviewing and approving performance-based remuneration by reference to the Company's goals and objectives.

The Remuneration Committee met one time in the year of 2010. The major work performed by Remuneration Committee in 2010 included determining the remuneration package of Ms. Sandrine Zerbib and making recommendations to the Board of the remuneration of Mr. Jin Zhi Guo, approving the grant of share options to Ms. Sandrine Zerbib pursuant to the Share Option Scheme of the Company adopted on 12 September 2007, reviewing and determining the Directors' remuneration for the year ending 31 December 2011.

EXECUTIVE COMMITTEE

Members: Ms. Sandrine Zerbib (chairman), Mr. Chen Yihong, Mr. Qin Dazhong, Mr. Terence Hon, Mr. Sun Jian Jun, Ms. Fu Ruo, and Mr. Zeng Hong.

The Board is responsible for the overall management and performance of the Group and the approval of the long-term objectives and commercial strategy. The Executive Committee reports to the Board and is accountable for the day-to-day management of the operations and the implementation of strategy. This Committee is responsible to the Board for driving high level performance of the growth, efficiency and capability programs as well as for resources allocation. Detailed functions of the Executive Committee as delegated by the Board mainly include:

(i) to prepare and approve the specific operation plan, financial forecast and budget of each subsidiary of the Company in accordance to those of the Company as approved by the Board;

(ii) to monitor and oversee the implementation of the budget as approved by the Board;

(iii) to monitor and oversee the financial and operational performance of the Company and its subsidiaries;

(iv) to ascertain the business plan and company strategies as approved by the Board and develop specific implementation plan; and

(v) to appoint or remove senior management of the Company or any of its subsidiaries other than chief executive officer, chief financial officer and internal audit manager of the Company, and to recommend the appointment of chief executive officer, chief financial officer and internal audit manager of the Company.

RESPONSIBILITY FOR FINANCIAL STATEMENTS

The directors are responsible for the preparation of the financial statements of the Company for each financial year and ensuring that these financial statements give a true and fair view of the financial position of the Company and its subsidiaries, the financial performance and cash flows for that period. The directors are also responsible for ensuring that proper accounting records of the Company and its subsidiaries are kept at all times.

INTERNAL CONTROL RISK MANAGEMENT

The Board and the Audit Committee are responsible for developing and maintaining the system of internal controls of the Group to protect shareholders' interest and to safeguard the Group's assets by setting appropriate policies and reviewing the effectiveness of major control procedures for financial, operational, compliance and risk management areas. The Board and the Audit Committee have reviewed the effectiveness of the Group's system of internal controls on all major operations, including the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial function, and their training programs and budget, by reviewing the internal control reports prepared by the Internal Audit Department ("the IA") and management letters submitted by external auditors. Also, The Board and the Audit Committee met with the internal auditors, the external auditors and management to discuss findings from their works and resolution. The Board and the Audit Committee considered that the system of internal controls was operating effectively for the year ended 31 December 2010.

The IA is responsible for assisting the Board and the Audit Committee in maintaining effective internal controls by evaluating their effectiveness and efficiency and by ensuring their continuous improvement. The IA reported to the Audit Committee and aimed at providing reasonable assurance to the Board and the Audit Committee by ensuring the existence and effectiveness of Group's internal controls. The IA adopted the globally recognized framework outlined by the Committee of Sponsoring Organizations of The National Commission of Fraudulent Financial Reporting (COSO) to establish the system of internal controls and formulated an annual internal audit plan for the next year on December of each year. Audit work programs would be developed based on understanding of the operations obtained from interviews with management. The Audit Committee reviewed and approved the annual audit plan and all subsequent major changes to the plan, if any. The IA is responsible to carry out internal control reviews based on the approved annual audit plan. Prior to the commencement of each audit assignment, audit planning meetings would be arranged with process owners to communicate the scope. Through execution of the audit work programs, the IA inspected, monitored and evaluated the design effectiveness and operating effectiveness of the key controls associated with the processes under review. Duties of the IA include regular reviews on the implementation and procedures of financial and operational activities and the system of internal controls of the Group. The IA has unrestricted access to any information relating to the Group's risk management, control and governance processes. The IA submitted the audit findings together with rectification and improvement plans to the Audit Committee and the management and maintained regular communication. It regularly tracked all audit findings and performed follow-up to ensure all matters are implemented in accordance with the rectification and improvement plans.

EXTERNAL AUDITOR

The Company engages PricewaterhouseCoopers ("PwC") as its external auditor. In order to maintain PwC's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, the Audit Committee, under its Terms of Reference, pre-approves all services to be provided by PwC and discusses with PwC the nature and scope of their audit and reporting obligations before the audit commences.

The auditor's remuneration for the year ended 31 December 2010 is set out in Note 27 to the consolidated financial statements.

COMMUNICATION WITH SHAREHOLDERS

Our Shareholders are very important to us. It is our responsibility to ensure that all Shareholders receive clear, timely and effective information from us.

Our website, www.dxsport.com, is a primary source of information on the Company. The site includes an archive of our business development, financial reports, public announcements, press release, as well as detailed information on our corporate governance practices.

The Board views the AGM as one of the principal channels to communicate with the Shareholders of the Company and an opportunity for the Shareholders to question the Board. The chairman of the Board, chief executive officer and some other senior managements will be present at the AGM to explain to the Shareholders the Company's business performance, financial situation and future strategies and answer questions from the Shareholders.

To further enhance our relationship with the Shareholders and investors and to ensure that our investors have a better understanding of the Company, we have established an Investor Relations ("IR") Department to handle regular contact with our investors. An Investor Relations Report is produced hereto on pages 38 to 39 to provide a more comprehensive overview of the work performed by the IR Department in 2010.

The directors have the pleasure of presenting to the shareholders their report together with the audited consolidated financial statements for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The Group are principally engaged in brand development, design and sales of sport-related apparel, footwear and accessories in Mainland of PRC, Macau and Japan.

The Company was incorporated in the Cayman Islands on 23 March 2007 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company's shares were listed on the Main Board of the Hong Kong Stock Exchange on 10 October 2007.

In January and November 2009, the Group acquired 30% equity interests in each of six joint venture companies set up by the Group's six distributor customers. The six joint venture companies are engaged in the business of distribution and retailing of sport-related products in Beijing and nearby areas, Shandong, Shaanxi, Ningxia, Hangzhou, Shanxi, Shenyang, Tianjin and Nanjing.

In September 2010, 上海嘉班納體育用品有限公司 (Shanghai Gabanna Sporting Goods Co., Limited) ("Shanghai Gabanna"), an indirect wholly-owned subsidiary of the Company, Beijing Yi Tian Bo You Investment Co., Limited ("Chen Co"), five joint venture partners, four individuals and 翰博嘉業（北京）貿易有限公司 (Han Bo Jia Ye (Beijing) Company Limited) ("Han Bo Jia Ye") entered into a reorganization agreement for the purpose of implementing the reorganisation of five joint venture companies of the Group (the "Operating Companies") engaging in the distribution of sportswear products in Hangzhou, Nanjing, Tianjin, Shanxi and Shenyang. Upon completion of the reorganization, the Group's effective interest in the operation assets and businesses of the Operating Companies remains unchanged, but such interest is held through the Group's 30% shareholding interest in Han Bo Jia Ye which in turn wholly-owns the five Operating Companies. In November 2010, Shanghai Gabanna, Han Bo Jia Ye, Chen Co and four individuals entered into a capital increase agreement for the purpose of implementing a capital injection into Han Bo Jia Ye (the "Capital Increase"). Upon completion of the Capital Increase, the Group's effective interest in Han Bo Jia Ye was diluted from 30% to 22.05%

GROUP PROFIT

The Group's profit for the year ended 31 December 2010 is set out in the consolidated income statement on page 68.

DIVIDENDS

An interim dividend of RMB235,722,000 and an interim special dividend of RMB235,722,000 in respect of the 6 months ended 30 June 2010 were declared to Shareholders on 25 August 2010 and paid in September 2010.

The directors recommend a final dividend of RMB3.59 cents and final special dividend of RMB6.17 cents per ordinary share of the Company, amounting to approximately RMB203,424,000 and RMB349,617,000 respectively, subject to approval by the Shareholders of the Company at the AGM to be held on 12 May 2011 and are payable in Hong Kong Dollars based on the rate of HKD1.00 = RMB0.8415 being the official exchange rate of Hong Kong dollars against Renminbi as quoted by the People's Bank of China on 21 March 2011.

PROPERTY, PLANT AND EQUIPMENT

Movements in the property, plant and equipment of the Group during the year are set out in Note 6 to the consolidated financial statements.

BANK LOANS AND OTHER BORROWINGS

There was no bank loans and other borrowings of the Company and the Group as at 31 December 2010.

FIVE-YEAR SUMMARY

A summary of the results and assets and liabilities of the Company for the last five years is set out on pages 12 to 13.

SHARE CAPITAL

Movements in the share capital of the Company during the year are set out in Note 20 to the consolidated financial statements.

RESERVES

Movements in reserves of the Group and the Company during the year are set out in Note 22 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2010 amounted to approximately RMB3,066,300,000, which is the total of the share premium account and retained earnings of the Company calculated in accordance with Companies Law of the Cayman Islands.

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.

MATERIAL CONTRACT

No contracts of significance have been entered into between the Company or any of its subsidiaries and the controlling Shareholders.

DIRECTORS

The directors of the Company during the year and up to the date of this report are:

Executive Directors:

Mr. Chen Yihong	(re-elected on 15 May 2008)
Mr. Qin Dazhong	(re-elected on 12 May 2010)
Ms. Sandrine Zerbib (appointed on 29 Nov 2010)	

Non-Executive Director:

Mr. Gao Yu	(re-elected on 12 May 2010)

Independent Non-Executive Directors:

Mr. Xu Yudi	(re-elected on 15 May 2008)
Dr. Xiang Bing	(re-elected on 14 May 2009)
Mr. Jin Zhi Guo (appointed on 1 July 2010)	
Mr. Mak Kin Kwong (resigned on 1 July 2010)	

In accordance with Article 87 of the Company's articles of association, Mr. Chen Yihong and Mr. Xu Yudi shall retire from the office by rotation and, being eligible, shall offer themselves for re-election at the forthcoming AGM.

In accordance with Article 86(3) of the Company's articles of association, Mr. Jin Zhi Guo and Ms. Sandrine Zerbib shall hold office until the forthcoming annual general meeting ("AGM") of the Company and shall then be eligible for re-election at the AGM.

The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to the independence guidelines under the Listing Rules and the Company considers such directors to be independent. Particulars of the directors' remuneration disclosed pursuant to Appendix 16 of the Listing Rules are set out in Note 28 to the consolidated financial statements.

DIRECTORS' SERVICE CONTRACTS

None of the directors has a service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed under the section headed "Connected Transactions" below, no contracts of significance to which the Company, any of its subsidiaries, its holding companies or fellow subsidiaries was a party and in which a director of the Company had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors and senior management are set out on pages 40 to 42.

SHARE OPTION SCHEMES

(a) Pre-IPO Share Option Scheme

The Company adopted a Pre-IPO Share Option Scheme (the "Pre-IPO Share Option Scheme") on 12 September 2007. Options to subscribe for 18,700,000 Shares were granted to three independent non-executive directors and 50 employees on 17 September 2007. The exercise price per Share was HKD2.786. The options granted under the Pre-IPO Share Option Scheme were vested 6 months after 10 October 2007, the listing date, and were exercisable on or before 9 April 2010. No options granted under the Pre-IPO Share Option Scheme were lapsed on 9 April 2010. The outstanding options had been fully exercised or were surrendered to the Company by the end of 31 December 2009. No further options can be granted under the Pre-IPO share option scheme, accordingly the Pre-IPO share option scheme was effectively terminated in year 2009.

(b) Share Option Scheme

The Company adopted a share option scheme ("Share Option Scheme") on 12 September 2007 for the purpose of providing an incentive for employees and persons contributing to the Company to work with commitment towards enhancing the value of the Company and the Shares for the benefit of the Shareholders of the Company and to retain and attract calibres and working partners whose contribution are or may be beneficial to the growth and development of the Company and its subsidiaries.

The Board may from time to time grant options to any individual who is an employee of the Group (including executive Directors) or any entity in which the Company holds any equity interest and such other persons who have contributed or will contribute to the Company as approved by the Board from time to time on the basis of their contribution to the development and growth of the Group ("Grantee").

The Share Option Scheme was adopted on 12 September 2007. Unless otherwise terminated or amended, the Share Option Scheme will remain in force for a period of 10 years starting from the date of listing of the Company on 10 October 2007.

Participants of the Share Option Scheme are required to pay HKD1.00 for each option granted upon acceptance of the grant. The exercise price of the options is determined by the Board in its sole and absolute discretion and being at least the highest of:

(i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the Offer Date;

(ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date; and

(iii) the nominal value of the shares.

Unless approved by the Shareholders in general meeting in the manner prescribed in the Listing Rules, the Board shall not grant options to any Grantee if the acceptance of those options would result in the total number of shares issued and to be issued to that Grantee on exercise of his options during any 12 month period exceeding 1% of the total Shares then in issue.

The maximum limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Company must not exceed 30% of the shares in issue from time to time. In addition, the maximum number of Shares in respect of which options may be granted under the Share Option Scheme and any other schemes of the Company shall not in aggregate exceed 10% of total number of issued shares as of the Listing Date which is 550,000,000 shares, representing 9.7% of the issued share capital of the Company as at the date of this report.

The Company may renew this limit at any time, subject to Shareholders' approval provided that the total number of Shares in respect of which may be granted under the Share Option Scheme and any schemes of the Company under the Scheme Mandate as renewed must not exceed 10% of the total number of Shares in issue as of the date of Shareholders' approval.

Details of the Company's share options under the Share Option Scheme granted, exercised, lapsed or cancelled during the year ended 31 December 2010 are as follows:

			Number of share options(1)(3)				
	Date of grant	Exercise price per Share HKD	As at 1/1/2010	exercised during the year	cancelled during the year	As at 31/12/2010	Exercise period of options(2)
Executive Director							
Sandrine Zerbib	23 November 2010	4.12	—	—	—	3,000,000	From the 23 Nov 2010 to 11 September 2017

Notes:

(1) There was no outstanding share option under the Share Option Scheme as at 1 January 2010. During the year ended 31 December 2010, options to acquire 3,000,000 shares of the Company were granted at the exercise price of HKD4.12 each. The weighted average fair value of the 3,000,000 share options granted as determined using the Binomial valuation model was HKD1.74 per option as at the date of grant. The closing price of the Shares immediately before the date on which the share options were granted was HK$4.12 per share. Further details in relation to the outstanding share options are set out in Note 21(b) to the consolidated financial statements of the Company.

(2) Vesting dates of share options: Not more than 30% of the share options granted shall be exercisable during the first two years from the date of grant and not more than 40% of the share options granted shall be exercisable during the third year from the date of grant, and all share options granted shall be exercisable from the fourth anniversary of the date of grant until the end of the exercise period.

(3) Save as disclosed above, there were no other share options granted, lapsed, exercised or cancelled during the year ended 31 December 2010. There was no other share option outstanding under the Share Option Scheme as at 31 December 2010.

RESTRICTED SHARE AWARD SCHEME

On 10 December 2010 (the "Adoption Date"), the Board adopted the restricted share award scheme (the "Share Award Scheme") as an incentive to retain and encourage the participants for the continual operation and development of the Group.

Pursuant to the Share Award Scheme, up to 30 million existing Shares ("Restricted Shares") will be purchased by BOCI-Prudential Trustee Limited ("Trustee") from the market out of cash contributed by the Group and be held in trust for the relevant selected participants until such Shares are vested with the relevant selected participants in accordance with the provisions of the Share Award Scheme (the "Scheme Rules").

An administration committee (comprising the remuneration committee and certain senior management of the Company which shall include the chief executive officer and vice chairman of the Board) (the "Administration Committee") may, subject always to the Scheme Rules, from time to time, determine the number of Restricted Shares to be granted and at its absolute discretion select any selected participant (excluding any excluded employee of the Group as provided under the Scheme Rules) to be a selected participant under the Share Award Scheme.

The Administration Committee will implement the Share Award Scheme in accordance with the Scheme Rules. In addition, the maximum number of Restricted Shares which may be granted to a selected participant at any one time or in aggregate may not exceed 1% of the issued share capital of the Company as at 10 December 2010.

The Share Award Scheme is effective from the Adoption Date (i.e.10 December 2010) and shall continue in full force and effect for a term of 10 years.

A selected participant will be qualified to receive the Restricted Shares which are referable to him after all the qualifying conditions having been fulfilled in accordance with the vesting schedule pursuant to the Scheme Rules. Pursuant to the Scheme Rules, Restricted Shares held by the Trustee which are referable to a selected participant shall not vest in the selected participant if the employment contract of the selected participant has been terminated by the Company or any of its subsidiary because of, amongst others, (i) dishonesty or serious misconduct; (ii) incompetence or negligence in the performance of his duties; (iii) becoming bankrupt; and (iv) being convicted for any criminal offence involving his integrity or honesty etc. Since its adoption on 10 December 2010, no Restricted Shares were granted to eligible participant under the Share Award Scheme.

In December 2010, 30 million Restricted Shares had been purchased by Trustee from the market out of cash contributed by the Group and be held in trust for the relevant selected participants until such Shares are vested with the relevant selected participants in accordance with the Scheme Rules, though the list of selected participants yet to be confirmed.

RETIREMENT SCHEMES

Particulars of the retirement schemes operated by the Group are set out in Note 28 to the consolidated financial statements.

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

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

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2010, the interests and short positions of the directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), which have been notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 & 8 Part XV of the SFO, including interests and short positions which the directors and 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 pursuant to section 352 of the SFO or as otherwise required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Model Code contained in the Listing Rules were as follows:

Interests in Shares, underlying Shares and debentures of the Company:

		Number and class of securities		
Name of Directors	**Nature of interest**	**Long position**	**Short position**	**Approximate percentage of total issued Shares**
Mr. Chen Yihong	Interest of a controlled corporation[1]	2,467,081,000 Shares	—	43.54%
	Deemed interest[2]	325,520,000 Shares	—	5.74%
Mr. Qin Dazhong	Interest of a controlled corporation[3]	211,864,000 Shares	—	3.74%
Sandrine Zerbib	Share option[4]	3,000,000 share option	—	—

Notes:

1. Mr. Chen Yihong, Harvest Luck Development Limited ("Harvest Luck") and Talent Rainbow Far East Limited ("Talent Rainbow") are deemed to be interested in the Shares held by Poseidon Sports Limited ("Poseidon") by virtue of Harvest Luck and Talent Rainbow being entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of Poseidon. Harvest Luck is wholly-owned and controlled by Mr. Chen Yihong. The entire issued share capital of Talent Rainbow is held by Billion Giant Development Limited ("Billion Giant"). The entire issued share capital of Billion Giant is in turn held by BOS Trust Company (Jersey) Limited as trustee of the Cerises Trust. The Cerises Trust is an irrevocable discretionary trust set up by Mr. Chen Yihong as settlor and BOS Trust Company (Jersey) Limited as trustee on 20 April 2010. The beneficiaries under the Cerises Trust are family members of Mr. Chen Yihong. Mr. Chen Yihong as founder of the Cerises Trust is deemed to be interested in the Shares held by Talent Rainbow under the SFO.

2. Ms. Liu Peiying is the spouse of Mr. Chen Yihong and Mr. Chen Yihong is therefore deemed to be interested in the Shares held by Ms. Liu Peiying through Colour Billion Limited.

3. Wise Finance Ltd, is wholly-owned and controlled by Mr. Qin Dazhong and Mr. Qin Dazhong is therefore deemed to be interested in the Shares held by Wise Finance Ltd.

4. On 23 November 2010, options to acquire 3,000,000 shares of the Company were granted at the exercise price of HKD4.12 each.

Vesting dates of options: Not more than 30% of the Options granted shall be exercisable in the first two years and not more than 40% of the Options granted shall be exercisable in the third year during the validity period, such that all Options granted shall be fully exercisable from the fourth year.

Save as disclosed above, as at 31 December 2010, none of the directors and chief executives 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.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2010, other than the interests and short positions as disclosed above, the following persons have interests or short positions in the Shares, underlying Shares and debentures of the Company which fall to be disclosed to the Company under Divisions 2 & 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under Part XV (s.336) of the SFO, or otherwise known to the directors:

		Number and class of securities		
Name of Shareholders	**Nature of interest**	**Long position**	**Short position**	**Approximate percentage of shareholding (%)**
Poseidon Sports Limited	Corporate interest	2,467,081,000 Shares	—	43.54%
Talent Rainbow Far East Limited[(1)]	Interest in a controlled corporation	2,467,081,000 Shares	—	43.54%
Harvest Luck Development Limited[(1)]	Interest in a controlled corporation	2,467,081,000 Shares	—	43.54%
Colour Billion Limited[(2)]	Corporate interest	325,520,000 Shares	—	5.74%
Ms. Liu Peiying[(2)]	Interest in a controlled corporation, deemed interest	2,792,601,000 Shares	—	49.28%

Notes:

(1) Mr. Chen Yihong, Harvest Luck Development Limited ("Harvest Luck") and Talent Rainbow Far East Limited ("Talent Rainbow") are deemed to be interested in the Shares held by Poseidon Sports Limited ("Poseidon") by virtue of Harvest Luck and Talent Rainbow being entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of Poseidon. Harvest Luck is wholly-owned and controlled by Mr. Chen Yihong. The entire issued share capital of Talent Rainbow is held by Billion Giant Development Limited ("Billion Giant"). The entire issued share capital of Billion Giant is in turn held by BOS Trust Company (Jersey) Limited as trustee of the Cerises Trust. The Cerises Trust is an irrevocable discretionary trust set up by Mr. Chen Yihong as settlor and BOS Trust Company (Jersey) Limited as trustee on 20 April 2010. The beneficiaries under the Cerises Trust are family members of Mr. Chen Yihong. Mr. Chen Yihong as founder of the Cerises Trust is deemed to be interested in the Shares held by Talent Rainbow under the SFO.

(2) Colour Billion Limited is wholly-owned by Ms. Liu Peiying, who is the wife of Mr. Chen Yihong. Ms. Liu Peiying is deemed to be interested in the Shares held by Colour Billion Limited and Mr. Chen Yihong's interests in the Company.

Save as disclosed above, as at 31 December 2010, the directors are not aware of any other person or corporation having an interest or short position in Shares and underlying Shares of the Company representing 5% or more of the issued share capital of the Company.

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.

CONNECTED TRANSACTION

In September 2010, 上海嘉班納體育用品有限公司 (Shanghai Gabanna Sporting Goods Co., Limited) ("Shanghai Gabanna", an indirect wholly-owned subsidiary of the Company), Beijing Yi Tian Bo You Investment Co., Limited ("Chen Co", a company owned by brothers of Mr. Chen Yihong, a connected person of the Company), five joint venture partners, four individuals and 翰博嘉業（北京）貿易有限公司 (Han Bo Jia Ye (Beijing) Company Limited) ("Han Bo Jia Ye") entered into a reorganization agreement for the purpose of implementing the reorganisation of five joint venture companies of the Group (the "Operating Companies") engaging in the distribution of sportswear products in Hangzhou, Nanjing, Tianjin, Shanxi and Shenyang. Upon completion of such reorganization, the Group's effective interest in the operation assets and businesses of the Operating Companies remained unchanged, but such interest was held through the Group's 30% shareholding interest in Han Bo Jia Ye which in turn wholly-owned the five Operating Companies.

In November 2010, Shanghai Gabanna, Han Bo Jia Ye, Chen Co (a connected person of the Company) and four individuals entered into a capital increase agreement for the purpose of implementing a capital injection into Han Bo Jia Ye (the "Capital Increase"). Upon completion of the Capital Increase, the Group's effective interest in Han Bo Jia Ye was diluted from 30% to 22.05%.

CONTINUING CONNECTED TRANSACTION

During the year ended 31 December 2010, the Group conducted certain transactions with connected parties which constituted "continuing connected transactions" under the Listing Rules. Details of those continuing connected transactions which are subject to the reporting requirements under Rules 14A.46 of the Listing Rules and are summarised below.

1. Pursuant to a framework agreement dated 18 September 2007 (the "Framework Agreement"), the Group appointed Dong Gan Jing Ji (an associate of Mr. Chen Yihong, the Company's substantial shareholder, chairman and executive Director and hence a connected person of the Company) as its non-exclusive distributor of Kappa Brand products in Beijing, Shandong and Shaanxi in China and as a consignee in relation to sale of the Rukka Brand products in Beijing. The Framework Agreement took effect from 10 October 2007 and has a term of three years. As a result of the transfer of assets and existing distribution business of Kappa Brand products conducted by Dong Gan Jing Ji into Han Bo Jia Ye (a company owned as to 70% by Mr. Chen Yihong's brothers and as to 30% by the Company) as part of the reorganization of the Group, a new framework agreement (the "New Framework Agreement") was entered into in September 2009 between the Company, Dong Gan Jing Ji and Han Bo Jia Ye to preserve the underlying distribution arrangement conducted between the Company and Dong Gan jing Ji under the Framework Agreement after the reorganisation. The New Framework Agreement took effect from 1 January 2010 and has a term of three years. In September 2010, the Company announced that its distribution business underwent further reorganisation (details of which are set out in the section above). As a result of which, Han Bo Jia Ye ceased to be an associate of Mr. Chen Yihong after 31 July 2010, (the "Completion Date"). Hence, Han Bo Jia Ye is no longer a connected person of the Company and the transactions between the Group and Han Bo Jia Ye no longer constitute continuing connected transactions of the Company. The transactions conducted pursuant to the arrangement as mentioned in the New Framework Agreement from 1 January 2010 up to the Completion Date amounted to RMB235,997,000. The terms of these transactions were no less favourable than those offered to the other independent distributors.

2. On 31 December 2008, Shanghai Kappa Sporting Goods Co., Limited ("Shanghai Kappa"), an indirect wholly-owned subsidiary of the Company entered into a framework lease agreement with Dong Gan Jing Ji so as to regulate the lease of flagship stores to Dong Gan Jing Ji (and/or its nominees). The framework lease agreement expired on 31 December 2010. As mentioned above, as a result of certain reorganisation, the distribution business of Dong Gan Jing Ji has been transferred to Han Bo Jia Ye in 2010 while Han Bo jia Ye has subsequently ceased to be a connected person of the Company since the completion date. As such, the lease between Shanghai Kappa and Han Bo Jia Ye no longer constitutes continuing connected transaction of the Company and the framework lease agreement has not been renewed upon expiry. The transactions conducted pursuant to the lease agreement from 1 January 2010 to completion date amounted to RMB3,201,000.

The independent non-executive Directors of the Company have reviewed the above continuing connected transactions and confirm:

(1) the above transactions are in the ordinary and usual course of business of the Group;

(2) the above transactions are on normal commercial terms, or if there are insufficient comparable transactions to judge whether the terms of those transactions are normal commercial terms, as far as the Company is concerned, the terms of the above transactions are no less favourable than that available from or provided by independent third parties (as the case may be); and

(3) the above transactions are entered into and conducted pursuant to the arrangements as contemplated under the agreement in respect of the relevant transactions and the transaction terms are fair and reasonable and are in the interest of Shareholders of the Company as a whole.

In addition, in accordance with paragraph 14A.38 of the Listing Rules the Board of Directors engaged the auditor of the Company to perform certain procedures on the above continuing connected transactions on a sample basis in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed — Upon Procedures Regarding Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has reported to the Board of Directors that nothing has come to their attention that causes them to believe that the aforesaid continuing connected transactions:

(1) have not been approved by the Company's Board of directors;

(2) were not, in all material respects, in accordance with the pricing policies of the Company;

(3) were not entered into, in all material respects, in accordance with the relevant agreements governing the transactions; and

(4) have exceeded the maximum aggregate annual value disclosed in the previous announcement(s) dated 31 December 2008 and 24 August 2009 made by the Company in respect of each of the disclosed continuing connected transactions.

The related party transactions are set out in Note 37 to the consolidated financial statements. Apart from the connected transactions disclosed above, all the other related party transactions did not fall under the scope of "Connected Transaction" and "Continuing Connected Transaction" under Chapter 14A of the Listing Rules which are required to comply with the reporting, announcement or independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued Shares as required under the Listing Rules.

MAJOR SUPPLIERS AND CUSTOMERS

During the year ended 31 December 2010, the purchases from the largest supplier and the aggregated purchases from the largest five suppliers amounted for 5.7% and 24.7% of the Group's total purchases, and the sales to the largest customer and the aggregated sales to the largest five customers amounted for 13.1% and 40.0% of the Group's total sales, respectively.

Other than Han Bo Jia Ye, which is an associate of Mr. Chen Yihong, who is the chairman and executive Director of the Company, at no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in the Group's five largest suppliers or customers.

POST BALANCE SHEET DATE EVENTS

Details of the post balance sheet date events of the Group are disclosed in Note 39 to the consolidated financial statements.

CORPORATE GOVERNANCE

Throughout 2010, the Company has complied with all the code provisions, except one deviation from code provision E.1.2 of the CG Code, and most of the recommended best practices of the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules. Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 45 to 50 of this report.

AUDITOR

PricewaterhouseCoopers will retire as auditor of the Company at the forthcoming AGM and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Company until the conclusion of the next AGM is to be proposed at the forthcoming AGM.

On behalf of the Board
Chen Yihong
Chairman

Hong Kong, 22 March 2011

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

Independent Auditor's Report
To the shareholders of China Dongxiang (Group) Co., Ltd.
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Dongxiang (Group) Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 65 to 128, which comprise the consolidated and company balance sheets as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement 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 International Financial Reporting Standards and the disclosure requirements of 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.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. 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 auditor's judgment, 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 auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirement of the Hong Kong Companies Ordinance.

OTHER MATTERS

This report, including the opinion, has been prepared for and only for 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.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 22 March 2011

CONSOLIDATED BALANCE SHEET

As at 31 December 2010

	Note	As at 31 December 2010 RMB'000	2009 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**132,807**	120,101
Lease prepayments	7	**25,690**	33,615
Intangible assets	8	**302,861**	304,465
Interests in jointly controlled entities	10	**19,142**	19,442
Interests in associated companies	11	**—**	158,839
Available-for-sale financial assets	12	**213,938**	—
Deferred income tax assets	13	**57,448**	16,849
Prepayments, deposits and other receivables — non-current portion	16	**45,397**	35,001
Other financial assets — non-current portion	17	**153,211**	—
Long term bank deposits	18	**—**	150,000
		950,494	838,312
Current assets			
Inventories	14	**255,702**	223,281
Trade receivables	15	**694,508**	374,585
Prepayments, deposits and other receivables	16	**94,348**	96,228
Other financial assets	17	**1,369,286**	401,964
Cash and bank balances	18	**5,027,870**	5,977,388
		7,441,714	7,073,446
Total assets		**8,392,208**	7,911,758

Consolidated Balance Sheet

As at 31 December 2010

	Note	As at 31 December 2010 RMB'000	2009 RMB'000
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	20	**54,810**	54,810
Share premium account	20	**2,889,096**	4,094,339
Reserves	22	**4,571,071**	3,205,055
		7,514,977	7,354,204
Non-controlling interests		**268**	—
Total equity		**7,515,245**	7,354,204
LIABILITIES			
Non-current liabilities			
Financial liabilities at fair value through profit or loss	11	**—**	1,292
Deferred income tax liabilities	13	**5,453**	4,068
		5,453	5,360
Current liabilities			
Trade payables	23	**368,953**	312,264
Accruals and other payables	24	**235,626**	146,105
Provisions	25	**188,526**	37,561
Current income tax liabilities		**78,405**	56,264
		871,510	552,194
Total liabilities		**876,963**	557,554
Total equity and liabilities		**8,392,208**	7,911,758
Net current assets		**6,570,204**	6,521,252
Total assets less current liabilities		**7,520,698**	7,359,564

The notes on pages 72 to 128 are an integral part of these consolidated financial statements.

	Note	As at 31 December 2010 RMB'000	2009 RMB'000
ASSETS			
Non-current assets			
Interests in subsidiaries	9	**10,229,235**	10,103,395
Amounts due from subsidiaries	9	**967,342**	1,070,884
		11,196,577	11,174,279
Current assets			
Prepayments, deposits and other receivables	16	**7,695**	15,761
Amounts due from subsidiaries	9	**260,390**	220,922
Cash and bank balances	18	**1,227,220**	2,571,660
		1,495,305	2,808,343
Total assets		**12,691,882**	13,982,622
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	20	**54,810**	54,810
Share premium account	20	**2,889,096**	4,094,339
Reserves	22	**9,741,018**	9,819,550
Total equity		**12,684,924**	13,968,699
LIABILITIES			
Current liabilities			
Amounts due to subsidiaries	9	**6,908**	12,963
Accruals and other payables	24	**50**	960
		6,958	13,923
Total liabilities		**6,958**	13,923
Total equity and liabilities		**12,691,882**	13,982,622
Net current assets		**1,488,347**	2,794,420
Total assets less current liabilities		**12,684,924**	13,968,699

The notes on pages 72 to 128 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2010

	Note	Year ended 31 December 2010 RMB'000	2009 RMB'000
Sales	5	**4,261,605**	3,970,405
Cost of goods sold	27	**(1,715,900)**	(1,571,034)
Gross profit		**2,545,705**	2,399,371
Other gains, net	26	**226,050**	113,651
Distribution costs	27	**(797,400)**	(645,145)
Administrative expenses	27	**(232,971)**	(170,620)
Operating profit		**1,741,384**	1,697,257
Finance income, net	29	**93,806**	109,623
Share of profits/(losses) of jointly controlled entities and associated companies, net	10, 11	**2,249**	(10,623)
Profit before income tax		**1,837,439**	1,796,257
Income tax expense	30	**(373,479)**	(336,413)
Profit for the year		**1,463,960**	1,459,844
Profit attributable to:			
Equity holders of the Company		**1,463,692**	1,459,844
Non-controlling interests		**268**	—
		1,463,960	1,459,844
Earnings per share for profit attributable to the equity holders of the Company during the year			
(expressed in RMB cents per share)			
— Basic earnings per share	32	**25.83**	25.76
— Diluted earnings per share	32	**25.82**	25.76
Dividends	33	**1,024,485**	1,022,213

The notes on pages 72 to 128 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

		Year ended 31 December	
		2010	2009
	Note	**RMB'000**	RMB'000
Profit for the year		**1,463,960**	1,459,844
Other comprehensive income:			
Fair value gain on available-for-sale financial assets	12	**4,237**	—
Currency translation differences	22	**(16,350)**	(8,310)
Other comprehensive income for the year, net of tax	22	**(12,113)**	(8,310)
Total comprehensive income for the year		**1,451,847**	1,451,534
Attributable to:			
— Equity holders of the Company		**1,451,579**	1,451,534
— Non-controlling interests		**268**	—
		1,451,847	1,451,534

The notes on pages 72 to 128 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

	Note	Attributable to equity holders of the Company						
		Share capital RMB'000	Share premium account RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2009		54,805	4,910,138	(62,275)	1,816,695	6,719,363	—	6,719,363
Comprehensive income								
Profit for the year		—	—	—	1,459,844	1,459,844	—	1,459,844
Other comprehensive income								
Currency translation differences		—	—	(8,310)	—	(8,310)	—	(8,310)
Total other comprehensive income		—	—	(8,310)	—	(8,310)	—	(8,310)
Total comprehensive income		—	—	(8,310)	1,459,844	1,451,534	—	1,451,534
Transactions with owners								
Exercise of pre-IPO share options	21(a)	5	2,367	(899)	—	1,473	—	1,473
Appropriation to statutory reserve		—	—	32	(32)	—	—	—
Dividends relating to 2008 and 2009	20, 33	—	(818,166)	—	—	(818,166)	—	(818,166)
Total transactions with owners		5	(815,799)	(867)	(32)	(816,693)	—	(816,693)
Balance at 31 December 2009		54,810	4,094,339	(71,452)	3,276,507	7,354,204	—	7,354,204
Balance at 1 January 2010		**54,810**	**4,094,339**	**(71,452)**	**3,276,507**	**7,354,204**	**—**	**7,354,204**
Comprehensive income								
Profit for the year		**—**	**—**	**—**	**1,463,692**	**1,463,692**	**268**	**1,463,960**
Other comprehensive income								
Fair value gain on available-for-sale financial assets	12	**—**	**—**	**4,237**	**—**	**4,237**	**—**	**4,237**
Currency translation differences		**—**	**—**	**(16,350)**	**—**	**(16,350)**	**—**	**(16,350)**
Total other comprehensive income		**—**	**—**	**(12,113)**	**—**	**(12,113)**	**—**	**(12,113)**
Total comprehensive income		**—**	**—**	**(12,113)**	**1,463,692**	**1,451,579**	**268**	**1,451,847**
Transactions with owners								
Shares purchased for Restricted Share Award Scheme		**—**	**—**	**(87,138)**	**—**	**(87,138)**	**—**	**(87,138)**
Share-based compensation		**—**	**—**	**1,575**	**—**	**1,575**	**—**	**1,575**
Appropriation to statutory reserves		**—**	**—**	**60**	**(60)**	**—**	**—**	**—**
Dividends relating to 2009 and 2010	20, 33	**—**	**(1,205,243)**	**—**	**—**	**(1,205,243)**	**—**	**(1,205,243)**
Total transactions with owners		**—**	**(1,205,243)**	**(85,503)**	**(60)**	**(1,290,806)**	**—**	**(1,290,806)**
Balance at 31 December 2010		**54,810**	**2,889,096**	**(169,068)**	**4,740,139**	**7,514,977**	**268**	**7,515,245**

The notes on pages 72 to 128 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2010

	Note	Year ended 31 December 2010 RMB'000	2009 RMB'000
Cash flows from operating activities			
Cash generated from operations	34	**1,748,885**	1,729,460
Interest received		**86,682**	85,805
Income tax paid		**(391,963)**	(331,120)
Net cash generated from operating activities		**1,443,604**	1,484,145
Cash flows from investing activities			
Investments in associated companies		**—**	(149,201)
Purchase of property, plant and equipment		**(25,678)**	(16,761)
Purchase of intangible assets		**(13,879)**	(11,824)
Decrease/(Increase) in term deposits with initial terms of over three months and long term bank deposits		**262,838**	(4,605,579)
Decrease in restricted bank deposits		**11,100**	50,559
Proceeds from sale of property, plant and equipment	34	**133**	887
Increase in other financial assets		**(1,089,601)**	(400,000)
Increase in investments in available-for-sale financial assets		**(103,665)**	—
Dividends received from investment companies		**29,233**	—
Net cash used in investing activities		**(929,519)**	(5,131,919)
Cash flows from financing activities			
Proceeds from exercise of pre-IPO share options		**—**	1,473
Purchase of shares for Restricted Share Award Scheme	21(c)	**(87,138)**	—
Dividends paid	33	**(1,205,243)**	(818,166)
Net cash used in financing activities		**(1,292,381)**	(816,693)
Net decrease in cash and cash equivalents		**(778,296)**	(4,464,467)
Cash and cash equivalents at beginning of the year		**1,473,361**	5,942,048
Exchange losses on cash and cash equivalents		**(46,043)**	(4,220)
Cash and cash equivalents at end of the year	18	**649,022**	1,473,361

The notes on pages 72 to 128 are an integral part of these consolidated financial statements.

1 GENERAL INFORMATION

China Dongxiang (Group) Co., Ltd. (the "Company") and its subsidiaries (together the "Group") are principally engaged in brand development, design and sales of sport-related apparel, footwear and accessories in Mainland of the People's Republic of China (the "PRC"), Macau and Japan.

The Company was incorporated in the Cayman Islands on 23 March 2007 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company's shares have been listed on the Main Board of the Stock Exchange of Hong Kong Limited since 10 October 2007.

These financial statements are presented in Renminbi ("RMB"), unless otherwise stated.

These financial statements have been approved for issue by the Board of Directors on 22 March 2011.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Changes in accounting policies and disclosure

(a) *New and amended standards adopted by the Group*

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010, and relevant to the Group:

- IFRS 3 (revised), 'Business combinations', and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

  The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed. The adoption of IFRS 3 (revised) did not have an impact to the Group's financial statements as there was no acquisitions occurred during the year.

- IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognized in profit or loss. There have been no transactions whereby an interest in an entity is retained after the loss of control of that entity, and there have been no transactions with non-controlling interests.

- IAS 17 (amendment), 'Leases', deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of IAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Prior to the amendment, land interest which title is not expected to pass to the Group by the end of the lease term was classified as operating lease under 'Leasehold land and land use rights', and amortised over the lease term. The Group has re-assessed the classification of unexpired leasehold land and land use rights as at 1 January 2010 and concluded that the adoption of IAS 17 (amendment) did not have an impact to the Group's financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Changes in accounting policies and disclosure (continued)

(b) *New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the group (although they may affect the accounting for future transactions and events)*

- IFRIC 17, 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009). This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable.

- IFRIC 18, 'Transfers of assets from customers', effective for transfer of assets received on or after 1 July 2009. This interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). In some cases, the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant, and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services (or to do both).

- IFRIC 9, 'Reassessment of embedded derivatives and IAS 39, Financial instruments: Recognition and measurement', effective 1 July 2009. This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the 'fair value through profit or loss' category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. If the entity is unable to make this assessment, the hybrid instrument must remains classified as at fair value through profit or loss in its entirety.

- IFRIC 16, 'Hedges of a net investment in a foreign operation' effective 1 July 2009. This amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied. In particular, the group should clearly document its hedging strategy because of the possibility of different designations at different levels of the group.

- IAS 38 (amendment), 'Intangible assets', effective 1 January 2010. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Changes in accounting policies and disclosure (continued)

(b) *New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the group (although they may affect the accounting for future transactions and events)* (continued)

- IAS 1 (amendment), 'Presentation of financial statements'. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.

- IAS 36 (amendment), 'Impairment of assets'. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8, 'Operating segments' (that is, before the aggregation of segments with similar economic characteristics).

- IFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'. The amendment clarifies that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still applies, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1.

- IFRS 2 (amendments), 'Group cash-settled share-based payment transactions'. In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 — Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation.

(c) *New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2010 and have not been early adopted by the Group*

The Group's assessment of the impact of these new standards and interpretations is set out below:

- IFRS 9, 'Financial instruments'. This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets. It only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading while the fair value gains and losses on available-for-sale debt investments, for example, will have to be recognised directly in profit or loss. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group has yet to assess IFRS 9's full impact. However, initial indications are that it may not affect the Group's accounting policy as the Group's available-for-sale financial assets are equity instruments not held for trading.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Changes in accounting policies and disclosure (continued)

(c) *New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2010 and have not been early adopted by the Group* (continued)

- Revised IAS 24 (revised), 'Related party disclosures'. It supersedes IAS 24, 'Related party disclosures'. IAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. Earlier application, in whole or in part, is permitted. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The group will apply the revised standard from 1 January 2011.

- 'Classification of rights issues' (amendment to IAS 32). The amendment applies to annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors'. The Group will apply the amended standard from 1 January 2011.

- IFRIC — Int 19, 'Extinguishing financial liabilities with equity instruments', effective 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The Group will apply the interpretation from 1 January 2011.

- 'Prepayments of a minimum funding requirement' (amendments to IFRIC — Int 14). The amendments correct an unintended consequence of IFRIC — Int 14, 'IAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC — Int 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. The Group will apply these amendments for the financial reporting period commencing on 1 January 2011.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation

(a) *Subsidiaries*

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

(b) *Transactions with non-controlling interests*

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(c) *Jointly controlled entities and associated companies*

A jointly controlled entity is a joint venture where the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity. Investment in a jointly controlled entity is accounted for under the equity method of accounting, whereby the investment is initially recorded at cost and is adjusted thereafter to recognize the Group's share of the post-acquisition/establishment results and distributions received of the jointly controlled entity, and other necessary alternations in the Group's proportionate interest in jointly controlled entity arising from changes in equity of jointly controlled entity that have not been included in the income statement.

An associated company is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights, unless it can be clearly demonstrated that this is not the case. Investment in an associated company is accounted for using the equity method of accounting and is initially recognised at cost.

The Group's share of its jointly controlled entities' and associated companies' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of the losses in a jointly controlled entity and an associated company equals or exceeds its interest in the jointly controlled entity and associated company, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entities and associated companies.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

(c) *Jointly controlled entities and associated companies* (continued)

Unrealised gains on transactions between the Group and its jointly controlled entities and associated companies are eliminated to the extent of the Group's interest in the jointly controlled entities and associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly controlled entities and associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in jointly controlled entities and associated companies are recognized in the consolidated income statements.

(d) *Changes in accounting policy*

The Group has changed its accounting policy for transactions with non-controlling interests and the accounting for loss of control or significant influence in an entity from 1 January 2010 when revised IAS 27, 'Consolidated and separate financial statements', became effective. The revision to IAS 27 contained consequential amendments to IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures'.

Previously, the Group stopped attributing losses to the non-controlling interest when the losses exceeded the carrying amount of the non-controlling interest. Upon the adoption of revised IAS 27, a loss-making subsidiary subsequently reports profits, those profits are allocated in proportion to the respective interests of the controlling and non-controlling interest and no adjustment is made to make up for the non-controlling interest's share of losses that were absorbed by the controlling interest under the prior version of IAS 27. During the year ended 31 December 2010, the Group allocated profit of RMB268,000 attributing to the non-controlling interest.

Previously, when the Group ceased to have control or significant influence over an entity, the carrying amount of the investment at the date of losing control or significant influence became its cost for the purposes of subsequently accounting for the retained interests as associates, jointly controlled entity or financial assets. Upon the adoption of revised IAS 27, when the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities, that is, the amounts previously recognised in other comprehensive income are reclassified to profit or loss. During the year ended 31 December 2010, the Group ceased to have significant influence over its associated companies and the retained equity interests were subsequently accounted for as available-for-sale financial assets. No resulting gain or loss was charged to the profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

2.4 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional currency of the Company is United States Dollars ("USD") and the functional currency of most of its subsidiaries is Renminbi ("RMB") or Japanese Yen ("JPY"). The consolidated financial statements are presented in RMB, which is the presentation currency of the financial statements of the Company and the Group.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income, net'.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in carrying amount are recognized in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale are included in other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Foreign currency translation (continued)

(c) *Group companies*

The results and financial position of all the Group's entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

- All resulting exchange differences are recognized in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Freehold land is stated at cost less accumulated impairment losses, if any. Cost represents consideration paid for the purchase of the land. Freehold land is not subject to depreciation.

Construction-in-progress represents buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition. No provision for depreciation is made on construction-in-progress until such time the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated below.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment (continued)

Leasehold land classified as finance lease commences amortisation from the time when the land interest becomes available for its intended use. Amortisation on leasehold land classified as finance lease and depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Buildings	19 to 38 years
Office furniture and equipment	2 to 20 years
Vehicles	2 to 5 years
Leasehold improvements	2 to 15 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'Other income, net', in the income statement.

When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

2.6 Leasehold land and land use right

Leasehold land and land use rights are stated at cost less accumulated amortization and impairment losses, if any. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated for periods from 20 to 50 years. Amortization of leasehold land and land use rights is calculated on a straight-line basis over the period of the leases.

2.7 Intangible assets

(a) *Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

(b) *Trademarks*

Acquired trademarks are shown at historical cost. Trademarks have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives of 40 years.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Intangible assets (continued)

(c) *Licence rights*

Licence rights are stated at historical cost less accumulated amortisation and impairment losses, if any. They are initially measured at the fair values of the future obligation to pay fixed periodic payments and the expected variable payments based on pre-determined criteria on future revenues from the licensed business that can be reliably estimated at inception of the licence periods. Amortisation is calculated using the straight-line method to allocate the cost of the licence rights over the periods of the respective contractual rights.

(d) *Computer software*

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives of 2 to 5 years.

2.8 Impairment of investments in subsidiaries, jointly controlled entities, associated companies and non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Financial assets

2.9.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivable and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise trade receivables, deposits and other receivables excluding prepayments and cash and bank balances including long term bank deposits in the balance sheet.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial assets (continued)

2.9.1 Classification (continued)

(c) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

2.9.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'other (losses)/gains, net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'gains and losses from investment securities'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the group's right to receive payments is established.

2.10 Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are financial liabilities held for trading. Derivatives are also categorized as held for trading unless they are designated as hedges. Liabilities in this category are classified as current liabilities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider.
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

  (i) adverse changes in the payment status of borrowers in the portfolio;

  (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Impairment of financial assets (continued)

(b) Assets classified as available for sale

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. For debt securities, the group uses the criteria refer to (a) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in the separate consolidated income statement. Impairment losses recognised in the separate consolidated income statement on equity instruments are not reversed through the separate consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the separate consolidated income statement.

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods comprises raw materials and other direct costs but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expense.

2.13 Trade receivables and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.14 Cash and cash equivalents

In the consolidated cash flow statement, cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.15 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the income statement as interest expense.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.18 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It established provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Current and deferred income tax (continued)

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, jointly controlled entities and associated companies, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.19 Employee benefits

(a) Pension obligations

The Group's companies participate in various defined contribution retirement benefit plans administered by the relevant governments in the PRC, Hong Kong and Japan. The relevant governments undertake to assume the retirement benefit obligation payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. The Group's monthly contributions to the defined contribution retirement benefit plans are expensed in the income statement as incurred.

(b) Share-based compensation

(i) Share Option Schemes

The Group operates a pre-IPO Share Option Scheme (expired in 2009) and a Share Option Scheme (Note 21(a),(b)). Under the Share Option Scheme, the Group receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense in the Group's consolidated income statement. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Employee benefits (continued)

(b) Share-based compensation (continued)

(i) Share Option Schemes (continued)

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

In the Company's entity financial statements, the grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

The social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

(ii) Restricted Share Award Scheme

The Company adopted the Dongxiang Company Limited Restricted Share Award Scheme ("Restricted Share Award Scheme") (Note 21 (c)) on 10 December 2010. The objective of the Restricted Share Award Scheme is to encourage and retain selected participants including directors and employees of the Group, to work with the Group and to provide additional incentive for them to achieve performance goals. Under the scheme, the China Dongxiang (Group) Co., Ltd Restricted Share Award Scheme Trust (the "Trust")was established in Hong Kong and purchased 30,000,000 shares of the Company from the open market in December 2010. The total amount of RMB87,138,000 (2009: nil) paid to acquire the shares was financed by the Company by way of contributions made to the Trust. As the financial and operational policies of the Trust are governed by the Group, and Group benefits from the Trust's activities, the Trust is consolidated in the Group's financial statements as a special purpose entity.

When restricted share are granted to selected participants, the fair value of the restricted shares awarded based on the market value of the Company's shares on the date of grant is charged as employee expenses to the consolidated income statement of the Group.

(c) Bonus plans

Since 1 January 2009, the Group has adopted and implemented cash-settled performance-based employee benefit plans (the "Performance Unit Plans") for the middle to senior management of the Group. Under the Performance Unit Plans, the eligible employees are granted performance units, each of which represents an entitlement to receive cash payments when the Group's performance outperforms a pre-set benchmark in a period of 3 years starting from 1 January of the year the units are grant. The value of each unit has a cap at RMB2 per unit. The fair values of the Group's liabilities under the Performance Unit Plans as at each balance sheet date are estimated by management using a valuation model. The changes in fair value of the liabilities are charged to the consolidated income statement.

The Group also provides discretionary bonuses to employees based on the performance of employees of the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2.21 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods — wholesale

Sales of goods are recognized when a group entity has delivered products to the wholesaler, the wholesaler has full discretion over the channel to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Certain distributors are entitled to return goods or additional sales discounts in accordance with agreements between the Group and its distributors. Management estimates the quantities of goods returns and additional sales discounts based on historical experience and makes provision accordingly. Revenue is recognized to the extent of goods delivered less estimated goods returns and sales discounts.

(b) Sales of goods — retail

The Group operates retail shops and outlets for selling sport apparels in Japan. Sales of goods are recognized when the Group sells a product to customers.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Revenue recognition (continued)

(c) Sales of goods — consignment sales

Consignment sales are the sales of goods of the Group under which the recipient undertakes to sell the goods on behalf of the Group. Revenue is recognized by the Group when the goods are sold by the recipient to a third party.

(d) Interest income

Interest income is recognized using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognized using the original effective interest rate.

2.22 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

2.23 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.24 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC and Japan with most of the transactions denominated and settled in RMB and JPY, while limited purchases and sales are from overseas (other than Japan) and settled mainly in USD. Foreign exchange risk also arises from certain bank deposits denominated in currencies other than the functional currencies of the respective companies. These include mainly the deposits denominated in Hong Kong Dollars ("HKD"), USD and JPY in the PRC subsidiaries, the functional currency of which is RMB, and the deposits of the Company which are mostly denominated in HKD and USD while the functional currency of the Company is USD. Analyses of cash and bank balances by currencies are disclosed in Note 18. The Group currently does not hedge its foreign exchange exposure.

As at 31 December 2010, if RMB had strengthened/weakened by 5% against the USD/HKD with all other variables held constant, profit for the year and equity of the Group would have changed mainly as a result of foreign exchange gains/losses on translation of USD and HKD denominated cash and bank balances respectively.

	2010	2009
	RMB'000	RMB'000
Year ended 31 December:		
Profit for the year (decrease)/increase		
— Strengthened 5%	**(25,191)**	(26,040)
— Weakened 5%	**25,191**	26,040
As at 31 December:		
Equity of the Group (decrease)/increase		
— Strengthened 5%	**(61,360)**	(154,623)
— Weakened 5%	**61,360**	154,623

(ii) Cash flow and fair value interest rate risk

The Group's exposure to change in interest rate risk mainly concerns its cash in bank and other financial assets. The Group currently does not hedge its exposure to interest rate risk. Details of the Group's other financial assets and cash in bank balances are disclosed in Note 17 and Note 18 respectively.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

The Group has no significant concentration of credit risk. The carrying amounts of cash and bank balances, other financial assets, trade receivables and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets. As at 31 December 2010, all the bank deposits are deposited in high quality financial institutions without significant credit risk.

The table below shows the bank deposit balances of the Group in the banks as at 31 December 2010 and 2009. Management does not expect any losses from non-performance of these banks.

		As at 31 December	
	Rating (i)	**2010** **RMB'000**	2009 RMB'000
Industrial and Commercial Bank of China	A	**2,871,021**	3,216,340
China Merchants Bank	BBB	**814,012**	1,013,489
Shanghai Pudong Development Bank	(ii)	**636,128**	665,187
Bank of China	A-	**171,595**	173,971
Bank of Communications	BBB	**217,093**	64,911
Others	(ii)	**318,021**	993,490
		5,027,870	6,127,388

(i) The source of the credit rating is from Standard & Poor as at 31 December 2010.

(ii) The credit rating information for these financial institutions is not available.

The Group's other financial assets as at 31 December 2010 comprised registered treasury bonds issued by the Ministry of Finance of the PRC and unlisted treasury products issued by commercial banks in the PRC (Note 17).

The Group's credit sales are only made to customers with appropriate credit history and at credit periods of 30 to 60 days.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk

The Group has significant cash and bank balances and liquidity risk is considered to be minimal. The Group controls its liquidity risk by maintaining sufficient cash and cash equivalents, which are generated mainly from the operating cash flow.

The table below analyses the Group's financial liabilities that will be settled on a net basis by relevant maturity groupings based on the remaining period from the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	The Group RMB'000	**The Company** RMB'000
At 31 December 2010		
Trade payables	**368,953**	**—**
Amounts due to subsidiaries	**—**	**6,908**
Accruals and other payables excluding salary and welfare payable	**168,823**	**50**
	537,776	**6,958**
At 31 December 2009		
Trade payables	312,264	—
Amounts due to subsidiaries	—	12,963
Accruals and other payables excluding salary and welfare payable	95,216	960
	407,480	13,923

All the balances are due within one year.

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by equity holders' equity as shown in the balance sheet. As at 31 December 2010, the Group did not have any borrowings.

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation

The carrying amounts of the Group's financial assets including cash and bank balances, trade and other receivables, available-for-sale financial assets and financial liabilities including trade payables, accruals other payables, are assume to approximate their fair value due to their short maturities.

The fair value of available-for-sale financial assets as at 31 December 2010 is RMB213,938,000 (Note 12).

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2010 and 2009.

	Level 1 RMB'000	**Level 2** RMB'000	**Level 3** RMB'000
At 31 December 2010			
Assets			
Available-for-sale financial assets			
— equity securities	**—**	**—**	**213,938**
At 31 December 2009			
Liabilities			
Financial liability at fair value through profit or loss	—	—	1,292

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgements are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Useful life of trademark

The Group's management determined that the useful life of Kappa, Phenix and other trademarks is 40 years (Note 8). This estimate is based on the management's experiences in the sport apparel industry. The Group will increase or decrease the amortisation charge where useful life is shorter or longer than previously estimated. The estimate of useful life of the trademark and the amortisation charge could change significantly as a result of changes in the sport apparel market, market trend and competition. Management will increase the amortisation charge where useful life is less than the previously estimated, or the trademark asset will be written-off or written-down to the recoverable amount when there is an indication that the carrying amount is not recoverable.

(b) Fair value assessment of available-for-sales financial assets

The fair values of available-for-sale financial assets as at each balance sheet date are determined with reference to a valuation model based on discounted cash flows from the profit forecasts of the underlying business. Changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income, except for impairment losses which will be charged to the income statement, if any. The fair value of available-for-sale financial assets and the profit forecast of the underlying business could change significantly as a result of changes in the sport apparel market, market trend and competition. Management will adjust the profit forecast where actual results are different from what were previously estimated.

(c) Income taxes

The Group is mainly subject to income taxes in the PRC and Japan. Judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination may be uncertain during the ordinary course of business. The Group recognizes liabilities based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(d) Inventory provision

Inventories are stated at the lower of cost and net realisable value. Management makes provision based on historical experience and on the estimation of future sales accordingly. Management will adjust the provision where actual net realisable value is higher or lower than previously estimated.

(e) Sales returns and discounts provision

Depending on agreement between the Group and distributors, certain distributors are entitled to return goods or additional sales discounts. Management estimates the amounts of goods returns and additional sales discount based on historical experience and market condition and makes provision accordingly. Revenue is recognised to the extent of goods delivered less estimated goods returns and sales discounts. Management will adjust the provision where actual sales returns or sales discounts are more or less than previously estimated.

5 SEGMENT INFORMATION

The Group is principally engaged in brand development, design and sales of sport-related apparel, footwear and accessories in the PRC, Macau and Japan.

The chief operating decision maker reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports. The chief operating decision maker considers the business and assesses the performance from a geographic perspective, including China (including PRC and Macau) and Japan segments as follows:

- China — distribution of sport-related products under Kappa Brand and other brands and international business which includes the provision of Kappa Brand products for other Kappa licensees in other countries.

- Japan — distribution of sport-related products under Kappa, Phenix and other brands.

Sales between segments are carried out on terms set out in agreements governing the transactions. The revenue from external customers reported to the chief operating decision maker is measured in a manner consistent with that presented in the consolidated income statement.

The segment results and other material income statement items provided to the chief operating decision maker for the reportable segments are as follows:

	China RMB'000	Japan RMB'000	Unallocated RMB'000	Total RMB'000
Year ended 31 December 2010				
Total revenue before inter-segment elimination	3,660,715	619,428	—	4,280,143
Inter-segment revenue	(10,833)	(7,705)	—	(18,538)
Revenue from external customers	3,649,882	611,723	—	4,261,605
Cost of goods sold	(1,372,531)	(343,369)	—	(1,715,900)
Segment gross profit	2,277,351	268,354	—	2,545,705
Segment operating profit	1,828,642	33,879	(121,137)	1,741,384
Interest income	68,545	8	15,690	84,243
Interest expenses and others, net	10,866	589	(1,892)	9,563
Share of profits/(losses) of jointly controlled entities and associated companies, net	2,652	(403)	—	2,249
Profit before income tax	1,910,705	34,073	(107,339)	1,837,439
Income tax expense	(372,992)	(487)	—	(373,479)
Profit for the year	1,537,713	33,586	(107,339)	1,463,960
Material items of income and expense				
Depreciation and amortization	25,915	7,435		33,350
Provision for/(reversal of) impairment losses of inventories	15,306	(1,462)		13,844
Provision for impairment losses of trade and other receivables	96	1,771		1,867

5 SEGMENT INFORMATION (continued)

	China RMB'000	Japan RMB'000	Unallocated RMB'000	Total RMB'000
Year ended 31 December 2009				
Total revenue before inter-segment elimination	3,404,193	580,103	—	3,984,296
Inter-segment revenue	(1,078)	(12,813)	—	(13,891)
Revenue from external customers	3,403,115	567,290	—	3,970,405
Cost of goods sold	(1,259,955)	(311,079)	—	(1,571,034)
Segment gross profit	2,143,160	256,211	—	2,399,371
Segment operating profit	1,744,167	43,930	(90,840)	1,697,257
Interest income	61,290	25	45,954	107,269
Interest expenses and others, net	2,723	1,980	(2,349)	2,354
Share of losses of jointly controlled entities and associated companies	(10,620)	(3)	—	(10,623)
Profit before income tax	1,797,560	45,932	(47,235)	1,796,257
Income tax expense	(335,117)	(1,296)	—	(336,413)
Profit for the year	1,462,443	44,636	(47,235)	1,459,844
Material items of income and expense				
Depreciation and amortization	21,070	5,910		26,980
Provision for/(reversal of) impairment losses of inventories	1,288	(3,515)		(2,227)
Provision for/(reversal of) impairment losses of trade and other receivables	869	(7,842)		(6,973)

A further analysis of sales by brands and activities in China and Japan segments is as follows:

	2010 RMB'000	2009 RMB'000
China		
— Distribution of Kappa Brand products	**3,632,511**	3,394,284
— International business and others	**17,371**	8,831
	3,649,882	3,403,115
Japan		
— Distribution and retail of Kappa Brand products	**218,598**	191,044
— Distribution and retail of Phenix Brand products	**393,055**	375,366
— Distribution and retail of products of other brands	**70**	880
	611,723	567,290
	4,261,605	3,970,405

Revenues of approximately RMB558,203,000 (2009: RMB374,071,000) are derived from one single external customer. These revenues are attributable to the China segment.

5 **SEGMENT INFORMATION** (continued)

The segment assets and liabilities and reconciliations to the Group's total assets and total liabilities are as follows:

	China RMB'000	**Japan RMB'000**	**Unallocated RMB'000**	**Total RMB'000**
As at 31 December 2010				
Total assets before inter-segment elimination	**6,710,176**	**498,857**	**1,313,732**	**8,522,765**
Inter-segment elimination	**(18,437)**	**(25,608)**	**(86,512)**	**(130,557)**
Total assets	**6,691,739**	**473,249**	**1,227,220**	**8,392,208**
Deferred income tax assets	**(57,448)**	**—**	**—**	**(57,448)**
Interests in jointly controlled entities	**—**	**(19,142)**	**—**	**(19,142)**
Available-for-sale financial assets	**(213,938)**	**—**	**—**	**(213,938)**
Segment assets	**6,420,353**	**454,107**	**1,227,220**	**8,101,680**
Total liabilities before inter-segment elimination	**719,434**	**199,409**	**41,142**	**959,985**
Inter-segment elimination	**(25,737)**	**(16,143)**	**(41,142)**	**(83,022)**
Total liabilities	**693,697**	**183,266**	**—**	**876,963**
Deferred income tax liabilities	**(1,412)**	**(4,041)**	**—**	**(5,453)**
Current income tax liabilities	**(76,680)**	**(1,725)**	**—**	**(78,405)**
Segment liabilities	**615,605**	**177,500**	**—**	**793,105**

	China RMB'000	Japan RMB'000	Unallocated RMB'000	Total RMB'000
As at 31 December 2009				
Total assets before inter-segment elimination	4,909,813	447,098	2,671,492	8,028,403
Inter-segment elimination	(1,389)	—	(115,256)	(116,645)
Total assets	4,908,424	447,098	2,556,236	7,911,758
Deferred income tax assets	(16,849)	—	—	(16,849)
Interests in jointly controlled entities	—	(19,442)	—	(19,442)
Interests in associated companies	(158,839)	—	—	(158,839)
Segment assets	4,732,736	427,656	2,556,236	7,716,628
Total liabilities before inter-segment elimination	383,951	173,603	106,918	664,472
Inter-segment elimination	—	—	(106,918)	(106,918)
Total liabilities	383,951	173,603	—	557,554
Deferred income tax liabilities	—	(4,068)	—	(4,068)
Current income tax liabilities	(54,195)	(2,069)	—	(56,264)
Segment liabilities	329,756	167,466	—	497,222

As at 31 December 2010, the total non-current assets other than deferred tax assets located in the PRC amounted to RMB527,095,000 (31 December 2009: RMB456,587,000) and the total of these non-current assets located in other countries and places amounted to RMB365,951,000 (31 December 2009: RMB364,876,000).

During the year ended 31 December 2010, additions to total non-current assets other than deferred tax assets in China and Japan segments amounted to RMB285,735,000 and RMB6,390,000 (2009: RMB380,563,000 and RMB38,537,000), respectively.

6 PROPERTY, PLANT AND EQUIPMENT — GROUP

	Freehold land	Buildings	Office furniture and equipment	Vehicles	Leasehold improvements	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2009							
Cost	5,108	86,197	31,040	6,325	7,560	4,705	140,935
Accumulated depreciation	—	(7,555)	(9,783)	(1,986)	(1,519)	—	(20,843)
Accumulated impairment	(129)	—	(999)	—	—	—	(1,128)
Exchange difference	400	460	497	—	707	255	2,319
Net book amount	5,379	79,102	20,755	4,339	6,748	4,960	121,283
Year ended 31 December 2009							
Opening net book amount	5,379	79,102	20,755	4,339	6,748	4,960	121,283
Additions	—	515	8,992	1,590	3,275	2,389	16,761
Transfer	—	—	2,602	—	3,467	(6,069)	—
Disposals							
— Cost	—	(32)	(2,210)	(24)	(4,116)	(917)	(7,299)
— Depreciation	—	8	1,252	21	1,165	—	2,446
Depreciation (Note 27)	—	(4,194)	(6,390)	(1,263)	(1,054)	—	(12,901)
Reversal of impairment (Note 27)	—	—	64	—	—	—	64
Exchange difference	(88)	(100)	207	—	(174)	(98)	(253)
Closing net book amount	5,291	75,299	25,272	4,663	9,311	265	120,101
At 31 December 2009							
Cost	5,108	86,680	40,424	7,891	10,186	108	150,397
Accumulated depreciation	—	(11,741)	(14,921)	(3,228)	(1,408)	—	(31,298)
Accumulated impairment	(129)	—	(935)	—	—	—	(1,064)
Exchange difference	312	360	704	—	533	157	2,066
Net book amount	5,291	75,299	25,272	4,663	9,311	265	120,101
Year ended 31 December 2010							
Opening net book amount	**5,291**	**75,299**	**25,272**	**4,663**	**9,311**	**265**	**120,101**
Additions	**—**	**628**	**10,385**	**1,256**	**5,725**	**7,684**	**25,678**
Transfer	**—**	**265**	**—**	**—**	**2,418**	**(2,683)**	**—**
Disposals							
— Cost	**—**	**(483)**	**(2,528)**	**—**	**(446)**	**—**	**(3,457)**
— Depreciation	**—**	**174**	**1,743**	**—**	**89**	**—**	**2,006**
Depreciation (Note 27)	**—**	**(4,269)**	**(7,145)**	**(1,497)**	**(1,832)**	**—**	**(14,743)**
Reversal of impairment (Note 27)	**—**	**—**	**45**	**—**	**—**	**—**	**45**
Exchange difference	**355**	**344**	**1,235**	**—**	**1,243**	**—**	**3,177**
Closing net book amount	**5,646**	**71,958**	**29,007**	**4,422**	**16,508**	**5,266**	**132,807**
At 31 December 2010							
Cost	**5,108**	**87,090**	**48,281**	**9,147**	**17,883**	**5,109**	**172,618**
Accumulated depreciation	**—**	**(15,836)**	**(20,323)**	**(4,725)**	**(3,151)**	**—**	**(44,035)**
Accumulated impairment	**(129)**	**—**	**(890)**	**—**	**—**	**—**	**(1,019)**
Exchange difference	**667**	**704**	**1,939**	**—**	**1,776**	**157**	**5,243**
Net book amount	**5,646**	**71,958**	**29,007**	**4,422**	**16,508**	**5,266**	**132,807**

Depreciation expenses have been charged to the consolidated income statement as follows:

	2010	2009
	RMB'000	RMB'000
Distribution costs	**3,619**	3,598
Administrative expenses	**8,443**	6,649
Manufacturing overheads included under cost of goods sold	**2,681**	2,654
	14,743	12,901

6 PROPERTY, PLANT AND EQUIPMENT — GROUP (continued)

There is no pledge of property, plant and equipment of the Group as at 31 December 2010 and 2009.

The Group owns freehold land and buildings located in Shibata City, Niigata province, Japan.

The Group also owns buildings on land with land use right periods within 50 years located in Beijing and Jiangsu province, the PRC.

7 LEASE PREPAYMENTS — GROUP

	Lease prepayments for land use rights RMB'000	Lease prepayments for stores RMB'000	Total RMB'000
At 1 January 2009			
Cost	14,262	80,324	94,586
Accumulated amortization	(826)	(51,697)	(52,523)
Net book amount	13,436	28,627	42,063
Year ended 31 December 2009			
Opening net book amount	13,436	28,627	42,063
Additions	—	53,827	53,827
Amortization	(285)	(61,990)	(62,275)
Closing net book amount	13,151	20,464	33,615
At 31 December 2009			
Cost	14,262	134,151	148,413
Accumulated amortization	(1,111)	(113,687)	(114,798)
Net book amount	13,151	20,464	33,615
Year ended 31 December 2010			
Opening net book amount	**13,151**	**20,464**	**33,615**
Additions	**—**	**35,200**	**35,200**
Amortization	**(285)**	**(42,840)**	**(43,125)**
Closing net book amount	**12,866**	**12,824**	**25,690**
At 31 December 2010			
Cost	**14,262**	**169,351**	**183,613**
Accumulated amortization	**(1,396)**	**(156,527)**	**(157,923)**
Net book amount	**12,866**	**12,824**	**25,690**

7 LEASE PREPAYMENTS — GROUP (continued)

Lease prepayments for land use rights represent the Group's interests in land in the PRC and held on leases within 50 years.

Lease prepayments for stores mainly represent prepayment of rental for lease of flagship stores which are onward leased to distributors of the Group.

Amortization expenses of the Group's lease prepayments for land use rights and for stores have been charged to administrative expenses and distribution costs in the consolidated income statements, respectively.

8 INTANGIBLE ASSETS — GROUP

	KAPPA trademarks	Phenix trademark and others	Computer software	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2009				
Cost	397,569	8,605	24,171	430,345
Accumulated amortization	(117,605)	(143)	(8,478)	(126,226)
Exchange difference	2,537	—	473	3,010
Net book amount	282,501	8,462	16,166	307,129
Year ended 31 December 2009				
Opening net book amount	282,501	8,462	16,166	307,129
Additions	—	—	11,824	11,824
Amortization charge (Note 27)	(7,637)	(215)	(5,942)	(13,794)
Exchange difference	(555)	—	(139)	(694)
Closing net book amount	274,309	8,247	21,909	304,465
At 31 December 2009				
Cost	397,569	8,605	35,995	442,169
Accumulated amortization	(125,242)	(358)	(14,420)	(140,020)
Exchange difference	1,982	—	334	2,316
Net book amount	274,309	8,247	21,909	304,465
Year ended 31 December 2010				
Opening net book amount	**274,309**	**8,247**	**21,909**	**304,465**
Additions	**—**	**—**	**13,879**	**13,879**
Amortization charge (Note 27)	**(7,665)**	**(215)**	**(10,442)**	**(18,322)**
Exchange difference	**2,138**	**—**	**701**	**2,839**
Closing net book amount	**268,782**	**8,032**	**26,047**	**302,861**
At 31 December 2010				
Cost	**397,569**	**8,605**	**49,874**	**456,048**
Accumulated amortization	**(132,907)**	**(573)**	**(24,862)**	**(158,342)**
Exchange difference	**4,120**	**—**	**1,035**	**5,155**
Net book amount	**268,782**	**8,032**	**26,047**	**302,861**

8 INTANGIBLE ASSETS — GROUP (continued)

The KAPPA trademarks represent the perpetual rights of the use of KAPPA trademarks in the PRC, Macau and Japan. The KAPPA trademarks for the PRC and Macau were purchased by the Group from a third party in 2006 at a consideration of USD35,000,000 (equivalent to approximately RMB280,994,000). The KAPPA trademarks for Japan were obtained in the acquisition of Phenix Co., Ltd. ("Phenix") in April 2008. The KAPPA trademarks are subject to amortization on a straight-line basis over an estimated useful life of 40 years.

Amortization expenses in relation to trademarks have been charged to distribution costs and those in relation to computer software have been charged to administrative expenses in the consolidated income statement.

9 INTERESTS IN SUBSIDIARIES — COMPANY

	2010 RMB'000	2009 RMB'000
Interests in subsidiaries		
Unlisted investments, at cost	10,113,407	10,076,280
Contribution related to the pre-IPO Share Option Scheme (Note 21(a))	27,115	27,115
Contribution related to the Share Option Scheme (Note 21(b))	1,575	—
Contribution related to the Restricted Share Award Scheme (Note 21(c))	87,138	—
	10,229,235	10,103,395
Amounts due from subsidiaries		
Loans to subsidiaries — non-current portion	967,342	1,070,884
Loans to subsidiaries — current portion	59,896	20,922
Dividends receivable	200,000	200,000
Others	494	—
	260,390	220,922
Amounts due to subsidiaries		
Loans from subsidiaries	5,572	7,101
Others	1,336	5,862
	6,908	12,963

The amounts due from and to subsidiaries are unsecured, interest free and repayable on demand.

The particulars of the principal subsidiaries of the Group are is set in Note 38 to the consolidated financial statements.

10 INTERESTS IN JOINTLY CONTROLLED ENTITIES — GROUP

	2010 RMB'000	2009 RMB'000
At 1 January	19,442	25,926
Disposal of equity interest in a jointly controlled entity	—	(5,990)
Share of losses	(403)	(3)
Exchange differences	103	(491)
At 31 December, share of net assets	19,142	19,442

The financial information below, after necessary adjustments to conform with the Group's significant accounting policies, represents the Group's respective interests in the jointly controlled entities as follows:

	As at 31 December	
	2010 RMB'000	2009 RMB'000
Total assets	22,801	24,903
Total liabilities	(3,659)	(5,461)

	Year ended 31 December	
	2010 RMB'000	2009 RMB'000
Revenue	21,412	20,866
Loss after income tax for the year	(403)	(3)

There are no material contingent liabilities relating to the Group's interests in jointly controlled entities and no material contingent liabilities of the jointly controlled entities themselves.

The particulars of the Group's jointly controlled entities as at 31 December 2010 are set out below:

Company name	Country of incorporation	Particulars of issued/registered capital	Interest held	Principal activities
Indirectly held:				
Shanghai Phenix Apparel Co., Ltd. 上海菲尼克斯製衣有限公司	PRC	USD4,300,000	38%	Production and sale of apparel and sportswear
Shanghai Fengda Garment Co., Ltd. 上海鳳達服裝有限公司	PRC	USD3,500,000	26%	Production and sale of apparel and sportswear

11 INTERESTS IN ASSOCIATED COMPANIES — GROUP

	2010 RMB'000	2009 RMB'000
At 1 January	**158,839**	—
Cost of investment at date of acquisition	**—**	169,459
Dividends received	**(9,873)**	—
Share of profits/(losses)	**2,652**	(10,620)
Deemed disposal of equity interest in associated companies	**(151,618)**	—
At 31 December, share of net assets	**—**	158,839

In January and November 2009, the Group, through one of its wholly owned subsidiary, acquired 30% equity interests in each of six companies set up by the Group's six distributor customers, of which, Han Bo Jia Ye (Beijing) Company Limited ("HBJY") is beneficially owned by the close family members of Mr Chen Yi Hong, the Chairman and controlling shareholder of the Company. The six companies are engaged in the distribution and retail of sport related products in various provinces in the PRC (referred thereafter the "G6"). The cost of investment at date of acquisition of RMB169,459,000 was determined based on the cash considerations paid by the Group by way of capital contributions to the six companies amounting to RMB168,591,000, and the estimated additional considerations amounting to RMB868,000 to be payable in the future if the companies were able to achieve certain pre-determined profit targets. The estimated additional considerations payable of RMB1,292,000 are recognized as financial liabilities at fair value through profit or loss in the consolidated balance sheet of the Group as at 31 December 2009.

In August 2010, the G6, the equity holders of the G6 (including the Group's wholly owned subsidiary), the Group's another few distributors (collectively the "S&C Distributor") who operate in Sichuan and Chongqing areas (the "Sichuan and Chongqing Companies") signed a re-organization agreement. Pursuant to the re-organization agreement, HBJY would become the holding company that wholly holds the other five companies of the G6 and the Sichuan and Chongqing Companies (collectively referred thereafter the "GX Group"). In addition, the Group and certain equity holders of the GX Group would inject further capital to HBJY. Upon completion of the re-organization and the capital injection, the S&C Distributor becomes the largest shareholder holding 38.5% equity interest in the GX Group, the Group holds 22.05% and the rest of the equity interest are held by the remaining equity holders of the GX Group.

Furthermore, subsequent to the re-organization, the Group has given up the right to assign or be nominated as directors of HBJY and has not held any management position in the GX Group. The directors of the Company are of the view that the Group has ceased to have significant influence over the GX Group, accordingly, the remaining equity interests in the associated companies at the date the significant influence was lost was re-measured to fair value and became the cost for the purpose of the subsequent accounting for the retained interests as available-for-sale financial assets (Note 12). There was no resultant gain or loss recognized in the consolidated income statement.

12 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2010 RMB'000	2009 RMB'000
At 1 January	—	—
Additions, unlisted equity investments:		
— The GX Group	187,289	—
— Other investment	21,000	—
Change in fair value	5,649	—
At 31 December	213,938	—

The GX Group available-for-sale financial asset represents the 22.05% equity interest in HBJY which wholly owns the companies engaging in the distribution and retail of sport-related products in various provinces in the PRC. The investments were transferred from interests in associated companies to available-for-sale financial assets during the year. Further details are set out in Note 11 above.

The fair values of available-for-sale financial assets as at each balance sheet date are determined with reference to a valuation model based on estimated discounted cash flows. Changes in the fair value of available-for-sale financial asset are recognised in other comprehensive income, except for impairment losses which will be charged to the income statement, if any.

During the year, the Group also invested RMB21,000,000 for a 3% equity interest in a company engaging in the distribution of sport related products in Northern China.

None of the available-for-sale financial assets is impaired as at 31 December 2010.

13 DEFERRED INCOME TAX — GROUP

	2010 RMB'000	2009 RMB'000
Deferred tax assets		
— To be recovered after more than 12 months	—	—
— To be recovered within 12 months	57,448	16,849
	57,448	16,849
Deferred tax liabilities		
— To be recovered after more than 12 months	(5,380)	(3,995)
— To be recovered within 12 months	(73)	(73)
	(5,453)	(4,068)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority.

13 DEFERRED INCOME TAX — GROUP (continued)

The movements in deferred tax assets and liabilities during the year without taking into consideration the offsetting of balances within the same tax jurisdiction are as follows:

Deferred tax assets:

	Provision for sales returns/ rebates RMB'000	**Provision for impairment of inventories** RMB'000	**Other accrued expenses** RMB'000	**Total** RMB'000
At 1 January 2009	2,344	1,097	106	3,547
Credited to the income statement (Note 30)	5,351	309	7,642	13,302
At 31 December 2009	7,695	1,406	7,748	16,849
Credited to the income statement (Note 30)	32,755	3,747	4,097	40,599
At 31 December 2010	40,450	5,153	11,845	57,448

Deferred tax liabilities:

	Fair value gains RMB'000	**Others** RMB'000	**Total** RMB'000
At 1 January 2009	(3,226)	(951)	(4,177)
Credited to the income statement (Note 30)	74	35	109
At 31 December 2009	(3,152)	(916)	(4,068)
Credited/(charged) to the income statement (Note 30)	74	(47)	27
Charged directly to equity	(1,412)	—	(1,412)
At 31 December 2010	(4,490)	(963)	(5,453)

As at 31 December 2010, deferred income tax assets of RMB94,359,000 (2009: RMB88,320,000) have not been recognised in respect of the tax losses amounting to RMB325,917,000 (2009: RMB308,749,000) which can be carried forward against future taxable income. The tax losses mainly resulted from accumulated operating losses of Phenix before the acquisition by the Group.

As at 31 December 2010, deferred income tax liabilities of RMB173,364,000 (2009: RMB109,362,000) have not been recognised for the withholding tax that would be payable on the unremitted earnings, totaling RMB3,467,278,000 (2009: RMB2,187,231,000) of certain subsidiaries in the PRC. The Group determined that no deferred withholding tax liabilities shall be recognised in respect of profits of the PRC subsidiaries derived since 2008 to 2010 as the Group has no plan to distribute such profits in the foreseeable future.

14 INVENTORIES — GROUP

	2010 RMB'000	2009 RMB'000
Finished goods		
— Carried at cost	**186,761**	172,927
— Carried at net realizable value	**47,946**	30,067
Raw materials and others		
— Carried at cost	**19,205**	16,562
— Carried at net realizable value	**1,790**	3,725
	255,702	223,281

The cost of inventories recognized as cost of goods sold and distribution costs amounted to approximately RMB1,671,160,000 (2009: RMB1,529,131,000) (Note 27), for the year ended 31 December 2010.

The Group incurred a loss from provision for impairment of inventories of approximately RMB13,844,000 (2009: gain of approximately RMB2,227,000) (Note 27) for the year ended 31 December 2010. The amount has been included in administrative expenses in the consolidated income statement.

15 TRADE RECEIVABLES — GROUP

	2010 RMB'000	2009 RMB'000
Trade receivables		
— Third parties	**524,461**	313,757
— Related parties (Note 37(b))	**188,816**	76,550
	713,277	390,307
Less: provision for impairment	**(18,769)**	(15,722)
Trade receivables, net	**694,508**	374,585

The Group's sales are mainly made on credit terms ranging from 30 to 60 days. The ageing analysis of trade receivables as at 31 December 2010 and 2009 was as follows:

	2010 RMB'000	2009 RMB'000
Current	**571,110**	284,554
Within 30 days	**116,985**	85,763
31 to 120 days	**24,880**	19,063
Over 120 days	**302**	927
	713,277	390,307

15 TRADE RECEIVABLES — GROUP (continued)

The trade receivables were mainly denominated in RMB and JPY. Their carrying amounts approximated their fair values as at the balance sheet dates.

As of 31 December 2010, trade receivables of RMB142,167,000 (2009: RMB105,753,000) were past due, of which RMB18,769,000 (2009: RMB15,722,000) were impaired and fully provided for. The trade receivables that were past due but not impaired relate to a number of independent customers for whom there is no recent history of default. The movements of provision for impairment of trade receivables are as follows:

	2010 RMB'000	2009 RMB'000
At 1 January	15,722	23,651
Provision for/(reversal of) impairment losses of receivables	1,867	(6,973)
Written off during the year as uncollectible	—	(770)
Exchange difference	1,180	(186)
At 31 December	18,769	15,722

16 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES — GROUP AND COMPANY

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Current portion:				
Advance payments to suppliers	29,182	12,176	—	—
Prepaid advertising expense	2,155	4,418	—	—
Interest receivables	37,550	39,990	4,377	10,821
Deposits for operating leases	7,277	7,794	—	—
Rental receivables				
— Third parties	—	8,537	—	—
— Related parties (Note 37(b))	2,818	6,358	—	—
Other receivables	15,366	16,955	3,318	4,940
	94,348	96,228	7,695	15,761
Non-current portion:				
Borrowings granted to the GX Group (Note 37(b))	19,229	—	—	—
Deposits for operating leases	26,168	35,001	—	—
	45,397	35,001	—	—

The prepayments, deposits and other receivables were mainly denominated in RMB and JPY. Their carrying amounts approximated their fair values as at the balance sheet dates. There were no impaired assets as at the balance sheet dates.

17 OTHER FINANCIAL ASSETS — GROUP

	2010 RMB'000	2009 RMB'000
Held-to-maturity financial assets		
— State treasury bonds	**251,639**	401,964
Loans and receivables		
— Treasury products issued by commercial banks	**1,270,858**	—
Total of other financial assets	**1,522,497**	401,964
Less: non-current portion — loans and receivables	**(153,211)**	—
Other financial assets — current portion	**1,369,286**	401,964

The Group invested in registered state treasury bonds issued by the Ministry of Finance of the PRC of RMB250,000,000 (2009: RMB400,000,000). The treasury bonds are interest bearing at a fixed rate of 2.75% per annum, denominated in RMB and with a maturity of one year, neither endorsable nor transferrable. As at 31 December 2010, the amortized cost of these financial assets amounted to RMB251,639,000 (2009: RMB401,964,000).

The Group also invested in unlisted treasury products issued by commercial banks in the PRC. The principals of these investments are guaranteed. The investments are interest bearing at rates ranging from 2.25% to 4% per annum, denominated in RMB and with maturity periods from one to two years.

18 CASH AND BANK BALANCES — GROUP AND COMPANY

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Non-current portion:				
Long term bank deposit	**—**	150,000	**—**	—
Current portion:				
Long term bank deposit — maturity of within one year	**150,000**	—	**—**	—
Restricted bank deposits	**36,107**	48,448	**2,649**	2,731
Term deposits with initial terms over three months and within one year	**4,192,741**	4,455,579	**1,191,610**	2,544,277
Cash and cash equivalents	**649,022**	1,473,361	**32,961**	24,652
	5,027,870	5,977,388	**1,227,220**	2,571,660
Total	**5,027,870**	6,127,388	**1,227,220**	2,571,660

The restricted bank deposits as at 31 December 2010 comprised deposits held in bank accounts for issue of letters of credit for certain subsidiaries of the Group. As at 31 December 2010, the average interest rate on the restricted bank deposits was 0.68% (2009: 0.70%) per annum.

The cash and cash equivalents represent cash deposits held at call with banks and in hand.

18 CASH AND BANK BALANCES — GROUP AND COMPANY (continued)

As at 31 December 2010 and 2009, the cash and bank balances were denominated in the following currencies:

	Group		Company	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
RMB	**3,220,903**	2,966,413	**—**	—
USD	**1,120,128**	1,809,934	**937,530**	1,624,414
HKD	**613,679**	1,282,525	**289,690**	947,246
JPY	**72,610**	67,964	**—**	—
Others	**550**	552	**—**	—
	5,027,870	6,127,388	**1,227,220**	2,571,660

RMB is currently not a freely convertible currency in the international market. The conversion of RMB into foreign currency and remittance of RMB out of the PRC are subject to the rules and regulations of exchange controls promulgated by the PRC authorities.

19 FINANCIAL INSTRUMENTS BY CATEGORY — GROUP AND COMPANY

	Group			
	Available-for-sale RMB'000	**Held-to-maturity** RMB'000	**Loans and receivables** RMB'000	**Total** RMB'000
Assets as per balance sheet				
As at 31 December 2010				
Available-for-sale financial assets (Note 12)	**213,938**	**—**	**—**	**213,938**
Other financial assets (Note 17)	**—**	**251,639**	**1,270,858**	**1,522,497**
Trade and other receivables excluding prepayments (Note 15, 16)	**—**	**—**	**802,916**	**802,916**
Cash and bank balances including long term bank deposits (Note 18)	**—**	**—**	**5,027,870**	**5,027,870**
	213,938	**251,639**	**7,101,644**	**7,567,221**
As at 31 December 2009				
Other financial assets (Note 17)	—	401,964	—	401,964
Trade and other receivables excluding prepayments (Note 15, 16)	—	—	489,220	489,220
Cash and bank balances including long term bank deposits (Note 18)	—	—	6,127,388	6,127,388
	—	401,964	6,616,608	7,018,572

19 FINANCIAL INSTRUMENTS BY CATEGORY — GROUP AND COMPANY (continued)

	Group		
	Financial liabilities at fair value through profit or loss RMB'000	Other financial liabilities at amortised cost RMB'000	Total RMB'000
Liabilities as per balance sheet			
As at 31 December 2010			
Trade and other payables excluding advance receipts, salary and welfare payable and taxes payable (Note 23, 24)	**—**	**451,092**	**451,092**
	—	**451,092**	**451,092**
As at 31 December 2009			
Financial liabilities at fair value through profit or loss	1,292	—	1,292
Trade and other payables excluding advance receipts, salary and welfare payable and taxes payable (Note 23, 24)	—	384,876	384,876
	1,292	384,876	386,168

	Company Loans and receivables	
	2010 RMB'000	2009 RMB'000
Assets		
Amounts due from subsidiaries (Note 9)	**1,227,732**	1,291,806
Trade and other receivables (Note 16)	**7,695**	15,761
Cash and bank balances including long term bank deposits (Note 18)	**1,227,220**	2,571,660
	2,462,647	3,879,227

	Other financial liabilities at amortised cost	
	2010 RMB'000	2009 RMB'000
Liabilities		
Amounts due to subsidiaries (Note 9)	**6,908**	12,963
Accruals and other payables (Note 24)	**50**	960
	6,958	13,923

20 SHARE CAPITAL AND SHARE PREMIUM ACCOUNT — GROUP AND COMPANY

	Authorized capital Number of ordinary shares of par value HK$0.01	Nominal value of ordinary shares HKD'000
At 31 December 2010 and 2009	10,000,000,000	100,000

	Number of issued ordinary shares of par value HKD0.01	Issued and fully paid Nominal value of issued ordinary shares HKD'000	Equivalent nominal value of issued ordinary shares in RMB RMB'000	Share premium account RMB'000	Total RMB'000
At 1 January 2009	5,665,801,000	56,659	54,805	4,910,138	4,964,943
Exercise of pre-IPO share options	600,000	6	5	2,367	2,372
Dividends paid	—	—	—	(818,166)	(818,166)
At 31 December 2009	5,666,401,000	56,665	54,810	4,094,339	4,149,149
Represented by:					
Share capital and premium			54,810	3,360,540	3,415,350
Proposed final dividend and final special dividend (Note 33)			—	733,799	733,799
			54,810	4,094,339	4,149,149
At 1 January 2010	5,666,401,000	56,665	54,810	4,094,339	4,149,149
Dividends paid (Note 33)	—	—	—	(1,205,243)	(1,205,243)
Shares purchased for Restricted Share Award Scheme (Note 21(c))	(30,000,000)	—	—	—	—
At 31 December 2010	5,636,401,000	56,665	54,810	2,889,096	2,943,906
Represented by:					
Share capital and premium			54,810	2,336,055	2,336,055
Proposed final dividend and final special dividend (Note 33)			—	553,041	553,041
			54,810	2,889,096	2,943,906

Under the Companies Law of the Cayman Islands, the share premium account is available for distribution to shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed the Company is in a position to pay off its debts as they fall due in the ordinary course of business of the Company.

21 SHARE BASED COMPENSATION SCHEMES

(a) Pre-IPO Share Option Scheme

The Company adopted a pre-IPO share option scheme on 12 September 2007 and granted pre-IPO share options under the scheme in 2007. During the year ended 31 December 2009, options to acquire 600,000 shares of the Company were exercised at an exercise price of HKD 2.786 per share, with proceeds of RMB 1,473,000 received by the Company. The outstanding options had been fully exercised during the year ended 31 December 2009. No further options can be granted under the pre-IPO share option scheme, accordingly the pre-IPO share option scheme is effectively terminated in year 2009.

21 SHARE BASED COMPENSATION SCHEMES (continued)

(b) Share Option Scheme

The Company adopted a share option scheme (the "Share Option Scheme") on 12 September 2007, the purpose of which is to provide an incentive for employees and persons contributing to the Group. The Share Option Scheme shall be valid and effective for 10 years from the date of listing of the Company, after which time no further option may be granted but the provisions of the Share Option Scheme shall remain in full force and effect in all other respects. The maximum number of shares that may be granted under the Share Option Scheme and other share option schemes of the Group shall not exceed 10% of the number of issued shares of the Company from time to time.

On 23 November 2010, options to acquire 3,000,000 shares of the Company were granted to Ms. Sandrine, Suzanne Eléonore, Agar Zerbib (Ms. Zerbib), the chief executive officer of the Group. Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2010		2009	
	Average exercise price in HK$ per share	**Options (thousands)**	Average exercise price in HK$ per share	Options (thousands)
At 1 January	**—**	**—**	—	—
Granted	**4.12**	**3,000**	—	—
At 31 December	**4.12**	**3,000**	—	—

The outstanding share options are exercisable in 3 years since the date of grant with annual cap of 30%, 30% and 40% respectively. None of the options were exercised in 2010.

The fair value of options granted during the year as determined using the Binomial valuation model was HK$1.74 per option. The significant inputs into the model were share price of HK$4.12 at the grant date, exercise price shown above, volatility of 56.28%, dividend yield of 3.77%, an expected option life of 6.8 years, an annual risk-free interest rate of 1.74% and a suboptimal exercise factor of 2.5. The cost of Share-based compensation recognised in 2010 amounted to RMB1,575,000 (Note 28).

(c) Restricted Share Award Scheme

The Company adopted the Restricted Share Award Scheme (Note 2.19(b)(ii)) on 10 December 2010. The objective of the Restricted Share Award Scheme is to encourage and retain selected participants including directors and employees of the Group, to work with the Group and to provide additional incentive for them to achieve performance goals. Under the scheme, a trust was established in Hong Kong and purchased 30,000,000 shares of the Company from the open market in December 2010. The total amount of RMB 87,138,000 (2009: nil) paid to acquire the shares was financed by the Company by way of contributions made to the Trust. As the financial and operational policies of the Trust are governed by the Group, and Group benefits from the Trust's activities, the Trust is consolidated in the Group's financial statements as a special purpose entity.

When restricted share are granted to selected participants, the fair value of Restricted Shares awarded based on the market value of the Company's shares on the date of grant is charged as employee expenses to the consolidated income statement of the Group.

There were no shares granted to directors or employees under Restricted Share Award Scheme during the year ended 31 December 2010.

22 RESERVES — GROUP AND COMPANY

	Group							
	Capital reserves	Share based compensation reserve	Statutory reserves	Exchange reserve	Fair value reserve	Shares held for Restricted Share Award Scheme	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2009	295,001	899	15,926	(374,101)	—	—	1,816,695	1,754,420
Exercise of pre-IPO share options (Note 21 (a))	—	(899)	—	—	—	—	—	(899)
Foreign currency translation reserve (Note (b))	—	—	—	(8,310)		—		(8,310)
Appropriation to statutory reserves (Note (c))	—	—	32	—	—	—	(32)	—
Profit for the year	—	—	—	—	—	—	1,459,844	1,459,844
At 31 December 2009	295,001	—	15,958	(382,411)	—	—	3,276,507	3,205,055
At 1 January 2010	**295,001**	**—**	**15,958**	**(382,411)**	**—**	**—**	**3,276,507**	**3,205,055**
Foreign currency translation reserve (Note (b))	**—**	**—**	**—**	**(16,350)**	**—**	**—**		**(16,350)**
Appropriation to statutory reserves (Note (c))	**—**	**—**	**60**	**—**	**—**	**—**	**(60)**	**—**
Change in fair value of available-for-sale financial assets (Note 12)	**—**	**—**	**—**	**—**	**4,237**	**—**	**—**	**4,237**
Shares purchased for Restricted Share Award Scheme (Note 21 (c))	**—**	**—**	**—**	**—**	**—**	**(87,138)**	**—**	**(87,138)**
Share-based compensation (Note 21 (b))	**—**	**1,575**	**—**	**—**	**—**	**—**	**—**	**1,575**
Profit for the year	**—**	**—**	**—**	**—**	**—**	**—**	**1,463,692**	**1,463,692**
At 31 December 2010	**295,001**	**1,575**	**16,018**	**(398,761)**	**4,237**	**(87,138)**	**4,740,139**	**4,571,071**

	Company				
	Capital reserves	Share-based compensation reserve	Exchange reserve	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2009	10,052,372	899	(412,176)	153,667	9,794,762
Exercise of pre-IPO share options (Note 21(a))	—	(899)	—	—	(899)
Foreign currency translation reserve (Note (b))	—	—	(3,596)	—	(3,596)
Profit for the year (Note 31)	—	—	—	29,283	29,283
At 31 December 2009	10,052,372	—	(415,772)	182,950	9,819,550
At 1 January 2010	**10,052,372**	**—**	**(415,772)**	**182,950**	**9,819,550**
Foreign currency translation reserve (Note (b))	**—**	**—**	**(74,361)**	**—**	**(74,361)**
Shares purchased for Restricted Share Award Scheme (Note 21(c))	**—**	**—**	**—**	**—**	**(87,138)**
Share-based compensation (Note 21(b))	**—**	**1,575**	**—**	**—**	**1,575**
Loss for the year (Note 31)	**—**	**—**	**—**	**(5,746)**	**(5,746)**
At 31 December 2010	**10,052,372**	**1,575**	**(490,133)**	**177,204**	**9,741,018**

Notes:

(a) The capital reserves represents mainly the difference between the fair value of shares of the Company issued and the carrying amount of the net assets of the subsidiaries acquired under common control combination upon group reorganizations in the past.

(b) Foreign currency translation reserve represents the difference arising from the translation of the financial statements of companies within the Group that have a functional currency different from, the presentation currency of RMB for the financial statements of the Company and the Group.

(c) The Company's subsidiaries incorporated in the PRC are required to make appropriations to statutory reserves from their profit for the year after offsetting accumulated losses carried forward from prior years as determined under the PRC accounting regulations and before distribution to equity holders. The percentages to be appropriated to such statutory reserve are determined according to the relevant regulations in the PRC, and further appropriation is optional when the accumulated fund is 50% or more of the registered capital of the subsidiaries.

23 TRADE PAYABLES — GROUP

The ageing analysis of trade payables as at 31 December 2010 and 2009 was as follows:

	2010 RMB'000	2009 RMB'000
Current	367,251	309,762
Within 30 days	670	863
31 to 120 days	178	722
Over 120 days	854	917
	368,953	312,264

The trade payables are mainly denominated in RMB and JPY. The carrying amounts of trade payables approximated their fair values as at the balance sheet dates.

24 ACCRUALS AND OTHER PAYABLES — GROUP AND COMPANY

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Advance receipts from customers	55,820	10,817	—	—
Salary and welfare payable	66,803	50,889	—	—
Advertising fees payable	6,474	22,902	—	—
Other taxes and levies payable	30,864	11,787	—	—
Accruals and other payables	75,665	49,710	50	960
	235,626	146,105	50	960

The carrying amounts of accruals and other payables approximated their fair values as at the balance sheet dates.

25 PROVISIONS — GROUP

The provisions represent provision for sales returns and sales discount of the Group. As at 31 December 2010, the provisions for China and Japan segments amounted to RMB155,143,000 and RMB33,383,000 (31 December 2009: nil and RMB37,561,000), respectively. The movements in provisions for the year were as follows:

	2010 RMB'000	2009 RMB'000
At 1 January	37,561	49,364
Utilization	(41,840)	(37,243)
Provision	192,805	25,440
At 31 December	188,526	37,561

26 OTHER GAINS, NET

	2010 RMB'000	2009 RMB'000
Government subsidy income	**199,104**	109,064
Others	**26,946**	4,587
	226,050	113,651

Government subsidy income is granted by the local finance bureaus at their full discretion and is recognised at fair value where there is a reasonable assurance that the subsidy will be received.

27 EXPENSES BY NATURE

The expenses included in cost of goods sold, distribution costs and administrative expenses are analysed as follows:

	2010 RMB'000	2009 RMB'000
Cost of inventories recognized as cost of goods sold and distribution costs (Note 14)	**1,671,160**	1,529,131
Depreciation of property, plant and equipment (Note 6)	**14,743**	12,901
Loss on disposal of property, plant and equipment	**1,318**	3,966
Amortisation of lease prepayments (Note 7)	**285**	285
Amortisation of intangible assets (Note 8)	**18,322**	13,794
Advertising and marketing expenses	**397,990**	295,597
Employee salary and benefit expenses (Note 28)	**196,141**	180,686
Withholding business tax on license fees payable for an overseas subsidiary	**13,980**	12,082
Design and product development expenses	**121,137**	90,840
Legal and consulting expenses	**11,817**	24,446
Operating lease in respect of buildings	**54,714**	39,759
Logistic fees	**92,047**	62,845
Provision for/(reversal of) impairment losses of inventories (Note 14)	**13,844**	(2,227)
Provision for/(reversal of) impairment losses of trade and other receivables	**1,867**	(6,973)
Reversal of impairment of property, plant and equipment (Note 6)	**(45)**	(64)
Travelling expenses	**32,497**	33,217
Donation	**2,240**	250
Auditors' remuneration	**5,005**	4,532
Others	**97,209**	91,732
Total of cost of goods sold, distribution costs and administrative expenses	**2,746,271**	2,386,799

28 EMPLOYEE SALARY AND BENEFIT EXPENSES, INCLUDING DIRECTORS' EMOLUMENTS

	2010 RMB'000	2009 RMB'000
Wages and salaries	**133,437**	130,214
Pension costs (Note (a))	**17,509**	15,379
Staff quarters and housing benefits	**4,058**	2,689
Performance Units Plan (Note (b))	**6,980**	6,054
Share-based compensation expenses (Note 21 (b))	**1,575**	—
Other benefits	**32,582**	26,350
	196,141	180,686

28 EMPLOYEE SALARY AND BENEFIT EXPENSES, INCLUDING DIRECTORS' EMOLUMENTS (continued)

Notes:

(a) Pensions — defined contribution plans

The employees of the subsidiaries of the Group in PRC, Hong Kong and Japan participate in defined contribution retirement benefit plans organized by the relevant local governments. The Group is required to make monthly defined contributions to these plans at rates ranging from 20% to 22% (2009: 20% to 22%) in the PRC and 7.9% (2009: 7.9%) in Japan of the employees' basic salaries for the year, depending upon the applicable local regulations.

The Group has no other obligations for the payment of retirement and other post-retirement benefits of employees or retirees other than the defined contribution payments as disclosed above.

(b) Performance Units Plan

Since 1 January 2009, the Group has adopted and implemented cash-settled performance-based employee benefit plans (the "Performance Unit Plans") for the middle to senior management of the Group. Under the Performance Unit Plans, the eligible employees are granted performance units, each of which represents an entitlement to receive cash payments when the Group's performance outperforms a pre-set benchmark in a period of 3 years starting from 1 January of the year the units are grant. The value of each unit has a cap at RMB2 per unit. The fair values of the Group's liabilities under the Performance Unit Plans as at each balance sheet date are estimated by management using a valuation model. The changes in fair value of the liabilities are charged to the consolidated income statement.

During the year ended 31 December 2010, the Group granted 19,355,000 (2009: 15,990,000) performance units and a total of 25,350,000 performance units were effective as at 31 December 2010 and 9,975,000 performance units have been excised or cancelled. Management calculated the fair value of the performance units granted as at 31 December 2010 using the valuation model, based on which, approximately RMB6,980,000 (2009: RMB6,054,000) was charged as employee benefit expenses to the consolidated income statement for the year ended 31 December 2010.

(c) Directors' emoluments

The remuneration of each of the directors of the Company is set out below:

Name of Director	Fees RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Other benefits* RMB'000	Employer's contributions to pension schemes RMB'000	Total RMB'000
Year ended 31 December 2010						
Mr. Chen Yihong	**152**	**1,767**	**219**	**34**	**29**	**2,201**
Mr. Qin Dazhong	**152**	**1,605**	**189**	**761**	**29**	**2,736**
Ms. Zerbib (Note (a))	**14**	**451**	**—**	**1,575**	**—**	**2,040**
Mr. Mak Kin Kwong (Note (b))	**88**	**—**	**—**	**—**	**—**	**88**
Mr. Xiang Bing	**173**	**—**	**—**	**—**	**—**	**173**
Mr. Xu Yudi	**173**	**—**	**—**	**—**	**—**	**173**
Mr. Jin Zhi Guo (Note (b))	**86**	**—**	**—**	**—**	**—**	**86**
	838	**3,823**	**408**	**2,370**	**58**	**7,497**
Year ended 31 December 2009						
Mr. Chen Yihong	155	1,785	410	30	26	2,406
Mr. Qin Dazhong	155	1,473	286	418	26	2,358
Mr. Mak Kin Kwong	176	—	—	—	—	176
Mr. Xiang Bing	176	—	—	—	—	176
Mr. Xu Yudi	176	—	—	—	—	176
	838	3,258	696	448	52	5,292

* Other benefits include insurance premium, Performance Unit Plan and the fair value of share options granted and charged to the consolidated income statement during the year.

28 EMPLOYEE SALARY AND BENEFIT EXPENSES, INCLUDING DIRECTORS' EMOLUMENTS (continued)

Notes: (continued)

(c) Directors' emoluments (continued)

(a) Ms. Zerbib was appointed as the new chief executive officer, executive director and the chairman of the executive committee of the Company, all with effect from 29 November 2010.

(b) Mr. Mak Kin Kwong has resigned as an independent non-executive director and the chairman of the audit committee of the Company with effect from 1 July 2010. On the same date, Mr. Jin Zhi Guo was appointed as an independent non-executive director and a member of the audit committee of the Company.

(d) Five highest paid individuals

The five individuals whose emoluments were the highest in the group for the year include two (2009: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2009: three) individuals during the year are as follows:

	2010 RMB'000	2009 RMB'000
Basic salaries, bonus, share options, Performance Unit Plan and other allowances and benefits in kind	**6,794**	8,394
Pension costs	**78**	78
	6,872	8,472

The emoluments fell within the following bands:

	Number of individuals	
	2010	2009
Emolument bands:		
RMB1,731,431 to RMB2,597,145 (HKD2,000,001 to HKD3,000,000)	**3**	2
RMB3,462,861 to RMB4,328,575 (HKD4,000,001 to HKD5,000,000)	**—**	1
	3	3

29 FINANCE INCOME, NET

	2010 RMB'000	2009 RMB'000
Finance income:		
— Interest income from bank deposits	**84,243**	107,269
— Income from treasury bonds and treasury products	**30,932**	1,964
	115,175	109,233
Finance cost:		
— Foreign exchange (losses)/gains, net	**(16,621)**	785
— Others	**(4,748)**	(395)
	(21,369)	390
Finance income, net	**93,806**	109,623

30 INCOME TAX EXPENSE

	2010 RMB'000	2009 RMB'000
Current income tax		
— PRC enterprise income tax ("EIT")	**413,544**	348,453
— Taxation in Japan	**561**	1,371
Deferred income tax (Note 13)	**(40,626)**	(13,411)
	373,479	336,413

The Company was incorporated in the Cayman Islands. Under the laws of the Cayman Islands, there is no income, estate, corporation, capital gains or other taxes payable by the Company.

Hong Kong profits tax and Singapore profits tax have not been provided as there are no estimated assessable profits arising in or derived from Hong Kong and Singapore during the year ended 31 December 2010 (2009: nil).

Effective from 1 January 2008, the subsidiaries of the Company incorporated in the PRC are subject to corporate income tax at the rate of 25% in accordance with the Corporate Income Tax Law of the PRC (the "New EIT Law") as approved by the National People's Congress on 16 March 2007. The EIT rate applicable to subsidiaries of the Group established in the PRC is reduced to 25% for those with original applicable EIT rates higher than 25%, or gradually increase to 25% over a 5-year period from 2008 to 2012 for those with original applicable EIT rates lower than 25%, where appropriate.

According to the New EIT Law, the profits of the PRC subsidiaries of the Group derived since 1 January 2008 will be subject to withholding tax at a rate of 5% upon the distribution of such profits to foreign investors incorporated in Hong Kong and Singapore, or at a rate of 10% for other foreign investors. The Group determined that no deferred withholding tax liabilities shall be recognised in respect of the profits of the PRC subsidiaries for 2008 to 2010 since the Group has no plan to distribute such profits in the foreseeable future.

30 INCOME TAX EXPENSE (continued)

The subsidiary incorporated in Japan is subject to income tax and local inhabitant tax. The corporate income tax rate for the year ended 31 December 2010 applicable to the subsidiary is 30% based on the assessable profit. The inhabitant tax is determined based on rates (determined by the prefecture and city where the Company maintains its operations) on the income tax payable, subject to a certain minimum payment. As there was no assessable profit derived during the year ended 31 December 2010 (2009: nil), the subsidiary was subject to the minimum inhabitant tax payments.

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the combined companies as follows:

	2010 RMB'000	2009 RMB'000
Profit before income tax	**1,837,439**	1,796,257
Tax calculated at the statutory tax rate of 25% (2009: 25%)	**459,360**	449,064
Preferential tax rates on the profits of certain subsidiaries	**(76,747)**	(111,193)
Income not subject to tax	**(10,225)**	(7,473)
Expenses not deductible for tax purpose	**2,803**	3,141
Others	**(1,712)**	2,874
Income tax expense	**373,479**	336,413

The effective applicable tax rate applicable to the Group was 20.3% (2009: 18.7%).

31 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company for the year ended 31 December 2010 is dealt with in the financial statements of the Company to the extent of a loss of approximately RMB5,746,000 (2009: profit RMB29,283,000) (Note 22).

32 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme during the year.

	2010	2009
Profit attributable to equity holders of the Company (RMB'000)	**1,463,692**	1,459,844
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme (thousands)	**5,666,053**	5,666,066
Basic earnings per share (RMB cents per share)	**25.83**	25.76

32 EARNINGS PER SHARE (continued)

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding assuming conversion of all dilutive potential ordinary shares. The Company's dilutive potential ordinary shares comprise shares to be issued under its share option schemes and shares held for Restricted Share Award Scheme. The Company had share options outstanding of 3,000,000 shares which were the potential dilutive ordinary shares as at 31 December 2010, excluding shares held for Restricted Share Award Scheme that were not granted (31 December 2009: nil).

	2010	2009
Profit attributable to equity holders of the Company (RMB'000)	**1,463,692**	1,459,844
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme (thousands)	**5,666,053**	5,666,066
Adjustment for share options (thousands)	**3,000**	—
Weighted average number of ordinary shares in issue for diluted earnings per share (thousands)	**5,669,053**	5,666,066
Diluted earnings per share (RMB cents per share)	**25.82**	25.76

33 DIVIDENDS

	2010 RMB'000	2009 RMB'000
Interim dividend paid of RMB4.16 cents (2009: 3.82 cents) per share	**235,722**	216,452
Interim special dividend paid of RMB4.16 cents (2009: 1.27 cents) per share	**235,722**	71,962
Proposed final dividend of RMB3.59 cents (2009: 3.91 cents) per share	**203,424**	221,556
Proposed final special dividend of RMB6.17 cents (2009: 9.04 cents) per share	**349,617**	512,243
	1,024,485	1,022,213

The dividends paid in 2010 amounted to RMB1,205,243,000, or RMB21.27 cents per share (2009: RMB818,166,000, or RMB14.44 cents per share), comprising 2009 final dividends of RMB733,799,000 (2009: 2008 final dividends of RMB529,752,000) and 2010 interim dividends of RMB471,444,000 (2009: 2009 interim dividends of RMB288,414,000).

Pursuant to a resolution passed on 22 March 2011, the board of directors of the Company proposed a final dividend and final special dividend of RMB3.59 cents and RMB6.17 cents per ordinary share of the Company, amounting to RMB203,424,000 and RMB349,617,000 for the year ended 31 December 2010 from the Company's share premium account, respectively. The final dividend and final special dividend are to be proposed for approval by the shareholders of the Company at the annual general meeting to be held on 12 May 2011.

The aggregate amounts of the dividends paid and proposed during 2010 and 2009 have been disclosed in the consolidated income statement in accordance with the Hong Kong Companies Ordinance.

34 CASH GENERATED FROM OPERATIONS

	2010 RMB'000	2009 RMB'000
Profit before income tax for the year	1,837,439	1,796,257
Adjustments for:		
— Depreciation of property, plant and equipment (Note 6)	14,743	12,901
— Loss on disposal of property, plant and equipment	1,318	3,966
— Reversal of impairment losses of property, plant and equipment (Note 6)	(45)	(64)
— Amortization of lease prepayments (Note 7)	43,125	62,275
— Amortization of intangible assets (Note 8)	18,322	13,794
— Provision for/(reversal of) impairment losses of inventories (Note 14)	13,844	(2,227)
— Provision for/(reversal of) impairment losses of trade and other receivables (Note 15)	1,867	(6,973)
— Income from financial assets and liabilities	(32,224)	(1,540)
— Share of results of jointly controlled entities and associated companies	(2,249)	10,623
— Loss from disposal of interests in a jointly controlled entity	—	1,239
— Interest income from bank deposits (Note 29)	(84,243)	(107,269)
— Foreign exchange losses/(gains), net (Note 29)	16,621	(785)
	1,828,518	1,782,197
Changes in working capital:		
— Inventories	(46,265)	11,112
— Trade receivables, prepayments, deposits and other receivables	(340,313)	(48,852)
— Trade payables, provisions, accruals and other payables	305,704	(37,643)
— Restricted bank balances	1,241	22,646
Cash generated from operations	1,748,885	1,729,460

In the consolidated cash flow statement, the proceeds from sale of property, plant and equipment comprise:

	2010 RMB'000	2009 RMB'000
Net book amount (Note 6)	1,451	4,853
Loss on disposal of property, plant and equipment	(1,318)	(3,966)
Proceeds from disposal of property, plant and equipment	133	887

35 CONTINGENCIES

The Group and the Company had no significant contingent liabilities as at 31 December 2010 and 2009.

36 COMMITMENTS

(a) Operating lease commitments — Group as lessee

The Group leases certain properties for flagship store, office premises, and equipment under non-cancellable operating lease agreements. The leases have various terms and renewal rights. The Group's future aggregate minimum lease payments under non-cancellable operating leases were as follows:

	2010 **RMB'000**	2009 RMB'000
No later than 1 year	**65,359**	80,471
Later than 1 year and no later than 5 years	**45,880**	61,709
	111,239	142,180

(b) Operating lease commitments — Group as lessor

The Group leases out the properties for flagship stores under non-cancellable operating lease agreements. The leases have various terms and renewal rights. The Group's future aggregate minimum rental receivables under these non-cancellable operating leases were as follows:

	2010 **RMB'000**	2009 RMB'000
No later than 1 year	**6,156**	5,750
Later than 1 year and no later than 5 years	**1,896**	5,979
	8,052	11,729

(c) Capital commitments

	2010 **RMB'000**	2009 RMB'000
Contracted but not provided for	**8,356**	—

(d) Other commitments

The Group provides sponsorship to certain sports teams, including cash payments as well as provision of sports apparel for free. The commitments as at the balance sheet dates were as follows:

	2010 **RMB'000**	2009 RMB'000
No later than 1 year	**23,488**	15,058
Later than 1 year and no later than 5 years	**57,404**	6,040
Over 5 years	**17,552**	—
	98,444	21,098

The Company did not have significant commitments as at 31 December 2010 and 2009.

37 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, control or jointly control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control or the party is an associate of another party.

The ultimate controlling party of the Group is Mr. Chen Yihong, the Chairman and Executive director of the Company. Therefore, close family members of Mr. Chen Yihong and parties that are controlled, jointly controlled or significantly influenced by Mr. Chenyihong's close family members are considered to be related parties of the Company as well.

During the years ended and as at 31 December 2010 and 2009, the Group had the following transactions and balances with related parties:

(a) Transactions with related parties

	2010 RMB'000	2009 RMB'000
Sales of goods:		
— Companies beneficially owned by the close family members of Mr. Chen Yi Hong	**—**	336,707
— Associated companies of the Group (January to July 2010) (Note 11)		
— HBJY beneficially owned by the close family members of Mr. Chen Yi Hong	**235,997**	20,965
— Other companies of the G6	**652,815**	671,090
— The GX Group (August to December 2010) (Note 11)	**520,661**	—
	1,409,473	1,028,762
Purchase of goods:		
— Jointly controlled entities of the Group	**35,659**	31,593
Lease income of flagship stores		
— Companies beneficially owned by the close family members of Mr. Chen Yi Hong	**—**	6,664
— Associated Companies of the Group (January to July 2010) (Note 11)		
— HBJY beneficially owned by the close family members of Mr. Chen Yi Hong	**3,201**	1,336
— Other companies of the G6	**4,263**	8,722
— The GX Group (August to December 2010) (Note 11)	**5,449**	—
	12,913	16,722
Borrowings granted:		
— The GX Group	**19,229**	—

37 RELATED PARTY TRANSACTIONS (continued)

(b) Balances with related parties

	2010 RMB'000	2009 RMB'000
Trade receivables (Note 15):		
— Associated companies of the Group		
— HBJY, beneficially owned by the close family members of Mr. Chen Yi Hong	—	20,411
— Other companies of the G6	—	56,139
— The GX Group	188,816	—
	188,816	76,550
Other receivables — current portion (Note 16):		
— Companies beneficially owned by the close family members of Mr. Chen Yi Hong	—	676
— Associated companies of the Group		
— HBJY, beneficially owned by the close family members of Mr. Chen Yi Hong	—	1,336
— Other companies of the G6	—	4,346
— The GX Group	2,818	—
	2,818	6,358
Other receivables — Non-current portion (Note 16):		
— The GX Group	19,229	—
Trade payables		
— Jointly controlled entities of the Group	3,600	518

(c) Key management compensation

	2010 RMB'000	2009 RMB'000
Salaries, bonus and other welfares	16,274	12,430
Pension — defined contribution plans	135	104
	16,409	12,534

Notes:

(i) The associated companies refer to the G6 (Note 11). These companies became part of the GX Group after the re-organization. Mr. Chen's brother was one of the directors of the GX Group and is regarded as having significant influence over the GX Group. As the Company is controlled by Mr. Chen Yihong, the GX Group is therefore regarded as a related party of the Company.

(ii) The transactions with related companies are conducted based on mutual agreements.

(iii) The borrowings granted to the GX Group are interest bearing at a fixed rate of 5.70% per annum, denominated in RMB.

(iv) The receivable and payable balances with related parties are unsecured, interest free and repayable within one year.

38 PARTICULARS OF PRINCIPAL SUBSIDIARIES

As at 31 December 2010, the Group had the following principal subsidiaries which, in the opinion of the directors, materially affect the results and/or assets of the Group. The companies are all limited liability companies.

Company name	Place of incorporation	Particulars of issued/ registered capital	Interest held	Principal activities and place of operation
Directly held:				
Hong Kong Dongxiang Sports Development Holdings Limited	Hong Kong	10,000 ordinary shares of HKD1 each	100%	Investment holding, Hong Kong
Dongxiang (Netherlands) Co.	Netherlands	EUR755,738	100%	Investment holding, Netherlands
Indirectly held:				
Achilles Sports Pte. Ltd.	Singapore	100,000 ordinary shares of USD1 each	100%	Owns trademark, Singapore
Gaea Sports Limited	Hong Kong	1 ordinary share of HKD1	100%	Investment holding, Hong Kong
北京動向體育發展有限公司 Beijing Dongxiang Sports Development Co., Limited	Beijing, PRC	RMB10,000,000	100%	Design and sales of sport-related footwear, apparel and accessories, PRC
上海卡帕體育用品有限公司 Shanghai Kappa Sporting Goods Co., Limited	Shanghai, PRC	RMB20,000,000	100%	Design and sales of sport-related footwear, apparel and accessories, PRC
上海泰坦體育用品有限公司 Shanghai Taitan Sporting Goods Co., Limited	Shanghai, PRC	RMB3,000,000	100%	Design, production and sales of sport-related footwear, apparel and accessories, PRC
上海雷德體育用品有限公司 Shanghai Leide Sporting Goods Co., Limited	Shanghai, PRC	RMB158,000,000	100%	Design and consulting services, PRC
西亞體育用品商貿(蘇州)有限公司 Thea Sporting Goods Trading (Suzhou) Co. Ltd.	Suzhou, PRC	USD80,000,000	100%	Design and sales of sport-related footwear, apparel and accessories, and consulting services, PRC
赫拉體育用品商貿(上海)有限公司 Hera Sporting Goods Trading (Shanghai) Co. Ltd.	Shanghai, PRC	USD40,000,000	100%	Sales of sport-related footwear, apparel and accessories, PRC
考伊斯體育用品商貿(上海)有限公司 Coeus Sporting Goods Trading (Shanghai) Co. Ltd.	Shanghai, PRC	USD50,000,000	100%	Sales of sport-related footwear, apparel and accessories, PRC
上海嘉班納體育用品有限公司 Shanghai Gabanna Sporting Goods Co. Ltd.	Shanghai, PRC	RMB120,000,000	100%	Design and consulting services, PRC
上海杜爾斯體育用品有限公司 Shanghai Tours Sporting Goods Co. Ltd.	Shanghai, PRC	RMB80,000,000	100%	Design and consulting services, PRC
上海克瑞斯體育用品有限公司 Shanghai Crius Sporting Goods Co. Ltd.	Shanghai, PRC	RMB4,000,000	100%	Retailing of sport-related footwear, apparel and accessories, PRC
Hebe Fashions Pte. Ltd	Singapore	Singapore Dollar 1	100%	Investment holding, Singapore
Cronus Sports Pte. Ltd	Singapore	Singapore Dollar 1	100%	Investment holding, Singapore
Phenix Co., Ltd.	Japan	JPY495,000,000	91%	Brand development, design and sales of sport-related apparel, Japan

39 EVENTS AFTER THE BALANCE SHEET DATE

(i) On 2 March 2011, the Group entered into a share purchase agreement with a shareholder of Mecox Lane Limited ("Mecox Lane"), a company listed on NASDAQ and engaged in sales of apparel and accessories on online platforms. Under the share purchase agreement, the Group will purchase 40,519,225 ordinary shares of Mecox Lane representing approximately 10% of the issued and outstanding shares of Mecox Lane at a price of US$0.8571 per share, totaling USD 34,729,000 (equivalent to approximately RMB 228,295,000). The Group will be subject to a one-year lock-up period, starting from the closing date of the share purchases. In addition, the vendor also agreed to grant to the Group options to purchase 18,306,117 ordinary shares of Mecox Lane. The options are exercisable during a two-year period starting from the closing date of the above share purchases and the exercise price is US$1.1429 per ordinary share.

(ii) Pursuant to a resolution passed on 22 March 2011, the board of directors of the Company proposed a final dividend and final special dividend of RMB 3.59 cents and RMB 6.17 cents per ordinary share of the Company, amounting to RMB 203,424,000 and RMB 349,617,000 for the year ended 31 December 2010 from the Company's share premium account, respectively. The final dividends are to be proposed for approval by the shareholders of the Company at the annual general meeting to be held on 12 May 2011.

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