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

Annual Report 2011

动向 DONGXIANG

Contents

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

Vision & Mission

動向
DONGXIANG

Corporate Information

Executive Directors
Mr. Chen Yihong (Chairman & Chief Executive Officer)
Mr. Qin Dazhong (Chief Operating Officer)

Non-Executive Director
Mr. Gao Yu

Independent Non-Executive Directors
Mr. Jin Zhi Guo
Dr. Xiang Bing
Mr. Xu Yudi

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

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
The Hongkong and Shanghai Banking Corporation Limited

Website

www.dxsport.com

2011

- Appointed Mr. Chen Yihong as Chief Executive Officer and Chairman of the Executive Committee
- Re-designated Mr. Qin Dazhong from Vice Chairman to Chief Operating Officer
- Official launch of Phenix Brand in China
- Kappa Taobao store achieved a single-day sales of RMB13.16 million on 11 November 2011
- Launched a street fashion series called Kappa C19, which was inspired by "Fixed Gear" and had incorporated the needs of cyclists and trendy style
- Launched the new sports shoes series "Kappa Curves"

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 Mr. 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

Milestone

Five-Year Financial Highlights

(All amounts in Renminbi million unless otherwise stated)

	Note	**2011**	2010	2009	2008	2007
		Year ended 31 December				
Sales		**2,742**	4,262	3,970	3,322	1,711
Operating profit		**99**	1,741	1,697	1,332	725
Profit before income tax	1	**228**	1,837	1,796	1,470	727
Profit attributable to equity holders of the Company	1	**102**	1,464	1,460	1,222	689
Non-current assets		**1,557**	950	838	543	408
Current assets		**5,895**	7,442	7,073	6,750	5,815
Current liabilities		**621**	872	552	570	315
Net current assets		**5,274**	6,570	6,521	6,180	5,500
Total assets		**7,452**	8,392	7,911	7,293	6,223
Total assets less current liabilities		**6,831**	7,521	7,360	6,724	5,908
Equity holders' equity		**6,795**	7,515	7,354	6,719	5,902
Gross profit margin (before provision for impairment of inventory) (%)		**55.0**	59.7	60.4	58.5	58.5
Net profit margin (%)	1	**3.7**	34.3	36.8	36.8	40.3
Earnings per share	1					
— basic (RMB cents)		**1.82**	25.83	25.76	21.54	14.92
— diluted (RMB cents)		**1.82**	25.82	25.76	21.54	14.86
Total assets per share (RMB cents)	2	**132.92**	148.11	139.63	128.60	134.78
Debt to equity holders' equity ratio	3	**0.10**	0.12	0.08	0.09	0.05

Notes:

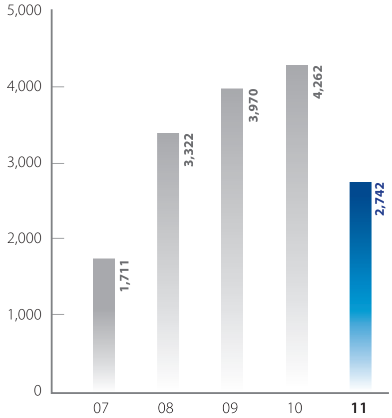
(1) The figures in 2008 and 2007 are calculated after excluding the one-off gains, RMB145,950,000 from the acquisition of Phenix for the year ended 31 December 2008 and RMB44,742,000 from interest income of over-subscription monies to the Global Offering for the year ended 31 December 2007 respectively,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

(2) The number of ordinary shares used in the calculation for the year ended 31 December 2011, 2010, 2009, 2008 and 2007 are 5,623,497,000 shares, 5,666,053,000 shares, 5,666,066,000 shares, 5,671,551,000 shares and 4,617,162,000 shares, which were the weighted average number of shares for the years.

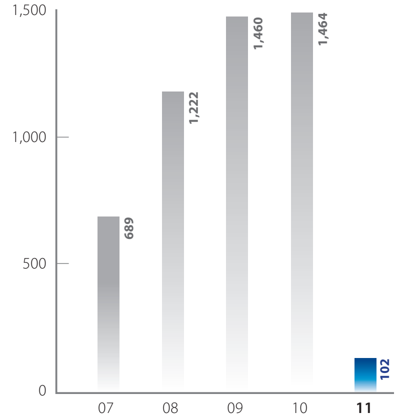
(3) The debt to equity holders' equity ratio is calculated based on total liabilities of the Group divided by equity attributable to equity holders of the Company as at 31 December for the year.

(All amounts in Renminbi million unless otherwise stated)

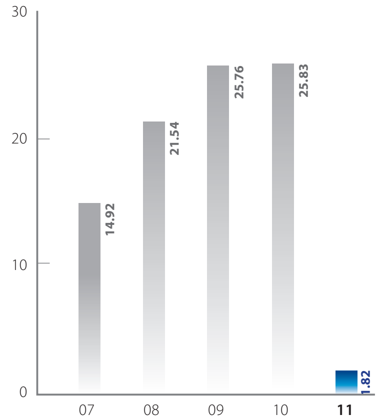
SALES



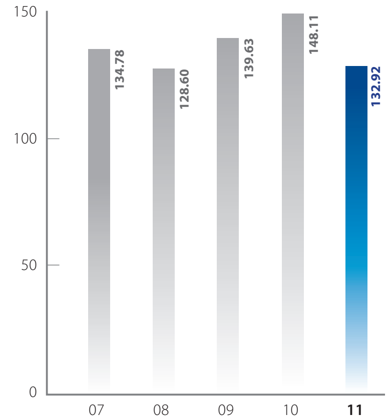
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS



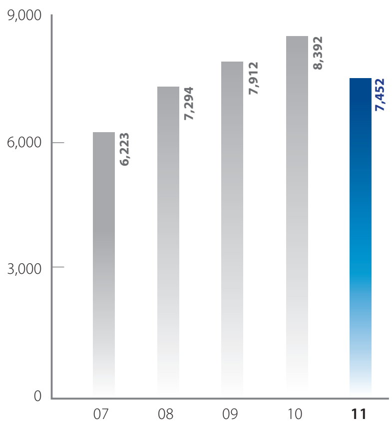
EARNINGS PER SHARE — BASIC (RMB CENTS)



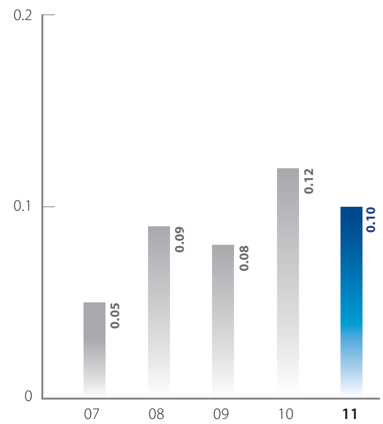
TOTAL ASSETS PER SHARE (RMB CENTS)



TOTAL ASSETS



DEBT TO EQUITY HOLDERS' EQUITY RATIO (TIMES)



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Chairman's Statement

Dear Shareholders,

The golden rule to success is to have a positive mindset and develop perseverance in the face of adversities. In 2011, the consolidation in the PRC sportswear industry has deepened with emerging problems including moderated market growth, intensified competition and inventory accumulation. Amidst all challenges, the Group is readjusting itself with endeavors to improve its internal operations. I myself have also exerted greater dedication in the Group's operation in the hope of capturing more market opportunities with each and every member of our staff, distributors, consumers and shareholders. Together, we will create a better future for the Group.

From the macro-economy standpoint, China was able to maintain a steady economic growth during the year under review despite a sluggish global economic situation. However, pressure rising from inflation and soaring asset prices as a result of economic growth is not to be overlooked. The impact brought about by the adjustment in the macro-economy and the tighter monetary policy implemented by the PRC government has lowered the consumer sentiment of the PRC citizens to a certain extent in the short term period. On the other hand, local retailers are also facing greater operational pressure due to rent and labour costs growth. From the overall apparel industry standpoint, the entire business environment of the industry has been more competitive than ever for both casual and sportswear brands. To briefly summarize, the industry remains challenging. However, with the recovery of global economic and rising domestic consumption power in the near mid to long term future, we are still confident in the overall macro-environment. We also believe that through the deep consolidation of the industry and through self-innovation, sportswear industry will embrace a brighter future.

2011 marks the ninth anniversary of China Dongxiang's establishment. The young China Dongxiang has experienced a lot of challenges under the dismal macroeconomic atmosphere and market conditions, crossing a few "first-time" hurdles that came along the Group's course of development since establishment.

For the first time, the Group recorded a decline in both its revenue and profit. During the year, under the influence of inventory repurchase and control of trade orders from distributors, the Group recorded revenue of RMB2,742 million for the year ended 31 December 2011, representing a year-on-year decrease of 35.7%. Profit of the

year attributable to the equity holders was approximately RMB102 million, representing a drop of 93.0% as compared to the last year, mainly due to exceptional items including additional provision for impairment of inventories and available-for-sale financial assets. Basic earnings per share was RMB1.82 cents, decreasing by 93.0% as compared to 2010.

A "first-time" negative growth was recorded in the Group's number of retail stores. The total number of retail stores decreased from 3,751 as at 31 December 2010 to 3,119 as at 31 December 2011 as planned. The Group agreed our distributors to close down retail stores with unsatisfactory profitability due to uneven resource allocation under its policy to integrate its distribution network. In order to optimize its sales network, improve overall sales efficiency and enhance the profitability of distributors, the Group will concentrate its resources on retail stores with better performance.

For the first time, the Group announced a one-off repurchase of inventories from distributors to ease their inventory pressure. It is the Group's intention to undergo difficult times together with its distributors and to foster closer relationships. The Group also offered more support to our major customers in order to increase sales channel efficiency, reduce pressure on inventory accumulation and enhance profitability. During the reporting period, the Group has completed the repurchase of inventories of RMB1.45 billion at tag price, and re-sold the products are being re-sold through factory outlets and e-commerce platforms.

Even in such defining moment, every member of our staff remained dedicated and devoted to the Group's future development. As the founder of the Group, I am ready to step up and lead the Group to face adversities. Hence, I have once again set my hands on the management of the Group's operation. For the Group's development and the interests of shareholders, we are determined to combine the efforts of each and every member of our staff to deliver high-quality products that suit consumer needs by adopting a pragmatic approach in ways that are simple yet effective. At the Group, we believe that this shared philosophy will be adhered to by each and every member of our staff.

"Difficulties contribute to great successes." As the founder and helmsman of an enterprise, I have always believed that a short period of adversity in the Group's course of development is the best opportunity to improve its operation ability and tenacity. It is necessary for a young company such as China Dongxiang to undergo obstacles and setbacks in order to become a mature enterprise. The Group adopts a "pragmatic, innovative, passionate" approach as its corporate culture. We firmly believe that by means of pragmatic approaches, innovative thinking and being passionate about our own work in the various stages of the Group's development will ensure us to overcome challenges and progress to a new stage. In addition, the Group is gifted with ample resources. With our abundant cash on hand and long-term strategic cooperation with Mai Sheng Yue He Group, we will work together on creating a new "brand + retail" model to improve efficiency in sales channels. In conjunction with our strong design and R&D ability in Japan, I am fully confident in leading our team through this period of adversity bearing a pragmatic attitude.

"Sports, fashion, sexiness and style" have always been the values we uphold and they have also set direction for the Group's product development. In order to strengthen our brand image, we have reorganized our design team and brought back designers who had successfully helped transformed the Kappa brand in the past. Leveraging on the acute insight, familiarity towards market pulse and innovation of our international design team, we are confident that the Group shall be able to deliver eye-catching products that emphasize our brand DNA and would be sought-after by trend setters. During the year, Kappa launched two new product series — "Curves" series which features female sports shoes that brings together science and aesthetics of human bodies, as well as "C19" series featuring young sports apparel for street cycling. The two new series has enriched Kappa's product portfolio. Together with the trendy Robe Di Kappa series and functional Phenix products, we have provided a comprehensive product offering for our customers that cover "sports, fashion, sexiness and style".

Last but not least, I would like to take this opportunity to express my gratitude towards my distributors, business partners, all staff members and shareholders for their unceasing support for the Group. I would like to draw reference from an old Chinese poem — "As if the flowers are blooming, as if coming to a new era returning to the true nature and reviving the Spring" to portray my hope for another bright future of the Group.

Chen Yihong
Chairman

Hong Kong, 27 March 2012

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.

The outdoor and ski products under the Phenix Brand were officially launched in the PRC market in 2011.

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

- 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
- An outdoor product line that featured the fusion of fashion and functionality was officially launched in 2011

- 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

- 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

Management Discussion and Analysis

MACRO-ECONOMIC REVIEW

The global economic situation was filled with uncertainties and complications in 2011. The worsening European sovereign debt crisis, moderate economic recovery in the United States and normalize growth in emerging markets led to the continual sluggish performance in the global economy. In spite of the external instabilities and inflation, China was able to maintain a steady economic growth with the implementation of various measures to promote domestic demand. The National Gross Domestic Product (GDP) in 2011 amounted to RMB47,156 billion, representing a year-on-year increase of 9.2%.

In addition, rapid urbanization contributes to the continuous increase in the average per capita disposable income of residents. According to the National Bureau of Statistics, in 2011, urban population in China exceeded 50% of the overall population for the first time; the average per capita disposable income of urban residents was RMB21,810. Excluding price factor, a growth rate of 8.4% was recorded year-on-year. As China undergoes its Twelfth Five-year Plan with accelerated speed in urbanization development, tremendous consumption power shall be unleashed, creating significant market opportunities that appeals to both domestic and foreign retail enterprises, each competing to gain greater market share through expansion.

INDUSTRY REVIEW

Growth in the Chinese sportswear industry has reached a certain level of maturity and has entered a phase of stabilized growth after a period of rapid expansion with growth rate reaching 30%. As a result, urban cities including higher-tier cities have become mildly saturated. Rising household income and urbanization continued to be the locomotive fueling the Chinese sportswear market. The steady rise of affluent and middle-class population in lower-tier cities sparks a stronger consumption demand than that in the higher-tier cities, in particular, their demand for higher-end consumption.

Meanwhile, the market competition continues to intensify as both sports performance brands and casual brands strive to expand into the Chinese market. However, the overall sportswear consumption in China remains relatively low against the global market, indicating significant opportunities in the retail market. In addition, a rising trend of apparel combining sports, fashion and function is expected to lead the sportswear industry into an era of diversification as the demand from Chinese consumers continues to evolve and improve.

On the other hand, the sluggish European and American markets caused international sportswear brands to seek opportunities in emerging markets, with China being the main focus. Riding on the market opportunities that urbanization brings along, a number of international sportswear brands are increasing their efforts in the expansion into second- and third-tier cities by introducing products with price levels suitable for such markets, resulting in direct competition with local sportswear brands and diversifying the consumer demand.

In addition to the challenging market conditions, the overall sportswear industry also faces the pressure of increasing labour and rental costs, which leads to a decline in the profitability of retail stores. Various brands have dedicated efforts in reorganizing sales channels and improving the operating efficiency of retail stores.

Although the Chinese sportswear industry is facing numerous challenges, sportswear brands with clear brand positioning, effective sales management and product differentiation will be able to seize market opportunities amidst this adjustment period and strive to be the market leader.

BUSINESS REVIEW

2011 was a year of adjustment for both the Chinese sportswear industry and China Dongxiang. During the year, the Group equipped itself by endeavoring in brand promotion, enriching product portfolio and optimizing sales channels in order to capture future growth opportunities.

Brand Promotion

Sports Event Sponsorship

The Group continues to reinforce the brand positioning of "sports, fashion, sexiness and style" through sponsorship on high profile sports events advocating the lifestyle of "sports fashion and stylish sportswear".

— *China Open*

2011 marked the fifth consecutive year of Kappa's cooperation with China Open as its Platinum Sponsor. Kappa's tennis apparel brought vitality to every player on the court. Referees, caddies and cheerleaders all put on apparel sponsored by Kappa, which spiced up every details of the event with vibrant colours and trendiness

Kappa also organized a special match for the press covering the China Open to experience playing alongside first-tier tennis players and enhance the positive image of China Open and Kappa among the press

— *HSBC Golf Championship*

Kappa GOLF has become the official sponsor for the most renowned golf event in China — HSBC Golf Championship, for the third consecutive year. Kappa provided graceful, fashionable and functional apparel. Through on-site media events and media fun day, as well as advertorial and celebrity promotion, the professional image of Kappa Golf was successfully enhanced

Sports Team Sponsorships

In 2011, Kappa continued to be the official co-sponsor of MARUSSIA, Virgin Racing F1 Team uniform and also sponsored German Bundesliga Borussia Dortmund's team uniform to enhance brand awareness.

— *Virgin Racing F1 Team*

Kappa specially designed uniform with distinctive cutting and fabric for the Virgin Racing F1 Team, combining fashion and functionalities that team players require in high-speed events, demonstrating a perfect blending of sports and fashion

— *German Bundesliga Borussia Champion Dortmund Soccer Team*

Kappa continued to be the team uniform sponsor of Borussia Dortmund with the goal of promoting its brand as a perfect combination of "sports, fashion, sexiness and style" to the fans in the world-class German Bundesliga matches

— *Co-sponsorship of Italian Serie A Club AS Roma*

Thematic Events — "Back to the Mainstream of Fashion"

Kappa organized a series of "Back to the Mainstream of Fashion" activities with the theme of retro fashion during the year. Through various above-the-line and below-the-line activities, Kappa connected fashionistas from all walks of life. "Online Call for Creative Works" leveraged on Kappa's official website and websites including www.weibo.com, www.kaixin100.com, etc. to call for environmentally-friendly retro artworks from visitors. In the first week of launch alone, more than 300,000 visitors had submitted their creative pieces. "DIY of The Fashion Bunny" allowed visitors to design their own "Fashion Bunnies" with different backgrounds and graffiti drawing tools. Winners were awarded pieces from Kappa's trendy collection. "Telling Your Story of Fashion" on www.weibo.com encouraged the sharing of fashion opinions and experiences with incentives for participants.

Combined with a number of above-the-line activities, the "Caravan Art Tour" organized an art tour in eight representative cities, namely Beijing, Shanghai, Guangzhou, Shenzhen, Tianjin, Hangzhou, Chengdu and Shenyang, to promote a new way of retro lifestyle. Driving the "retro" caravan, Kappa visited the famous meet-up points of fashionistas, the plaza outside of Dayuecheng, a shopping mall in Shanghai. The event attracted many stylish youngsters and successfully created noise for the re-creation of classic fashion elements.

Expansion of Product Portfolio

Kappa Products

C19 Series

Targeting a popular street sport, Fixed Gear, the C19 series was a key new product launch of Kappa in 2011. The series incorporates the needs of cyclists and trendy style. It complies with Kappa's brand DNA of "sports, fashion, sexiness and style". The series was officially launched in July 2011 and was well-received by the market.

In order to promote the C19 series, Kappa launched a city cycling tour named "Discovering Fixed Gear Culture While Integrating Trendy Cultures". F.E.S.S. (Far East Smotin Skidders), the cycling team from Tokyo, Japan, passed through fashion cities including Beijing, Chengdu, Guangzhou, Hangzhou, Harbin and Shanghai, to interact with and introduced the C19 series to young local cyclists.

Curves Series

Kappa launched the new sports shoes series Kappa Curves in Summer 2011, which denotes contours of the human body. The unique design of the dual curvy sole can activate leg muscles and helps burn more energy from each step, presenting an idea of bodybuilding while working, shopping or strolling to city girls.

Kappa Soccer Series

Kappa launched its Spring/Summer Soccer Series for this long-lasting sports culture in May 2011. The series comprised professional performance lines and soccer-fan-culture lines targeted for the young crowd. The series was designed to cater for different tastes and easy mix-and-match. Footwear is designed with a multi-functional concept to enhance its value-for-money ratio and environmental awareness. Kappa also sponsored the German Bundesliga Borussia Dortmund Soccer Team and launched a press conference with the theme "A Sexy Shout-out" for soccer fans to enjoy the fascination of soccer.

Kappa P-A.C Series

Kappa continued to design the P-A.C series with the theme of "back to basics". During the year, the new Kappa P-A.C series was launched comprising knitwear, Polo shirts, T-Shirts, jackets, shorts and sneakers. Bright colour mix showcases the stylish and dynamic senses in the metropolis. Product weight was trimmed by applying lightweight fabric, while hollow fiber used also made the products more permeable, more washable and anti-wrinkle, thus achieving "back to basics" via easy steps in apparel care. Kappa cooperated with print media including Hotpot, Trends Health and Modern Weekly to launch a series of marketing campaigns introducing the philosophy and characteristics of this series to consumers.


ROBE DI KAPPA


phenix
王者之道 定义卓越
phenix（菲尼克斯）国际顶级户外运动品牌
www.phenixsport.com.cn

Robe Di Kappa Business

The Robe Di Kappa (RDK) brand developed rapidly in 2011. RDK introduced three product series in the "2012 Spring/Summer Product Launch" held in December 2011, which included the stylish "Image" series, easy daily casual wear "Trendy" series and multi-functional "Classics" series. The enriched product portfolio carried through the continuous exploration of RDK on humanities, arts and creativity, demonstrating the "inner beauty of sports" to customers.

To promote the RDK brand and products, the Group leveraged on the emerging online media platform — www.weibo.com, to broadcast its new products live. This served as the most cost-efficient means to bring target customers closer to the products. As of end of December 2011, there were 24 RDK stores. The Group will continue to promote the brand awareness and image of RDK through different marketing and promotion methods.

Phenix Business

The Phenix brand underwent rapid expansion in China in 2011. Its outdoor product series was popularly welcomed by the market. As of 31 December 2011, there were 18 Phenix stores. During the year, Phenix stepped up its effort in product and brand promotion, publishing 38 advertisement insertions in 15 nationwide print magazines, with readership totaling 9.91 million. Phenix also placed promotional campaigns via advertisements on television, outdoor screen display, bus shelters, skiing facilities etc., as well as new media including www.weibo.com and online video platforms.

Other brands

Apart from the three major brands sold in China, the Group also owns X-nix, a snowboard sportswear brand, and Inhabitant, a sportswear brand with products covering various extreme sports. All these contribute to a diversified product portfolio for the Group.

Design and Development

The Group upholds its brand DNA of "sports, fashion, sexiness and style". To strengthen its brand positioning, the Group re-invited the renowned Korean designer, who had successfully transformed Kappa brand in the past, and his team to monitor the design of the Group's products with their acute fashion sense and creativity to best interpret Kappa brand DNA. The Group also cooperated with its Japanese design talents and famous design workshops in the United States and Europe to develop more creative and functional products.

The Kappa P-A.C series continued to create crossover projects with Michael Michalsky in 2011 for a new product series inspired by rock-climbing and street dancing. The "Culture" series was derived from the trendy street culture and the "K-" series was a cooperation with University of the Arts London. Both supplemented Kappa's product portfolio with diversity and impact. The Japanese design workshop actively developed new design techniques, including the Japanese-patented curvy zipper and 3D supersonic stitching. In addition, Phenix has become the official team uniform sponsor for the Nowway team in the 2012 London Olympics and related new product designs are underway.

Optimize Sales Channels

The Group continued to optimize its sales channels during the year. Under the initiative of sales network consolidation, the Group closed retail stores that recorded unsatisfactory profitability, as a result the total number of retail stores totaled 3,119 as at 31 December 2011 compared with 3,751 as at 31 December 2010 as planned, which were operated directly or indirectly by 40 distributors. The distribution of retail stores covered all major provincial cities and other major urban areas and towns in China.

The Group will continue to focus on the profitability of retail stores by analyzing retail environment through products performance and further consolidate retail store operation and managements. The Group will also leverage on the long-term cooperation with MSYH Group to work on a "brand + retail" model to improve sales channel efficiency. Moreover, apart from traditional sales network by retail stores, the Group will make better use of the online sales platform so that customers can easily purchase Kappa products online and reduce inventory.

Business Review in Japan

Looking back at the business performance in Japan during the year, the most important event had to be the major earthquake that happened on 11 March. During that period, our Phenix Tokyo office and Niigata technical centre were paralysed, but luckily none of the staff was injured. Due to structural destructions of Phenix stores, Phenix's product sales was impaired as well.

Nevertheless, business performance recorded a sharp decrease shortly after the earthquake. Under the combined efforts of all staff, the overall sales revenue recorded an encouraging growth. Among which, products designed for use in natural calamities were particularly popular. However, the sales of outdoor hiking products was less satisfactory, and a year-on-year decline was recorded in the sales of golf products in shopping malls.

During the year, Phenix launched a new functional product series with EPIC Extreme as its core element comprising hiking and outdoor camping products which combine functionality with fashion. Phenix cooperated with famous Japanese image designer, Okabe Bungen, and launched innovative products with new mix-and-match styles welcomed by Japanese customers, which stimulated growth in sales.

Kappa launched a new multi-functional product series named Libero and received positive feedback from the market. With regard to soccer apparel, Kappa signed contract with Mitsuo Ogasawara of Kashima Antlers, thus enhancing Kappa's influence in Japanese football. Kappa GOLF sponsored famous golf player Oyama Shiho who won her championship in the women's match in Masters Golf Club. The Kappa GOLF apparel that she wore was favored by golf fans.

FINANCIAL REVIEW

Our sales for the year ended 31 December 2011 was RMB2,742 million, decreased by 35.7% as compared to that for the year ended 31 December 2010. Profit attributable to equity holders of the Company for the year ended 31 December 2011 was RMB102 million, decreased by 93.0% as compared to RMB1,464 million for the year ended 31 December 2010.

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		
		2011	2010	**change**	**2011**	2010	**change**	**2011**	2010	**change**
	Note	***RMB million***	*RMB million*		***RMB million***	*RMB million*		***RMB million***	*RMB million*	
Key items of consolidated income statement										
Sales		**2,742**	4,262	-35.7%	**2,122**	3,650	-41.9%	**620**	612	1.3%
Gross profit (before provision for impairment of inventories)	4	**1,507**	2,546	-40.8%	**1,241**	2,278	-45.5%	**266**	268	-0.7%
Operating profit	3	**99**	1,741	-94.3%						
Profit attributable to equity holders of the Company	3	**102**	1,464	-93.0%						
		%	*%*	*%pt*	**%**	*%*	*%pt*	**%**	*%*	*%pt*
Profitability ratios										
Gross profit margin (before provision for impairment of inventories)	4	**55.0**	59.7	-4.7	**58.5**	62.4	-3.9	**42.9**	43.9	-1.0
Operating profit margin		**3.6**	40.9	-37.3						
Effective tax rate		**53.7**	20.3	33.4						
Net profit margin		**3.7**	34.3	-30.6						
Key operating expenses ratios (as percentage of sales)										
Advertising and marketing expenses		**13.9**	9.3	4.6	**15.3**	9.5	5.8	**8.9**	8.3	0.6
Employee salary and benefit expenses		**8.3**	4.6	3.7	**7.6**	3.6	4.0	**10.5**	10.5	0.0
Design and product development expenses	3	**4.0**	2.8	1.2						
		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	5	**88**	47	41	**81**	37	44	**111**	109	2
Average trade payable turnover days	6	**95**	72	23	**91**	65	26	**106**	100	6
Average inventory turnover days	7	**144**	60	84	**145**	45	100	**143**	121	22

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. On 8 July 2011, the Group announced that the Group took initiative to repurchase of inventory from our distributors to the extent of RMB1.6 billion (tag price). As at 31 December 2011 the repurchase has been completed and a total amount of RMB1.45 billion (tag price) of inventory has been repurchased. In view of the current market environment, the Group decided to make provision of RMB216 million (2010: RMB14 million) for impairment of inventories held by us as at 31 December 2011. According to IFRS, the inventory provision has been included in cost of goods sold. For the purpose of analysis, the Group considers that it is more meaningful to compare the gross profits before provision for impairment of inventories.

5. 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.

6. 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.

7. 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.

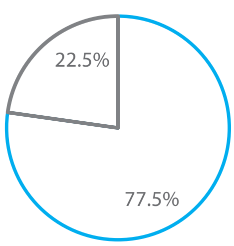
Sales Analysis

Sales analyzed by geographical segments, business segments and product categories

	Year ended 31 December						
	2011			2010			
	RMB million	% of product/ brand mix	% of Group sales	RMB million	% of product/ brand mix	% of Group sales	change
CHINA SEGMENT							
Kappa Brand							
Apparel	**1,507**	**71.9%**	**55.0%**	2,718	74.8%	63.8%	-44.6%
Footwear	**515**	**24.6%**	**18.8%**	791	21.8%	18.5%	-34.9%
Accessories	**73**	**3.5%**	**2.7%**	124	3.4%	2.9%	-41.1%
Kappa Brand total	**2,095**	**100.0%**	**76.5%**	3,633	100.0%	85.2%	-42.3%
International business, RDK and others	**27**		**1.0%**	17		0.4%	58.8%
CHINA SEGMENT TOTAL	**2,122**		**77.5%**	3,650		85.6%	-41.9%
JAPAN SEGMENT							
Phenix Brand	**417**	**67.3%**	**15.2%**	393	64.3%	9.2%	6.1%
Kappa Brand	**198**	**31.9%**	**7.2%**	219	35.7%	5.2%	-9.6%
Others	**5**	**0.8%**	**0.1%**	—	0.0%	0.0%	N/A
JAPAN SEGMENT TOTAL	**620**	**100.0%**	**22.5%**	612	100.0%	14.4%	1.3%
THE GROUP TOTAL	**2,742**		**100.0%**	4,262		100.0%	-35.7%

Sales analysis by geographical segments

The Group

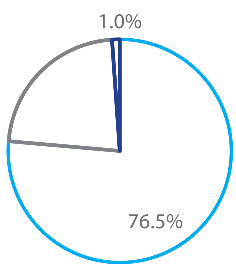


77.5% China Segment

22.5% Japan Segment

Sales analysis by business

China Segment

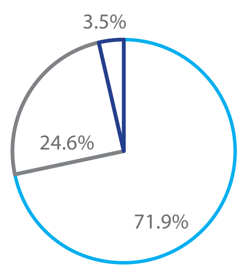


76.5% Kappa

1.0% International Sourcing, RDK and Others

Sales analysis by products categories

Kappa Brand (China Segment)



71.9% Apparel

24.6% Footwear

3.5% Accessories

China Segment

Kappa Brand

Total sales from the Kappa Brand business, the core business of the Group, for the year ended 31 December 2011 was RMB2,095 million, decreased by RMB1,538 million from RMB3,633 million for the year ended 31 December 2010. Such decrease was principally due to our initiative to alleviate the problem of accumulation of inventory faced by our distributors by reducing their volume of sales orders in 2011 as well as making a one-off inventory repurchase offer to distributors, in a bid to scale their inventory back to normal level for laying a good foundation for subsequent healthy growth.

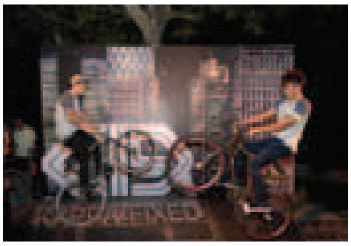
Apparel was the major product of the Kappa Brand in China and its sales represented 71.9% (2010: 74.8%) of the brand's total sales. During the year, sales of footwear constituted 24.6% of total revenue of the brand, representing an increase of 2.8 percentage points as compared to 21.8% in 2010. Substantial increase in sales percentage of Kappa Brand footwear was mainly due to our gradual expanded efforts in research, development and design of footwear since 2010 to responsively fulfill customers' demand.

International Business, RDK and Others

Sales from international business, RDK and other brands increased by RMB10 million to RMB27 million for the year ended 31 December 2011 from RMB17 million for the year ended 31 December 2010. Such increase was mainly due to the growth in sales of RDK.

Japan Segment

Sales from Japan segment for the year ended 31 December 2011 marginally increased by RMB8 million to RMB620 million from RMB612 million for the year ended 31 December 2010. In spite of the impact of 9.0-magnitude Japan earthquake on the Japan economy this year, our sales from Japan segment remained stable and saw marginal increase, primarily due to the combined positive effects of channels development, branding and sales promotion by Phenix. As a result, the market share has been secured.



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

	Year ended 31 December					
	2011		2010		**Change**	
	ASP	**Total units sold**	ASP	Total units sold	**ASP**	**Total units sold**
	RMB	***in '000***	*RMB*	*in '000*		
Apparel	**161**	**8,451**	157	18,407	2.5%	-54.1%
Footwear	**178**	**2,595**	184	4,582	-3.3%	-43.4%

Notes:

1. Average selling price represent the sales for the year, before adjusting 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 average selling price per unit. We believe that the average selling price per unit analysis of this product category is not meaningful.

Average selling price per unit for apparel products in 2011 went up marginally to RMB161 from RMB157 in 2010, primarily due to product improvements and innovations achieved this year following an introduction of a new design and planning team by the Group since 2011 and pricing structure has been optimized. Additionally, we focused on developing channels for obsolete inventory clearance in 2011, of which e-commerce was one of the most efficient channels with rapid growth in sales. Given the impact of the inventory clearance, significant increases in sales discount and customer support offered by the Group, the increase in average selling price has been limited.

Average selling price per unit for footwear products dropped to RMB178 for the year ended 31 December 2011 from RMB184 for the year ended 31 December 2010, primarily due to the combined impact of obsolete inventory clearance and increased discount offer.

Total units sold for apparel and footwear products in 2011 significantly fell by 54.1% and 43.4%, respectively, as compared to last year, which was primarily due to our initiative to control the distributors' volume of sales orders as well as making a one-off inventory repurchase offer to our distributors in 2011.

Cost of Goods Sold and Gross Profit

Cost of goods sold before provision for impairment of inventories has dropped by RMB481 million, or 28.0%, to RMB1,235 million for the year ended 31 December 2011 from RMB1,716 million for the year ended 31 December 2010, which was impacted by our strategic reduction in sales orders from the distributors as well as inventory repurchase in the year. Gross profit before provision for impairment of inventories was RMB1,507 million (2010: RMB2,546 million), representing a decrease of RMB1,039 million (or 40.8%). Overall gross profit margin before provision for impairment of inventories fell by 4.7 percentage points to 55.0% for the year ended 31 December 2011 from 59.7% for the year ended 31 December 2010.

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

	Year ended 31 December 2011 Gross profit margin*	2010 Gross profit margin*	Change % pt
China segment			
Kappa Brand:			
Apparel	**60.2%**	64.4%	-4.2
Footwear	**54.3%**	55.4%	-1.1
Accessories	**61.6%**	64.8%	-3.2
Kappa Brand overall	**58.8%**	62.4%	-3.6
International business, RDK and others	**36.3%**	55.3%	-19.0
China segment overall	**58.5%**	62.4%	-3.9
Japan segment	**42.9%**	43.9%	-1.0
Group overall	**55.0%**	59.7%	-4.7

* Before provision for impairment of inventories

Gross profit margin of Kappa Brand in China segment for the year ended 31 December 2011 dropped by 3.6 percentage points to 58.8% from 62.4% for the year ended 31 December 2010. Such fall was due to evident rise in cost of production, provision of further support to our distributors by the Group as well as obsolete stock clearance through e-commerce, in particular for apparel products. As a result, increase in sales discount has dragged down the gross profit margin to a certain extent.

Gross profit margin of Japan segment for the year ended 31 December 2011 was 42.9%, marginally dropped by a percentage point as compared to 43.9% for the year ended 31 December 2010.

Other Gains, Net

Other gains for the year ended 31 December 2011 mainly represented subsidy income from the government for China segment amounted to RMB120 million (2010: RMB199 million).

Provision for impairment of available-for-sale financial assets

During the year, the Group made fair value assessment on its available-for-sale financial assets in accordance with its accounting policy. As a consequence, the Group has made provision for impairment of RMB238 million, representing the provision of Group's investment in Mecox Lane, a company engaged in sales of apparel and accessories on online platforms, of RMB181 million and investment in MSYH Group, a company engaged in the distribution and retail of sport-related products in mainland China, of RMB57 million.

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. Total distribution costs and administrative expenses for the year ended 31 December 2011 grew by RMB51 million to RMB1,068 million as compared to RMB1,017 million for the year ended 31 December 2010, constituting 38.9% of the Group's total sales.

During the year, the Group has recruited experienced senior management talent with capabilities in international management for enhancement on strategies of retail management as well as support for execution of our 5-year strategic plan, leading to an increase in staff costs of the Group by RMB31 million to RMB227 million for the year ended 31 December 2011 from RMB196 million for the year ended 31 December 2010. Consulting fees increased by RMB19 million to RMB31 million for the year ended 31 December 2011 from RMB12 million for the year ended 31 December 2010, mainly due to the launch of consulting projects on strategic planning, human resources and internal management upgrade. Advertising and marketing expenses reduced by RMB18 million to RMB380 million for the year ended 31 December 2011 from RMB398 million in 2010, and the strategic focus on marketing has shifted from brand promotion to retail promotion activities which better accommodate the retail market. Our logistic fees of RMB93 million in 2011 remained stable as compared with RMB92 million in 2010. Design and product development expenses for the Group in 2011 was RMB111 million (2010: RMB121 million).

Operating Profit

For the year ended 31 December 2011, operating profit of the Group was RMB99 million (2010: RMB1,741 million). The operating profit margin was 3.6% for the year ended 31 December 2011 (2010: 40.9%). The drastic decline in the operating profit margin was mainly due to a drop in gross profit margin before provision for impairment of inventories by 4.7 percentage points, an increase in expense ratio by 15.0 percentage points, a decrease in other net gains by RMB112 million and provision for impairment of inventories and available-for-sale financial assets.

Finance income, Net

For the year ended 31 December 2011, finance income mainly comprised interest income of RMB89 million (2010: RMB84 million), and income derived from investment in treasury bonds and treasury products of RMB44 million (2010: RMB31 million), as well as a foreign exchange gains of RMB1 million (2010: exchange loss of RMB17 million).

Taxation

For the year ended 31 December 2011, income tax expense of the Group amounted to RMB122 million (2010: RMB373 million). The effective tax rate was 53.7% (2010: 20.3%). Drastic increase in effective tax rate was primarily due to: 1) the increase in income tax rate of our major operating subsidiaries established in the Shanghai Pudong New Area from 22% for 2010 to 24% for 2011; 2) a 5% to 10% withholding tax rate was imposed on dividends paid to a non-resident company by a resident company in accordance with the new PRC Enterprise Income Tax Law promulgated in 2008, accordingly withholding income tax of RMB27 million has been provided based on management estimation on future dividend payment to offshore subsidiary; 3) provision for impairment in investments in Mecox Lane and MSYH Group of RMB238 million, which have no tax benefits to the Group. Since the two investments were operated by a tax-exempt subsidiary incorporated outside PRC and a PRC-incorporated subsidiary with no taxable income respectively, as a result, no deferred income tax has been provided for impairment in investments.

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 24% in 2011 (2010: 22%).

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 2011 was RMB102 million (2010: RMB1,464 million), and net profit margin of the Group was 3.7% (2010: 34.3%).

Earnings Per Share

The basic and diluted earnings per share were RMB1.82 cents (2010: RMB25.83 cents) and RMB1.82 cents (2010: RMB25.82 cents) for the year ended 31 December 2011, respectively.

The basic earnings per share are calculated by dividing the profit for the year attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

Final Dividend

The Company has paid an interim and interim special dividend for the six months ended 30 June 2011 of RMB1.19 cents and RMB1.59 cents per ordinary share, respectively, with a total amount of RMB158 million, representing approximately 153% of profit attributable to equity holders of the Company for the year ended 31 December 2011. Therefore, the Board of the Company does not recommend the payment of final dividend for the year ended 31 December 2011.

FINANCIAL POSITION

Working capital efficiency ratios

China Segment

Average trade receivable turnover days for the years ended 31 December 2011 and 2010 were 81 days and 37 days, respectively, average trade receivable turnover days in 2011 increased significantly as compared with 2010. Such increase was primarily as decline in revenue resulting from inventory repurchase and trade orders control. Additionally, in view of the general market environment, credit terms have been moderately extended in order to enhance our support to our distributors.

Average trade payable turnover days for years ended 31 December 2011 and 2010 were 91 days and 65 days respectively. Increase in average trade payable turnover days was primarily due to decrease in cost of goods sold.

Average inventory turnover days for the years ended 31 December 2011 and 2010 were 145 days and 45 days respectively. Drastic increase in average inventory turnover days was primarily due to increase in inventory balance resulting from inventory repurchase as well as remarkable drop in cost of good sold resulting from decrease in revenue.

Japan Segment

Average trade receivable turnover days and average trade payable turnover days were 111 days and 106 days, respectively for the year ended 31 December 2011 as compared to 109 days and 100 days, respectively for the year ended 31 December 2010. As Phenix's management policies on procurement and sales remained unchanged with effective implementation, the above turnover days have maintained substantially stable. Average inventory turnover days for the year ended 31 December 2011 were 143 days as compared to 121 days for the year ended 31 December 2010. Such increase was primarily due to increase in stock level of spring/summer 2011 caused by the earthquake in Japan in March 2011.

Liquidity and financial resources

As at 31 December 2011, cash and bank balances (including long term bank deposits) of the Group amounted to RMB3,775 million, a decrease of RMB1,253 million compared to a balance of RMB5,028 million as of 31 December 2010. This decrease mainly due to 1)an investment in CITIC Mezzanine Fund I of RMB150 million and an investment in Yunfeng E-commerce Fund of equivalent to approximately RMB638 million; 2) an investment in Mecox Lane of equivalent to approximately RMB228 million; 3) payment of 2010 final and final special dividends as well as 2011 interim and interim special dividends for an aggregate amount of RMB707 million; 4) payment of share repurchase of equivalent to approximately RMB43 million; and 5) collection principal and gains of treasury bonds and capital guaranteed treasury products issued by commercial bank approximately RMB454 million.

As at 31 December 2011, net assets attributable to our equity holders was RMB6,795 million (31 December 2010: RMB7,515 million). The Group's current assets exceeded current liabilities by RMB5,274 million (31 December 2010: RMB6,570 million). The Group also had a very strong liquidity position. The current ratio as of 31 December 2011 was 9.5 times (31 December 2010: 8.5 times).

As at 31 December 2011, the Group had no outstanding bank loans or other borrowings.

Pledge of assets

As at 31 December 2011, the Group had approximately RMB137 million (31 December 2010: RMB36 million) were held in banks as deposits of advertising fee payable to our business partner who is a third party as well as guarantee deposit for the issue of letters of credit for our business.

Capital commitments and contingencies

According to a limited partnership agreement, the Group shall pay a capital contribution of RMB300 million for investment in CITIC Mezzanine Fund I. As at 31 December 2011, the Group has already paid RMB150 million of the capital contribution, with the remaining balance of RMB150 million as capital commitments.

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.

Significant investments and acquisitions

On 2 March 2011, the Group entered into a share purchase agreement with two shareholders of Mecox Lane Limited, a company listed on NASDAQ and engaged in sales of apparel and accessories on online platforms. Under the share purchase agreement, the Group purchased 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 approximately US$35 million (equivalent to approximately RMB228 million). The Group was 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.

On 1 September 2011, the Group, through its wholly-owned subsidiary, entered into a limited partnership agreement pursuant to which the Group, as a limited partner, agreed to make a capital commitment of RMB300 million in CITIC Mezzanine Fund I. As at 31 December 2011, the Group has paid RMB150 million of the capital commitment.

On 22 September 2011, the Group, through its wholly-owned subsidiary, entered into a limited partnership agreement with Yunfeng E-commerce Funds, pursuant to which the Group, as a limited partner, agreed to make a capital commitment of US$100 million (approximately RMB638 million). As at 31 December 2011, the Group fully paid up the capital commitment.

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 2011.

OUTLOOK

Though the Chinese economy is expected to grow at a steady speed in year 2012, the overall tone of the retail market remains static. Accumulated inventory at retail end remains a key issue. Coupled with intensifying market competition from international brands expanding more aggressively into the Chinese market, further integration of the sportswear industry is expected going forward. In order to capture any future opportunities that may arise, the Group will overcome these challenges pragmatically and through perseverance in the face of a difficult market environment.

In terms of product development, Kappa will continue to enrich its product portfolio while reinforcing its brand positioning of "sports, fashion, sexiness and style". Leveraging on our design resources in Japan, the Group is confident that the reorganized design team will be able to deliver more eye-catching products that not only attract consumers and stimulate sales, but also emphasizes our brand DNA.

To sell a quality product, an effective sales channel is required. The Group will continue to optimize its distribution network and sales efficiency in 2012, with priority set on reducing accumulated retail inventories, so as to make way for more new products. First, the Group will put greater efforts on cooperating with our key customers by reorganizing our sales team and re-allocate our resource, through customer-oriented management to enhance profitability. Last but not least, the Group will continue to place emphasis on retail sales performance by working closely with distributors in monitoring store efficiency and offering timely support and adjustments.

Furthermore, the Group will fully utilize on our internal resources, including our abundant cash on hand and the R&D capabilities of our Japan team, to optimize our internal operation, enhance brand image and product design. The Group will also leverage on our long-term strategic cooperation with MSYH Group to work together on creating a new "brand + retail" model to improve sales channel efficiency. Apart from traditional retail outlets, the Group will also place more focus on online sales channels and making use of the platform as a key channel for inventory clearance.

In the year ahead, the Group will look into refining every process of our operation management to lay the groundwork for a more solid foundation for future growth. We believe that enterprises with clear positioning, innovative and excellent executions are well-poised to capture promising opportunities in the future.

Investor Relations Report

The Group has always believed that the maintenance of investor relations is a long-term systematic and important task for the Group. The Group's management and investor relations team have been committed to building 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, and continuously improve the Group's management and governance structure, in order to maximize corporate values and shareholders' interests.

For the year 2011, we summarize the investor relations achievements as below:

RESULTS ANNOUNCEMENT, ROAD SHOW AND INVESTMENT SUMMITS

Right after the announcements of the 2010 annual results and the 2011 interim results, which were in March and September 2011 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 available on the company website the day after, for investors' further inspection.

In order to provide investors a more comprehensive review of our business, we launched post result NDRs after a profit warning announcement on July 8th and 2011 interim results announcement. As total of 19 one-on-one/group meetings were hosted in Hong Kong (including international conference calls), 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. Our top managements and investor relations team took part in investment summits, which held by investment banks, aim to enhance our interaction and communications with global investors.

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 2011, a total of 81 face-to-face meetings and telephone conferences were conducted with investors and analysts. Furthermore, in order to communicate more effectively and directly, the Group management team frequently travels to Hong Kong to meet with investors and analysts on a regular basis.

Investors Stores Visits

In 2011, based on the needs of our investors and analysts, and for them to better understand our operation, we arranged 15 stores visits in Beijing, Changsha, Xiamen, Shenzhen, Guangzhou, and etc.

Sales Fair Visits

In February 2011, we invited several investors and analysts to attend 2011 Q3 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 answers 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. Thus, we 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 Listing Rules of the Hong Kong Stock Exchange, we organize annual general meetings, to 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 2011, the Group's management hosted over 81 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 2011, the top managements maintained dialogues with over 1,020 investors and analysts around the world, thereby establishing a strong and extensive investor database. In addition, a total of 20 analysts have issued research reports about our developments.

In 2011, The Group accredited for 3 awards, including: Forbes Asia "200 Best under A Billion", "Hong Kong Outstanding Enterprise 2011" by Economic Digest Magazine, and the "Corporate Awards 2011 — Gold Award for Investor Relations and Social Responsibility" by The Asset Magazine.

Qualifying companies being selected for the Forbes Asia "200 Best under A Billion" must have annual revenue between US$5 million and US$1 billion and be publicly traded for at least a year. The 200 picks were selected among a total of over 15,000 companies which had been best-managed throughout the economic volatility that began in 2008.

Economic Digest is a professional finance magazine with the longest history for its genre and the largest readership in Hong Kong. Since it first launched in 2004, this annual event aims to appraise and recognize best listed enterprises in Hong Kong stock exchange with brilliant business performances. The honored companies are selected by a panel of professional judges according to their business performance, corporate governance and popularity among minority shareholders. This year, a total of 41 enterprises were given awards.

The Group also accredited the "Corporate Awards 2011 — Gold Award for Investor Relations and Social Responsibility" by The Asset Magazine. This is the second consecutive year in which the Group has been awarded. As the winner of this award, China Dongxiang 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 various channels, including mail, e-mail and telephone, in order for us to constantly improve our corporate operation and administration.

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)	53	Chief Executive Officer, Chairman and Executive Director
Mr. Qin Dazhong (秦大中)	43	Chief Operating Officer and Executive Director
Mr. Gao Yu (高煜)	38	Non-Executive Director
Mr. Xu Yudi (徐玉棣)	60	Independent Non-Executive Director
Dr. Xiang Bing (項兵)	49	Independent Non-Executive Director
Mr. Jin Zhi Guo (金志國)	55	Independent Non-Executive Director

EXECUTIVE DIRECTORS

Mr. Chen Yihong (陳義紅), aged 53, is our founder, chairman, chief executive officer (since 20 October 2011) 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 had completed 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. Mr. Chen had 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 43, is our chief operating officer (since 20 October 2011) and executive director. Mr. Qin is primarily responsible for operating the business of the Company. Mr. Qin joined Beijing Dongxiang as general manager since October 2002 and has over 14 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.

NON-EXECUTIVE DIRECTOR

Mr. Gao Yu (高煜), aged 38, 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 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. Mr. Gao is also a director of Tongkun Group Co., Ltd (桐昆集團股份有限公司), a company listed on Shanghai 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 60, 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 fellow member 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). For the period between 2006 and 2011, Mr. Xu was a director of China CITIC Group (中國中信集團公司), and for the period between 2009 and 2011, Mr. Xu was also the 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 49, is our independent non-executive director. Dr. Xiang obtained a Doctoral degree in accounting from the University of Alberta in Canada. He has over 14 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). All 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). 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). He is also an independent director and member of audit committee of Shaanxi Qinchuan Machine Development Co., Ltd. (陝西秦川機械發展股份有限公司), all of the above mentioned companies are 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 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 May 2008 and February 2012, Dr. Xiang was 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). A company listed on the Hong Kong Stock Exchange.

Mr. Jin Zhi Guo (金志國), aged 55, 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. Between August 2010 to September 2011, Mr. Jin had 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 26 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 22 years of experience in relevant industry. He joined the Group in April 2008 and is the head of Phenix Co., Ltd.

Mr. Guo Jian Xin (郭建新), is the vice-president of supply chain system of the Company. He has over 14 years experience in the sports industry in China. Prior to joining the Company, he was the chief operation officer and group vice-president of Beijing Li Ning Sports Goods Co., Ltd. (北京李寧體育用品有限公司).

Corporate Social Responsibilities

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.

A range of on-going measures for energy efficiency and emission reduction has been taken. First of all, we have implemented its internal automatic lighting control system which has saved up hundreds of thousands of units of electricity in terms of Kwh per annum. Such system turns the office lighting off automatically during non-business hours to avoid staying lights on all night long. We have also implemented automatic air-conditioning system which has reduced our power consumption by adjusting room temperature a few degrees upward to an appropriate level as well as turning the air-conditioning system off during non-business hours. In addition, we have continued to roll out batteries collection and sorting so that secondary pollutants to soil could be eliminated. Meanwhile, all staff members were encouraged to use our shuttle services or public transport and use less of their private cars in order to minimize environmental impact of vehicle emissions.

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 2011, our internal charity organization continued to care for the vulnerable and needy of our society, and revisited those schools and students being supported by us. Also, certain staff members even initiatively donated to one-to-one children's education fund.

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.

Optimization of Organization Structure of the Group

In view of the changes in market environment, the Group has proactively re-configured its organization structure so as to further streamline business workflow and enhance the productivity of our people. By optimizing our organization structure with the right development strategies, better operating results have been achieved.

Improvement of Performance Management System

Lessons learned reviews have been conducted in implementing our performance management to assess insufficiencies for improvement, optimize our performance management policy as well as develop the performance assessment in a more quantitative manner. As a result, objective appraisals for each of our employees extensively promoted performance-oriented assessment concept, which in turn continuously enhanced our effectiveness in structure management.

Stay Focused on Staff Training and Development

In recent years, the Group, in particularly, has focused on staff training and development, and improved its election, appointment and retention mechanisms. Appointments of appropriate personnel in key positions facilitated full-scale development of our core business.

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 A.2.1 of the CG Code. Provision A.2.1 of the Code provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Our Company deviates from this provision because Mr. Chen Yihong performs both the roles of chairman and chief executive officer since 20 October 2011. Mr. Chen is the founder of our Group and has extensive experience in sporting goods industry in China. The Board believes that vesting the two roles in the same person provides our Company with strong and consistent leadership and facilitates the implementation and execution of our Group's business strategies. We shall nevertheless review the structure from time to time in light of the prevailing circumstances.

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 2011.

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 page 44 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 six members, of whom two are executive Directors, one is non-executive Director and three are independent non-executive Directors.

Executive Directors:
Mr. Chen Yihong *(Chairman and appointed as Chief Executive Officer with effect from 20 October 2011)*
Mr. Qin Dazhong *(re-designated from Vice Chairman to Chief Operating Officer with effect from 20 October 2011)*

Non-Executive Director:
Mr. Gao Yu

Independent Non-Executive Directors:
Mr. Jin Zhi Guo
Dr. Xiang Bing
Mr. Xu Yudi

Biographies of the directors are set out on pages 37 to 39. 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. Qin Dazhong and Dr. Xiang Bing shall retire from the office by rotation and, being eligible, shall offer themselves for re-election at the forthcoming AGM.

Mr. Gao Yu (re-elected as non-executive Director on 12 May 2010), Mr. Xu Yudi (re-elected as independent non-executive director on 12 May 2011), Mr. Chen Yihong (re-elected as executive Director on 12 May 2011) and Mr. Jin Zhi Guo (re-elected as independent non-executive Director on 12 May 2011) 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.

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 2011, the Board held 7 meetings. The attendance of the directors at Board meetings and principal Board Committee meetings held in 2011 is set out in the table below.

	Board meetings in 2011	Attendance of Audit committee meetings in 2011	Remuneration committee meetings in 2011
Executive Directors			
Chen Yihong	7/7	N/A	1/1
Qin Dazhong	7/7	N/A	N/A
Sandrine Zerbib (resigned on 20 October 2011)	4/4	N/A	N/A
Non-Executive Director			
Gao Yu	*6/7	N/A	N/A
Independent Non-Executive Directors			
Xu Yudi	7/7	3/3	1/1
Xiang Bing	#5/7	3/3	1/1
Jin Zhi Guo	△5/7	3/3	N/A

* One attendance was attended by Mr. Gao Yu's alternate director, Mr. Chen Yihong and has not been counted as attendance by himself.

\# Two attendances were attended by Dr. Xiang's alternate directors, Mr. Xu Yudi and Mr. Chen Yihong respectively and has not been counted as attendance by himself.

△ Two attendances were attended by Mr. Jin's alternate director, Mr. Xu Yudi and has not been counted as attendance by himself.

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. On 27 March 2012, a nomination committee was established which is chaired by Mr. Chen Yihong and comprises Mr. Jin Zhi Guo and Dr. Xiang Bing.

AUDIT COMMITTEE

Members: Mr. Xu Yudi (chairman), Dr. Xiang Bing and Mr. Jin Zhi Guo. The Audit 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 Audit 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 Audit 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 Audit 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 Audit 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 Audit 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 Audit Committee discusses any matters that auditor may wish to raise either privately or together with executive Directors and any other persons. The Audit Committee is also required to review the effectiveness of the Company's financial controls, internal control and risk management systems. In addition, the Audit 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 2011. The major work performed by the Audit Committee in 2011 included:

(i) Review and recommend the Board's approval of the 2011 external audit plan and 2011 internal audit plan;

(ii) Review and recommend the Board's approval of the 2010 annual financial statements and 2011 interim financial statements;

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

(iv) Review of the 2011 external audit report and internal audit report;

(v) Approval of the remuneration and terms of engagement of PricewaterhouseCoopers for the 2011 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 2011. The major work performed by Remuneration Committee in 2011 included reviewing and determining the Directors' remuneration for the year ending 31 December 2012.

EXECUTIVE COMMITTEE

Members: Mr. Chen Yihong (chairman), Mr. Qin Dazhong, Mr. Terence Hon, Mr. Sun Jian Jun and Mr. Guo Jian Xin.

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 and Control Department (the "IAC") and management letters submitted by external auditors. Also, the Board and the Audit Committee met with the internal auditors, the external auditors and the 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 2011.

The IAC 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 IAC 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 IAC adopted the globally recognized framework outlined by the Committee of Sponsoring Organizations of The National Commission of Fraudulent Financial Reporting (COSO) for establishing the system of internal controls and formulates an annual internal audit plan for the coming year in December each year. Audit work programs are developed based on understanding of the operations obtained from interviews with the management. The Audit Committee reviews and approves the annual audit plan and all subsequent major changes to the plan, if any. The IAC is responsible for carrying out internal control reviews based on the approved annual audit plan. Prior to the commencement of each audit assignment, audit planning meetings are arranged with process owners to communicate the scope. Through execution of the audit work programs, the IAC inspects, monitors and evaluates the design effectiveness and the operating effectiveness of the key controls associated with the processes under review. Duties of the IAC also include regular reviews on the implementation and procedures of financial and operational activities and the system of internal controls of the Group. The IAC has unrestricted access to any information relating to the Group's risk management, control and governance processes. The IAC submits the audit findings together with rectification and improvement plans to the Audit Committee and the management and maintains regular communication. It regularly tracks all audit findings and performs follow-up to ensure all matters are implemented in accordance with the rectification and improvement plans.

EXTERNAL AUDITOR

The Company has engaged 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 2011 is set out in Note 7 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, and press releases, 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 raise questions to the Board. The chairman of the Board, chief executive officer, chief operating officer, directors and some other senior managements of the Company 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 34 to 36 to provide a more comprehensive overview of the work performed by the IR Department in 2011.

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 2011.

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.

GROUP PROFIT

The Group's profit for the year ended 31 December 2011 is set out in the consolidated income statement on page 56.

DIVIDENDS

An interim dividend of RMB67,430,000 and an interim special dividend of RMB90,096,000 in respect of the 6 months ended 30 June 2011 were declared to Shareholders on 24 August 2011 and paid in September 2011.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2011.

PROPERTY, PLANT AND EQUIPMENT

Movements in the property, plant and equipment of the Group during the year are set out in Note 14 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 2011.

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 10 to 11.

SHARE CAPITAL

Movements in the share capital of the Company during the year are set out in Note 26 to the consolidated financial statements.

RESERVES

Movements in reserves of the Group and the Company during the year are set out in Note 28 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2011 amounted to approximately RMB3,433,002,000, 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
Mr. Qin Dazhong
Ms. Sandrine Zerbib (resigned on 20 October 2011)

Non-Executive Director:
Mr. Gao Yu

Independent Non-Executive Directors:
Mr. Xu Yudi
Dr. Xiang Bing
Mr. Jin Zhi Guo

In accordance with Article 87 of the Company's articles of association, Mr. Qin Dazhong and Dr. Xiang Bing shall retire from the office by rotation and, being eligible, shall offer themselves for re-election at the forthcoming 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 8 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 2011 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 37 to 39.

SHARE OPTION SCHEMES

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 option 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 option 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 9.76% 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 option 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 such 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 2011 are as follows:

	Date of grant	Exercise price per Share HKD	Number of share options[1] As at 1/1/2011	exercised during the year	cancelled during the year	As at 31/12/2011	Exercise period of options[2]
Executive Director							
Sandrine Zerbib (resigned on 20 October 2011)	23 November 2010	4.12	3,000,000	—	3,000,000	—	23/11/2010–11/9/2017

Notes:

(1) There were outstanding share options to acquire 3,000,000 shares of the Company granted under the Share Option Scheme as at 1 January 2011. During the year ended 31 December 2011, all these options were cancelled on 20 October 2011.

(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.

Save as disclosed above, there were no other share options granted, lapsed, exercised or cancelled during the year ended 31 December 2011. There was no other share option outstanding under the Share Option Scheme as at 31 December 2011.

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 30,000,000 existing Shares ("Restricted Shares") may 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.

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 2011, 30,000,000 Restricted Shares were purchased by Trustee from the market out of cash contributed by the Group and are held in trust for the relevant selected participants until such Shares are vested with the relevant selected participants in accordance with the Scheme Rules, despite that the list of selected participants is yet to be confirmed.

RETIREMENT SCHEMES

Particulars of the retirement schemes operated by the Group are set out in Note 8 to the consolidated financial statements.

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

For the year ended 31 December 2011, the Company repurchased a total of 30,000,000 shares of par value HK$0.01 each of the Company at an aggregate purchase price of approximately HK$52,137,988.16 on the Hong Kong Stock Exchange.

As at the date of this report, all the 30,000,000 ordinary shares repurchased during the year ended 31 December 2011 had been cancelled and the issued share capital of the Company was reduced by the par value thereof accordingly. The above repurchases were effected by the Directors, pursuant to the mandate from Shareholders, with a view to benefiting Shareholders as a whole in enhancing the net assets and/or earnings per share of the Company.

Saved as disclosed above, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of any listed securities of the Company for the year ended 31 December 2011.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2011, 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	—	43.77%
Mr. Qin Dazhong	Interest of a controlled corporation[(2)]	211,864,000 Shares	—	3.76%

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) 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.

Save as disclosed above, as at 31 December 2011, 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 2011, 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 of Shares		Approximate
Name of Shareholders	**Nature of interest**	**Long position**	**Short position**	**percentage of shareholding (%)**
Poseidon Sports Limited	Corporate interest	2,467,081,000	—	43.77%
Talent Rainbow Far East Limited(1)	Interest in a controlled corporation	2,467,081,000	—	43.77%
Harvest Luck Development Limited(1)	Interest in a controlled corporation	2,467,081,000	—	43.77%

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.

Save as disclosed above, as at 31 December 2011, 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

During the year ended 31 December 2011, the Company did not enter into any transactions with its connected persons (as defined in the Listing Rules) which was subject to the reporting, announcement and/or shareholders' approval requirements under Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTION

The related party transactions are set out in Note 35 to the consolidated financial statements. None of these related party transactions 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 2011, the purchases from the largest supplier and the aggregated purchases from the largest five suppliers amounted for 5.6% and 23.5% of the Group's total purchases, and the sales to the largest customer and the aggregated sales to the largest five customers amounted for 8.7% and 28.5% of the Group's total sales, respectively.

CORPORATE GOVERNANCE

Throughout 2011, the Company has complied with all the code provisions, except one deviation from code provision A.2.1 of the CG 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 41 to 46 of this report.

AUDITOR

PricewaterhouseCoopers will retire as auditor of the Company at the forthcoming Annual General Meeting ("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, 27 March 2012

Independent Auditor's Report

羅兵咸永道

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 56 to 128, which comprise the consolidated and company balance sheets as at 31 December 2011, 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 the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

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 2011, 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 requirements 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, 27 March 2012

Consolidated Income Statement

Year ended 31 December 2011

	Note	Year ended 31 December 2011 RMB'000	2010 RMB'000
Revenue	5	**2,741,826**	4,261,605
Cost of goods sold	7	**(1,234,840)**	(1,715,900)
Provision for impairment of inventories	21	**(215,878)**	(13,844)
Gross profit		**1,291,108**	2,531,861
Other gains, net	6	**113,644**	226,050
Provision for impairment of available-for-sale financial assets	19	**(238,313)**	—
Distribution costs	7	**(779,765)**	(797,400)
Administrative expenses	7	**(287,992)**	(219,127)
Operating profit		**98,682**	1,741,384
Finance income, net	9	**129,261**	93,806
Share of profits of jointly controlled entities and associated companies, net	17	**135**	2,249
Profit before income tax		**228,078**	1,837,439
Income tax expense	10	**(122,421)**	(373,479)
Profit for the year		**105,657**	1,463,960
Profit attributable to:			
Owners of the Company		**102,186**	1,463,692
Non-controlling interests		**3,471**	268
		105,657	1,463,960
Earnings per share attributable to owners of the Company during the year (expressed in RMB cents per share)			
— Basic earnings per share	11	**1.82**	25.83
— Diluted earnings per share	11	**1.82**	25.82
Dividends	32	**157,526**	1,024,485

The notes on pages 63 to 128 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2011

	Note	Year ended 31 December 2011 RMB'000	2010 RMB'000
Profit for the year		**105,657**	1,463,960
Other comprehensive income:			
— Fair value change on available-for-sale financial assets, net of tax	19	**(4,237)**	4,237
— Foreign currency translation differences	28	**(67,480)**	(16,350)
Other comprehensive income for the year, net of tax		**(71,717)**	(12,113)
Total comprehensive income for the year		**33,940**	1,451,847
Attributable to:			
— Owners of the Company		**30,469**	1,451,579
— Non-controlling interests		**3,471**	268
Total comprehensive income for the year		**33,940**	1,451,847

The notes on pages 63 to 128 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 December 2011

	Note	As at 31 December 2011 RMB'000	2010 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	**116,614**	132,807
Lease prepayments	15	**12,788**	25,690
Intangible assets	16	**289,111**	302,861
Interests in jointly controlled entities	17	**18,909**	19,142
Available-for-sale financial assets	19	**973,398**	213,938
Deferred income tax assets	20	**112,542**	57,448
Prepayments, deposits and other receivables — non-current portion	23	**33,706**	45,397
Other financial assets — non-current portion	24	**—**	153,211
		1,557,068	950,494
Current assets			
Inventories	21	**403,656**	255,702
Trade receivables	22	**547,621**	694,508
Prepayments, deposits and other receivables	23	**100,338**	94,348
Other financial assets	24	**1,068,255**	1,369,286
Cash and bank balances	25	**3,774,868**	5,027,870
		5,894,738	7,441,714
Total assets		**7,451,806**	8,392,208
EQUITY			
Equity attributable to owners of the Company			
Share capital	26	**54,562**	54,810
Share premium account	26	**2,135,560**	2,889,096
Reserves	28	**4,605,050**	4,571,071
		6,795,172	7,514,977
Non-controlling interests		**4,739**	268
Total equity		**6,799,911**	7,515,245

	Note	As at 31 December 2011 RMB'000	2010 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	20	**30,922**	5,453
		30,922	5,453
Current liabilities			
Trade payables	29	**275,734**	368,953
Accruals and other payables	30	**309,372**	235,626
Provisions	31	**27,184**	188,526
Current income tax liabilities		**8,683**	78,405
		620,973	871,510
Total liabilities		**651,895**	876,963
Total equity and liabilities		**7,451,806**	8,392,208
Net current assets		**5,273,765**	6,570,204
Total assets less current liabilities		**6,830,833**	7,520,698

The notes on pages 63 to 128 are an integral part of these consolidated financial statements.

The financial statements were approved by the Board of Directors on 27 March 2012 and were signed on its behalf.

Company Balance Sheet

As at 31 December 2011

	Note	As at 31 December 2011 RMB'000	2010 RMB'000
ASSETS			
Non-current assets			
Interests in subsidiaries	13	**10,229,002**	10,229,235
Amounts due from subsidiaries	13	**1,818,050**	967,342
		12,047,052	11,196,577
Current assets			
Prepayments, deposits and other receivables	23	**7,937**	7,695
Amounts due from subsidiaries	13	**74,597**	260,390
Cash and bank balances	25	**808,940**	1,227,220
		891,474	1,495,305
Total assets		**12,938,526**	12,691,882
EQUITY			
Equity attributable to owners of the Company			
Share capital	26	**54,562**	54,810
Share premium account	26	**2,135,560**	2,889,096
Reserves	28	**10,739,263**	9,741,018
Total equity		**12,929,385**	12,684,924
LIABILITIES			
Current liabilities			
Amounts due to subsidiaries	13	**5,870**	6,908
Accruals and other payables	30	**3,271**	50
		9,141	6,958
Total liabilities		**9,141**	6,958
Total equity and liabilities		**12,938,526**	12,691,882
Net current assets		**882,333**	1,488,347
Total assets less current liabilities		**12,929,385**	12,684,924

The notes on pages 63 to 128 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 27 March 2012 and were signed on its behalf.

Consolidated Statement of Changes in Equity

Year ended 31 December 2011

	Note	Attributable to owners of the Company						
		Share capital	Share premium account	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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	19	—	—	4,237	—	4,237	—	4,237
Currency translation differences		—	—	(16,350)	—	(16,350)	—	(16,350)
Total other comprehensive income, net of tax		—	—	(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
Dividends relating to 2009 and 2010	26, 32	—	(1,205,243)	—	—	(1,205,243)	—	(1,205,243)
Total of transactions with owners		—	(1,205,243)	(85,563)	—	(1,290,806)	—	(1,290,806)
Appropriation to statutory reserves		—	—	60	(60)	—	—	—
Balance at 31 December 2010		54,810	2,889,096	(169,068)	4,740,139	7,514,977	268	7,515,245
Balance at 1 January 2011		**54,810**	**2,889,096**	**(169,068)**	**4,740,139**	**7,514,977**	**268**	**7,515,245**
Comprehensive income								
Profit for the year		**—**	**—**	**—**	**102,186**	**102,186**	**3,471**	**105,657**
Other comprehensive income								
Fair value change on available-for-sale financial assets	19	**—**	**—**	**(4,237)**	**—**	**(4,237)**	**—**	**(4,237)**
Currency translation differences		**—**	**—**	**(67,480)**	**—**	**(67,480)**	**—**	**(67,480)**
Total other comprehensive income, net of tax		**—**	**—**	**(71,717)**	**—**	**(71,717)**	**—**	**(71,717)**
Total comprehensive income		**—**	**—**	**(71,717)**	**102,186**	**30,469**	**3,471**	**33,940**
Transactions with owners								
Share-based compensation		**—**	**—**	**(233)**	**—**	**(233)**	**—**	**(233)**
Shares repurchased and cancelled	26	**(248)**	**(42,969)**	**—**	**—**	**(43,217)**	**—**	**(43,217)**
Dividends relating to 2010 and 2011	26, 32	**—**	**(710,567)**	**3,743**	**—**	**(706,824)**	**—**	**(706,824)**
Contribution from non-controlling interests of a subsidiary		**—**	**—**	**—**	**—**	**—**	**1,000**	**1,000**
Total contributions by and distributions to owners of the Company		**(248)**	**(753,536)**	**3,510**	**—**	**(750,274)**	**1,000**	**(749,274)**
Appropriation to statutory reserves		**—**	**—**	**1,765**	**(1,765)**	**—**	**—**	**—**
Total transactions with owners		**(248)**	**(753,536)**	**5,275**	**(1,765)**	**(750,274)**	**1,000**	**(749,274)**
Balance at 31 December 2011		**54,562**	**2,135,560**	**(235,510)**	**4,840,560**	**6,795,172**	**4,739**	**6,799,911**

The notes on pages 63 to 128 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

Year ended 31 December 2011

	Note	Year ended 31 December 2011 RMB'000	2010 RMB'000
Cash flows from operating activities			
Cash generated from operations	33	**129,831**	1,748,885
Interest received		**100,964**	86,682
Income tax paid		**(221,767)**	(391,963)
Net cash (used)/generated from operating activities		**9,028**	1,443,604
Cash flows from investing activities			
Purchase of property, plant and equipment		**(13,955)**	(25,678)
Purchase of intangible assets		**(6,418)**	(13,879)
Decrease in term deposits with initial terms of over three months and long term bank deposits		**1,427,333**	262,838
Decrease in restricted bank deposits		**—**	11,100
Proceeds from disposal of property, plant and equipment	33	**261**	133
Decrease/(increase) in other financial assets		**454,242**	(1,089,601)
Increase in investments in available-for-sale financial assets		**(1,016,375)**	(103,665)
Dividends received from investment companies		**—**	29,233
Net cash generated/(used) in investing activities		**845,088**	(929,519)
Cash flows from financing activities			
Purchase of shares for Restricted Share Award Scheme	27(b)	**—**	(87,138)
Repurchase of shares	26	**(43,217)**	—
Dividends paid	32	**(706,824)**	(1,205,243)
Net cash used in financing activities		**(750,041)**	(1,292,381)
Net increase/(decrease) in cash and cash equivalents		**104,075**	(778,296)
Cash and cash equivalents at beginning of the year		**649,022**	1,473,361
Exchange losses on cash and cash equivalents		**(30,215)**	(46,043)
Cash and cash equivalents at end of the year	25	**722,882**	649,022

The notes on pages 63 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 27 March 2012.

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 available-for-sale financial assets, and 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.

The Group previously disclosed provision for impairment of inventories within 'Administrative expenses'. Management believes that separate presentation in consolidated income statement is a fairer representation of the Group's activities for year 2011. Accordingly, the comparative figure for year 2010 was presented separately.

Changes in accounting policies and disclosures

(a) *New and amended standards effective for year beginning 1 January 2011*

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2011 that would be expected to have no impact on the Group.

- IAS 24 (Revised), "Related Party Disclosures" is effective for annual period beginning on or after January 2011. It introduces an exemption from all of the disclosure requirements of IAS 24 for transactions among government related entities and the government. Those disclosures are replaced with a requirement to disclose:

  — The name of the government and the nature of their relationship;

  — The nature and amount of any individually significant transactions; and

  — The extent of any collectively-significant transactions qualitatively or quantitatively.

  It also clarifies and simplifies the definition of a related party.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

Changes in accounting policies and disclosures *(continued)*

(b) *New and amended standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted by the Group*

The Group's and parent entity's assessment of the impact of these new and amended standards is set out below.

- IFRS 9, 'Financial instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

- IFRS 10 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2013.

- IFRS 11 'Joint arrangements' is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.

- IFRS 12 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

- IFRS 13 'Fair value measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.

The Group is yet to assess the above IFRS's full impact and intends to adopt them upon their effective date in future years, which is for the accounting period beginning on or after 1 January 2013.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries

2.2.1 Consolidation

Subsidiaries are all entities (including special purpose 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. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise from circumstances such as enhanced minority rights or contractual terms between shareholders, etc.

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.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree 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. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

(b) *Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions — that is, as transactions with the owners in their capacity as owners. The difference between fair value of 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.

(c) *Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, 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.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Jointly controlled entities

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.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in jointly controlled entities equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Jointly controlled entities (continued)

The Group determines at each reporting date whether there is any objective evidence that the investment in the jointly controlled entities is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the jointly controlled entities and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of jointly controlled entities in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its jointly controlled entities are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the jointly controlled entities. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly controlled entities 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 are recognised in the income statement.

2.4 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 executive committee that makes strategic decisions.

2.5 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.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Foreign currency translation (continued)

(b) Transactions and balances (continued)

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 recognised in profit or loss, and other changes in carrying amount are recognised 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.

(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 recognised in other comprehensive income.

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. Exchange differences arising are recognised in equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 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 recognised 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 derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment 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	within 40 years
Office furniture and equipment	within 20 years
Vehicles	within 5 years
Leasehold improvements	within 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 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other (losses)/gains, net', in the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Leasehold land and land use right

Leasehold land and land use rights are stated at cost less accumulated amortisation 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. Amortisation of leasehold land and land use rights is calculated on a straight-line basis over the period of the leases.

2.8 Intangible assets

(a) *Trademarks and licences*

Separately acquired trademarks and licences are shown at historical cost. Trademarks and licences acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and licences 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.

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.

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.

(b) *Computer software*

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Intangible assets (continued)

(b) Computer software (continued)

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed three years.

2.9 Impairment of non-financial assets

Assets that have an indefinite useful life – for example, goodwill or intangible assets not ready to use – are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation 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.

2.10 Financial assets

2.10.1 Classification

The Group classifies its financial assets in the following categories: held-to-maturity, loans and receivables 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) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available for sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which are classified as current assets.

(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 the amount that are settled or expected to be settled more 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' in the balance sheet (Note 2.14 and 2.15).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets (continued)

2.10.1 *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.

2.10.2 *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. 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 are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

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.

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Impairment of financial assets

(a) *Assets carried at amortized 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.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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 or held-to-maturity investment 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.

(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 referred to in (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 profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the 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 consolidated income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 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 and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.14 Trade 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, 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 amortized cost using the effective interest method, less provision for impairment.

2.15 Cash and cash equivalents

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

2.16 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.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to owners of the Company until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to owners of the company.

2.17 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. 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized 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 capitalized as a pre-payment for liquidity services and amortized 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.

2.19 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.

(a) Current income tax

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 and associates 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 establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

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, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, 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 or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively 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.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Current and deferred income tax (continued)

(b) *Deferred income tax* *(continued)*

Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, jointly controlled entities and associated companies, except for deferred income tax liability 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.

(c) *Offsetting*

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.

2.20 Employee benefits

(a) Pension obligations

Group 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) 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 Binominal 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)

2.21 Share-based payments

(a) *Share Option Schemes*

Equity-settled share-based payment transactions

The Group operates a Share Option Scheme (Note 27(a)). 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).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date. At the end of each reporting period, the group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

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.

Share-based payment transactions among Group entities

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 in the parent entity account.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Share-based payments (continued)

(b) Restricted Share Award Scheme

The Company adopted the Dongxiang Company Limited Restricted Share Award Scheme ("Restricted Share Award Scheme") (Note 27(b)) 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 (Note 27) was established in Hong Kong and purchased 30,000,000 shares of the Company from the open market. The total amount 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.

2.22 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised 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. Restructuring provisions comprise lease termination penalties and employee termination payments. 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 recognised 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 recognised as interest expense.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns, value added taxes and after eliminating sales within the Group. The Group recognises revenue when the amount of revenue can be reliably measured; when 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 Group bases its estimates of return 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*

The Group manufactures and sells a range of sport-related apparel, footwear and accessories in the wholesale market. Sales of goods are recognised when a group entity has delivered products to the wholesaler, the wholesaler has full discretion over the channel and price 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 the 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 recognised to the extent of goods delivered less estimated goods returns and sales discounts.

(b) *Sales of goods — retail*

The Group operates a chain of retail shops and outlets for selling sport apparels in Japan. Sales of goods are recognised when the Group sells a product to customers. Retail sales are usually in cash or by credit card.

(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 recognised by the Group when the goods are sold by the recipient to a third party.

(d) *Internet revenue*

Revenue from the provision of the sale of goods on the internet is recognised at the point that the risks and rewards of the inventory have passed to the customer, which is the point of dispatch. Transactions are settled by cash or credit card.

(e) *Royalty income*

Royalty income is recognised on an accruals basis in accordance with the substance of the relevant agreements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Interest Income

Interest income is recognised using the effective interest method. When a loan and 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 loan and receivables are recognised using the original effective interest rate.

2.25 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.

2.26 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.

2.27 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

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, fair value interest rate risk, cash flow interest rate risk and price 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.

(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 RMB and USD while the functional currency of the Company is USD. Analyses of cash and bank balances by currencies are disclosed in Note 25. The Group currently does not hedge its foreign exchange exposure.

As at 31 December 2011, if RMB had strengthened/weakened by 5% against the USD/HKD with all other variables held constant, post-tax profit for the year and equity of the Group would have changed mainly as a result of foreign exchange losses/gains on translation of USD and HKD denominated cash and bank balances respectively.

	2011 RMB'000	2010 RMB'000
Year ended 31 December:		
Profit for the year (decrease)/increase		
— Strengthened 5%	**(16,665)**	(25,191)
— Weakened 5%	**16,665**	25,191
As at 31 December:		
Equity of the Group (decrease)/increase		
— Strengthened 5%	**(23,685)**	(61,360)
— Weakened 5%	**23,685**	61,360

(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 24 and Note 25 respectively.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet as available-for-sale. The Group is not exposed to commodity price risk. As at 31 December 2011, the decline in the fair value of investment in Mecox Lane Limited ("Mecox Lane") (Note 19), a company whose shares are listed on NASDAQ in the United States of America ("USA"), was considered significant, accordingly, the Group recognised a loss of RMB181,024,000 in respect of provision for impairment of this investment.

(b) Credit risk

The Group has no significant concentration of credit risk. The carrying amounts of cash and bank balances, available-for-sale financial assets, 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 2011, 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 2011 and 2010. Management does not expect any losses from non-performance of these banks.

		As at 31 December	
		2011	2010
	Rating (i)	**RMB'000**	RMB'000
Industrial and Commercial Bank of China	A	**1,731,894**	2,871,021
China Merchants Bank	BBB+	**664,645**	814,012
Shanghai Pudong Development Bank	(ii)	**481,251**	636,128
Bank of Communications	A–	**232,047**	217,093
China Minsheng Banking Corp., Ltd.	(ii)	**163,666**	104,527
Bank of China	A	**161,876**	171,595
HSBC Bank	AA–	**162,630**	81,779
Others	(ii)	**176,859**	131,715
		3,774,868	5,027,870

(i) The source of the credit rating is from Standard & Poor as at 31 December 2011.

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

The Group's other financial assets as at 31 December 2011 comprise unlisted treasury products issued by commercial banks in the PRC (Note 24).

The Group's available-for-sale financial assets with credit risk as at 31 December 2011 include the investment in limited partnership funds established for the purpose of making equity and debt investments (Note 19).

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 at the balance sheet date to the contractual maturity 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 2011		
Trade payables	**275,734**	**—**
Amounts due to subsidiaries	**—**	**5,870**
Accruals and other payables	**99,426**	**3,271**
	375,160	**9,141**
At 31 December 2010		
Trade payables	368,953	—
Amounts due to subsidiaries	—	6,908
Accruals and other payables	82,116	50
	451,092	6,958

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 2011, the Group did not have any borrowings.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation

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 2011 and 2010:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
At 31 December 2011				
Assets				
Available-for-sale financial assets				
— Equity securities	**42,308**	**—**	**781,090**	**823,398**
— Investment in CITIC Mezzanine Fund I	**—**	**—**	**150,000**	**150,000**
	42,308	**—**	**931,090**	**973,398**
At 31 December 2010				
Assets				
Available-for-sale financial assets — equity securities	—	—	213,938	213,938

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Instrument included in level 1 is the equity investment in the USA listed Mecox Lane (Note 19(d)) held by the Group as available-for-sale financial assets. As at December 2011, the decline in the fair value of investment in Mecox Lane was considered significant, accordingly, the Group recognised a loss of RMB181,024,000 (excluded exchange losses of RMB4,963,000) in respect of provision for impairment of this investment.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (continued)

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.The Group used the specific valuation techniques to value the financial instrument, including discounted cash flow analysis and other techniques.

Instruments included in level 3 are the investments in limited partnership funds established for the purpose of making equity and debt investments, and the equity investment in the unlisted MSYH Group and other company (Note 19(a)). As at 31 December 2011, the Group recognised a loss of RMB57,289,000 in respect of provision for impairment in the investment in MSYH Group.

There were no reclassifications of financial assets during the year.

The following table presents the changes in level 3 instruments for the year ended 31 December 2011 and the year ended 31 December 2010.

	2011 **RMB'000**	2010 RMB'000
Available-for-sale financial assets in level 3:		
Opening balance	**213,938**	—
Additions	**788,080**	208,289
Transfer (from)/to equity	**(5,649)**	5,649
(Losses)/gains recognised in profit or loss	**(65,279)**	—
Closing balance	**931,090**	213,938
Total (losses)/gains for the period including in profit or loss for assets held at the end of the reporting period	**(70,928)**	5,649

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.

4.1 Critical accounting estimates and assumptions

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 16). 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-sale financial assets*

The fair values of available-for-sale financial assets as at each balance sheet date are determined with reference to quoted prices in an active market and valuation techniques for financial instruments with no quoted prices including 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 are 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 recognises 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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

4.1 Critical accounting estimates and assumptions (continued)

(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.

4.2 Critical judgments in applying the entity's accounting policies

(a) Inventory provision

With the increase of inventory mainly derived from the re-purchase of excess inventory from distributors (Note 21) and decrease of sales order in relation to new season products to distributors, the Group recognised inventory provision of RMB215,878,000 (2010: RMB13,844,000) as at 31 December 2011 based on the future sales plan of the inventory and estimation of future sales price.

(b) Impairment of available-for-sale financial assets

The Group follows the guidance of IAS 39 to determine when an available-for-sale equity investment is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

As at 31 December 2011, where the investment in a available-for-sale financial asset with decline in fair value below cost that was considered significant or prolonged, provision for impairment loss is recognised. The Group recognised a loss of RMB238,313,000 (2010: nil) in its financial statements for the year ended 31 December 2011 (Note 19).

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.

5 SEGMENT INFORMATION (CONTINUED)

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 2011				
Total revenue before inter-segment elimination	2,142,707	625,771	—	2,768,478
Inter-segment revenue	(21,182)	(5,470)	—	(26,652)
Revenue from external customers	2,121,525	620,301	—	2,741,826
Cost of goods sold	(880,291)	(354,549)	—	(1,234,840)
Provision for impairment of inventories	(198,191)	(17,687)	—	(215,878)
Segment gross profit	1,043,043	248,065	—	1,291,108
Segment operating profit (Note (a))	204,269	5,021	(110,608)	98,682
Interest income	81,733	4	7,127	88,864
Interest expenses and others, net	13,298	12,750	14,349	40,397
Share of profits of jointly controlled entities	—	135	—	135
Profit before income tax	299,300	17,910	(89,132)	228,078
Income tax expense	(121,388)	(1,033)	—	(122,421)
Profit for the year	177,912	16,877	(89,132)	105,657
Material items of income and expense				
Depreciation and amortisation	29,069	9,754		38,823
Provision for impairment losses of available-for-sale financial assets	238,313	—		238,313
Provision for/(reversal of) impairment losses of trade and other receivables	40,000	(1,167)		38,833

5 SEGMENT INFORMATION (CONTINUED)

	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)
Provision for impairment of inventories	(15,306)	1,462	—	(13,844)
Segment gross profit	2,262,045	269,816	—	2,531,861
Segment operating profit (Note (a))	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 amortisation	25,915	7,435		33,350
Provision for impairment losses of trade and other receivables	96	1,771		1,867

Notes:

(a) The expense reported under "unallocated segment operating profit" relates to the cost of design and product development of KAPPA brand incurred by the Technical Centre which was established for both China and Japan.

5 SEGMENT INFORMATION (CONTINUED)

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

	2011 RMB'000	2010 RMB'000
China		
— Distribution of Kappa Brand products	**2,094,365**	3,632,511
— International business, RDK and others	**27,160**	17,371
	2,121,525	3,649,882
Japan		
— Distribution and retail of Kappa Brand products	**198,214**	218,598
— Distribution and retail of Phenix Brand products	**417,230**	393,055
— Distribution and retail of products of other brands	**4,857**	70
	620,301	611,723
	2,741,826	4,261,605

During the year ended 31 December 2011, there was no customer from whom the revenue amounted to 10% or more of the Group's revenue (2010: revenue of RMB558,203,000 was derived from one single customer).

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 2011				
Total assets before inter-segment elimination	**6,160,743**	**524,782**	**895,036**	**7,580,561**
Inter-segment elimination	**(19,682)**	**(22,977)**	**(86,096)**	**(128,755)**
Total assets	**6,141,061**	**501,805**	**808,940**	**7,451,806**
Interests in jointly controlled entities	**—**	**(18,909)**	**—**	**(18,909)**
Available-for-sale financial assets	**(973,398)**	**—**	**—**	**(973,398)**
Deferred income tax assets	**(112,542)**	**—**	**—**	**(112,542)**
Segment assets	**5,055,121**	**482,896**	**808,940**	**6,346,957**
Total liabilities before inter-segment elimination	**485,422**	**209,034**	**40,723**	**735,179**
Inter-segment elimination	**(22,977)**	**(19,584)**	**(40,723)**	**(83,284)**
Total liabilities	**462,445**	**189,450**	**—**	**651,895**
Deferred income tax liabilities	**(27,000)**	**(3,922)**	**—**	**(30,922)**
Current income tax liabilities	**(6,823)**	**(1,860)**	**—**	**(8,683)**
Segment liabilities	**428,622**	**183,668**	**—**	**612,290**

5 SEGMENT INFORMATION (CONTINUED)

	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
Interests in jointly controlled entities	—	(19,142)	—	(19,142)
Interests in associated companies	(213,938)	—	—	(213,938)
Deferred income tax assets	(57,448)	—	—	(57,448)
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

As at 31 December 2011, the total non-current assets other than financial instruments and deferred tax assets located in the PRC amounted to RMB128,863,000 (31 December 2010: RMB159,947,000) and the total of these non-current assets located in other countries and places amounted to RMB342,265,000 (31 December 2010: RMB365,951,000).

During the year ended 31 December 2011, additions to total non-current assets other than financial instruments and deferred tax assets in China segment amounted to RMB18,027,000 (2010: RMB77,425,000), and no addition in Japan segment (2010: RMB6,390,000).

6 OTHER GAINS, NET

	2011 RMB'000	2010 RMB'000
Government subsidy income	**120,183**	199,104
Others	**(6,539)**	26,946
	113,644	226,050

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.

7 EXPENSES BY NATURE

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

	2011 RMB'000	2010 RMB'000
Cost of inventories recognised as cost of goods sold and distribution costs (Note 21)	**1,215,093**	1,671,160
Depreciation of property, plant and equipment (Note 14)	**18,424**	14,743
Amortisation of lease prepayments (Note 15)	**285**	285
Amortisation of intangible assets (Note 16)	**20,114**	18,322
Advertising and marketing expenses	**379,815**	397,990
Employee salary and benefit expenses (Note 8)	**226,848**	196,141
Withholding business tax on license fees payable for an overseas subsidiary	**7,777**	13,980
Design and product development expenses	**110,608**	121,137
Legal and consulting expenses	**30,929**	11,817
Operating lease in respect of buildings	**55,924**	54,714
Logistic fees	**93,256**	92,047
Provision for impairment losses of inventories (Note 21)	**215,878**	13,844
Provision for impairment losses of trade and other receivables	**38,833**	1,867
Reversal of impairment of property, plant and equipment (Note 14)	**—**	(45)
Travelling expenses	**33,573**	32,497
Auditors' remuneration	**5,019**	5,005
Others	**66,099**	100,767
Total of cost of goods sold, distribution costs and administrative expenses	**2,518,475**	2,746,271

8 EMPLOYEE SALARY AND BENEFIT EXPENSES, INCLUDING DIRECTORS' EMOLUMENTS

	2011 RMB'000	2010 RMB'000
Wages and salaries	**148,071**	133,437
Pension costs (Note (a))	**21,971**	17,509
Staff quarters and housing benefits	**5,694**	4,058
Performance Units Plan (Note (b))	**4,214**	6,980
Share-based compensation expenses (Note 27(a))	**(233)**	1,575
Other benefits	**47,131**	32,582
	226,848	196,141

Notes:

(a) Pensions — defined contribution plans

The employees of the Group in PRC, Hong Kong and Japan participate in defined contribution retirement benefit plans organised by the relevant local governments. The Group is required to make monthly defined contributions to these plans at rates ranging from 20% to 22% (2010: 20% to 22%) in the PRC and 8.2% (2010:7.9%) 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 a 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 value of the Group's liability under the Performance Unit Plan as at each balance sheet date is estimated by management using a valuation model. The changes in fair value of the liability are charged to the consolidated income statement.

During the year ended 31 December 2011, the Group did not grant any performance units (2010: granted 19,355,000 performance units) and a total of 25,059,000 (2010: 25,350,000) performance units remain valid as at 31 December 2011 and accumulated 10,295,000 (2010: 10,004,000) performance units were exercised or cancelled till the end of 2011. Management calculated the fair value of the performance units granted as at 31 December 2011 using the valuation model, based on which, approximately RMB4,214,000 (2010: RMB6,980,000) was charged as employee benefit expenses to the consolidated income statement for the year ended 31 December 2011.

8 EMPLOYEE SALARY AND BENEFIT EXPENSES, INCLUDING DIRECTORS' EMOLUMENTS (CONTINUED)

Notes: (continued)

(c) Directors' emoluments

The remuneration of every director of the Company is set out below:

Name of Director	Fees	Salary	Discretionary bonuses	Other benefits (Note (a))	Employer's contributions to pension schemes	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2011						
Mr. Chen Yihong	**146**	**1,798**	**130**	**36**	**30**	**2,140**
Mr. Qin Dazhong	**146**	**1,620**	**112**	**612**	**30**	**2,520**
Ms. Zerbib (Note (b))	**118**	**4,079**	**3**	**(233)**	**—**	**3,967**
Mr. Xiang Bing	**166**	**—**	**—**	**—**	**—**	**166**
Mr. Xu Yudi	**166**	**—**	**—**	**—**	**—**	**166**
Mr. Jin Zhi Guo (Note (c))	**166**	**—**	**—**	**—**	**—**	**166**
	908	**7,497**	**245**	**415**	**60**	**9,125**
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 (b))	14	451	—	1,575	—	2,040
Mr. Mak Kin Kwong (Note (c))	88	—	—	—	—	88
Mr. Xiang Bing	173	—	—	—	—	173
Mr. Xu Yudi	173	—	—	—	—	173
Mr. Jin Zhi Guo (Note (c))	86	—	—	—	—	86
	838	3,823	408	2,370	58	7,497

Notes:

(a) 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.

(b) Ms. Zerbib was appointed as the chief executive officer, executive director and the chairman of the executive committee of the Company with effect from 29 November 2010. She resigned on 20 October 2011 and the amortisation expense related to the un-vested share option of RMB233,000 was reversed.

(c) 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.

8 EMPLOYEE SALARY AND BENEFIT EXPENSES, INCLUDING DIRECTORS' EMOLUMENTS (CONTINUED)

Notes: (continued)

(d) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2010: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2010: three) individuals during the year are as follows:

	2011 **RMB'000**	2010 RMB'000
Basic salaries, bonus, share options, Performance Unit Plan and other allowances and benefits in kind	**5,996**	6,794
Pension costs	**30**	78
	6,026	6,872

The emoluments fell within the following bands:

	Number of individuals	
	2011	2010
Emolument bands:		
RMB1,661,631 to RMB2,492,445 (HKD2,000,001 to HKD3,000,000)	**—**	2
RMB2,492,446 to RMB3,323,260 (HKD3,000,001 to HKD4,000,000)	**2**	1
	2	3

9 FINANCE INCOME, NET

	2011 **RMB'000**	2010 RMB'000
Finance income:		
— Interest income from bank deposits	**88,864**	84,243
— Income from treasury bonds and treasury products	**44,383**	30,932
	133,247	115,175
Finance cost:		
— Foreign exchange gains/(losses), net	**970**	(16,621)
— Others	**(4,956)**	(4,748)
	(3,986)	(21,369)
Finance income, net	**129,261**	93,806

10 INCOME TAX EXPENSE

	2011 RMB'000	2010 RMB'000
Current income tax		
— PRC enterprise income tax ("EIT")	**149,482**	413,544
— Taxation in Japan	**1,152**	561
Deferred income tax (Note 20)	**(28,213)**	(40,626)
	122,421	373,479

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 2011 (2010: 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, distribution of profits earned by PRC companies since 1 January 2008 to foreign investors is subject to withholding tax of 5% to 10% depending on the country of incorporation of the foreign investor. Should the Group's PRC subsidiaries distribute dividends to overseas-incorporated entities within the Group, the Group should accrue the withholding tax. During the year ended 31 December 2011, the Group provided for a deferred withholding tax liability of RMB27,000,000 in relation to the profit of the PRC subsidiaries that will be distributed.

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 2011 applicable to the subsidiary is 30% (2010: 30%) based on the assessable profit. The inhabitant tax is determined based on rates on the income tax payable, subject to a certain minimum payment. As there was no assessable profit derived during the year ended 31 December 2011 (2010: nil), the subsidiary was subject to the minimum inhabitant tax payments.

10 INCOME TAX EXPENSE (CONTINUED)

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:

	2011 RMB'000	2010 RMB'000
Profit before income tax	228,078	1,837,439
Tax calculated at the statutory tax rate of 25% (2010: 25%)	57,020	459,360
Tax effects of:		
— Tax losses for which no deferred income tax asset was recognised	61,164	—
— Preferential tax rates on the profits of certain subsidiaries	(20,056)	(76,747)
— Income not subject to tax	(4,477)	(10,225)
— Expenses not deductible for tax purpose	3,389	2,803
Withholding taxation on the profits of PRC Subsidiaries to be distributed to foreign investors	27,000	—
Others	(1,619)	(1,712)
Income tax expense	122,421	373,479

11 EARNINGS PER SHARE

(a) Basic

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

	2011	2010
Profit attributable to owners of the Company (RMB'000)	102,186	1,463,692
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme (thousands)	5,623,497	5,666,053
Basic earnings per share (RMB cents per share)	1.82	25.83

11 EARNINGS PER SHARE (CONTINUED)

(b) Diluted

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding assuming conversion of all dilutive potential ordinary shares. As at 31 December 2011, there was no potential diluted ordinary share.

	2011	2010
Profit attributable to owners of the Company (RMB'000)	**102,186**	1,463,692
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme (thousands)	**5,623,497**	5,666,053
Adjustment for share options (thousands)	**—**	3,000
Weighted average number of ordinary shares in issue for diluted earnings per share (thousands)	**5,623,497**	5,669,053
Diluted earnings per share (RMB cents per share)	**1.82**	25.82

12 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to owners of the Company for the year ended 31 December 2011 is dealt with in the financial statements of the Company to the extent of a profit of approximately RMB1,120,238,000 (2010: loss of RMB5,746,000) which comprise mainly dividend income from subsidiaries (Note 28).

13 INTERESTS IN SUBSIDIARIES — COMPANY

	2011 RMB'000	2010 RMB'000
Interests in subsidiaries		
Unlisted investments, at cost	**10,113,407**	10,113,407
Contribution related to the pre-IPO Share Option Scheme	**27,115**	27,115
Contribution related to the Share Option Scheme (Note 27(a))	**1,342**	1,575
Contribution related to the Restricted Share Award Scheme (Note 27(b))	**87,138**	87,138
	10,229,002	10,229,235
Amounts due from subsidiaries		
Loans to subsidiaries		
— non-current portion	**1,818,050**	967,342
Loans to subsidiaries		
— current portion	**44,019**	59,896
Dividends receivable	**30,578**	200,000
Others	**—**	494
	74,597	260,390
Amounts due to subsidiaries		
Loans from subsidiaries	**5,371**	5,572
Others	**499**	1,336
	5,870	6,908

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 set in Note 36 to the consolidated financial statements.

14 PROPERTY, PLANT AND EQUIPMENT — GROUP

	Freehold land RMB'000	Buildings RMB'000	Office furniture and equipment RMB'000	Vehicles RMB'000	Leasehold improvements RMB'000	Construction-in-progress RMB'000	Total RMB'000
At 1 January 2010							
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 7)	—	(4,269)	(7,145)	(1,497)	(1,832)	—	(14,743)
Reversal of impairment (Note 7)	—	—	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
Year ended 31 December 2011							
Opening net book amount	**5,646**	**71,958**	**29,007**	**4,422**	**16,508**	**5,266**	**132,807**
Additions	**—**	**—**	**6,276**	**975**	**884**	**5,820**	**13,955**
Disposals							
— Cost	**—**	**—**	**(1,432)**	**(131)**	**(636)**	**(10,837)**	**(13,036)**
— Depreciation	**—**	**—**	**1,175**	**127**	**234**	**—**	**1,536**
Depreciation (Note 7)	**—**	**(3,459)**	**(9,618)**	**(1,720)**	**(3,627)**	**—**	**(18,424)**
Exchange difference	**(7)**	**(7)**	**(25)**	**—**	**(28)**	**(157)**	**(224)**
Closing net book amount	**5,639**	**68,492**	**25,383**	**3,673**	**13,335**	**92**	**116,614**
At 31 December 2011							
Cost	**5,108**	**87,090**	**53,125**	**9,991**	**18,131**	**92**	**173,537**
Accumulated depreciation	**—**	**(19,295)**	**(28,766)**	**(6,318)**	**(6,544)**	**—**	**(60,923)**
Accumulated impairment	**(129)**	**—**	**(890)**	**—**	**—**	**—**	**(1,019)**
Exchange difference	**660**	**697**	**1,914**	**—**	**1,748**	**—**	**5,019**
Net book amount	**5,639**	**68,492**	**25,383**	**3,673**	**13,335**	**92**	**116,614**

14 PROPERTY, PLANT AND EQUIPMENT — GROUP (CONTINUED)

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

	2011 RMB'000	2010 RMB'000
Distribution costs	6,001	3,619
Administrative expenses	9,733	8,443
Manufacturing overheads included under cost of goods sold	2,690	2,681
	18,424	14,743

There is no pledge of property, plant and equipment of the Group as at 31 December 2011 and 2010.

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.

15 LEASE PREPAYMENTS — GROUP

	Lease prepayments for land use rights RMB'000	Lease prepayments for stores RMB'000	Total RMB'000
At 1 January 2010			
Cost	14,262	134,151	148,413
Accumulated amortisation	(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
Amortisation	(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 amortisation	(1,396)	(156,527)	(157,923)
Net book amount	12,866	12,824	25,690
Year ended 31 December 2011			
Opening net book amount	**12,866**	**12,824**	**25,690**
Additions	**—**	**3,436**	**3,436**
Amortisation	**(285)**	**(16,053)**	**(16,338)**
Closing net book amount	**12,581**	**207**	**12,788**
At 31 December 2011			
Cost	**14,262**	**172,787**	**187,049**
Accumulated amortisation	**(1,681)**	**(172,580)**	**(174,261)**
Net book amount	**12,581**	**207**	**12,788**

Lease prepayments for land use rights represent the Group's interests in land in the PRC and held on leases within 50 years. As at 31 December 2011, the remaining lease period of the land use right is 44 years.

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

Amortisation 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.

16 INTANGIBLE ASSETS — GROUP

	KAPPA trademarks RMB'000	Phenix trademark and others RMB'000	Computer software RMB'000	Total RMB'000
At 1 January 2010				
Cost	397,569	8,605	35,995	442,169
Accumulated amortisation	(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
Amortisation charge (Note 7)	(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 amortisation	(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
Year ended 31 December 2011				
Opening net book amount	**268,782**	**8,032**	**26,047**	**302,861**
Additions	**—**	**—**	**6,418**	**6,418**
Amortisation charge (Note 7)	**(7,697)**	**(215)**	**(12,202)**	**(20,114)**
Exchange difference	**(44)**	**—**	**(10)**	**(54)**
Closing net book amount	**261,041**	**7,817**	**20,253**	**289,111**
At 31 December 2011				
Cost	**397,569**	**8,605**	**56,292**	**462,466**
Accumulated amortisation	**(140,604)**	**(788)**	**(37,064)**	**(178,456)**
Exchange difference	**4,076**	**—**	**1,025**	**5,101**
Net book amount	**261,041**	**7,817**	**20,253**	**289,111**

16 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 amortisation on a straight-line basis over an estimated useful life of 40 years.

Amortisation 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.

17 INTERESTS IN JOINTLY CONTROLLED ENTITIES — GROUP

	2011 RMB'000	2010 RMB'000
At 1 January	19,142	19,442
Share of profits/(losses)	135	(403)
Exchange differences	(368)	103
At 31 December, share of net assets	18,909	19,142

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	
	2011 RMB'000	2010 RMB'000
Total assets	23,395	22,801
Total liabilities	(4,486)	(3,659)

	Year ended 31 December	
	2011 RMB'000	2010 RMB'000
Revenue	23,581	21,412
Gains/(losses) after income tax for the year	135	(403)

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.

17 INTERESTS IN JOINTLY CONTROLLED ENTITIES — GROUP (CONTINUED)

The particulars of the Group's jointly controlled entities as at 31 December 2011 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

18 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 2011				
Available-for-sale financial assets (Note 19)	**973,398**	**—**	**—**	**973,398**
Other financial assets (Note 24)	**—**	**—**	**1,068,255**	**1,068,255**
Trade and other receivables	**—**	**—**	**659,459**	**659,459**
Cash and bank balances including long term bank deposits (Note 25)	**—**	**—**	**3,774,868**	**3,774,868**
	973,398	**—**	**5,502,582**	**6,475,980**
As at 31 December 2010				
Available-for-sale financial assets (Note 19)	213,938	—	—	213,938
Other financial assets (Note 24)	—	251,639	1,270,858	1,522,497
Trade and other receivables	—	—	802,916	802,916
Cash and bank balances including long term bank deposits (Note 25)	—	—	5,027,870	5,027,870
	213,938	251,639	7,101,644	7,567,221

18 FINANCIAL INSTRUMENTS BY CATEGORY — GROUP AND COMPANY (CONTINUED)

	Group Other financial liabilities at amortised cost	
	2011	2010
	RMB'000	RMB'000
Liabilities as per balance sheet		
Trade and other payables (Note 29, 30)	**375,160**	451,092
	375,160	451,092

	Company Loans and receivables	
	2011	2010
	RMB'000	RMB'000
Assets		
Amounts due from subsidiaries (Note 13)	**1,892,647**	1,227,732
Trade and other receivables (Note 23)	**7,937**	7,695
Cash and bank balances including long term bank deposits (Note 25)	**808,940**	1,227,220
	2,709,524	2,462,647

	Other financial liabilities at amortised cost	
	2011	2010
	RMB'000	RMB'000
Liabilities		
Amounts due to subsidiaries (Note 13)	**5,870**	6,908
Accruals and other payables (Note 30)	**3,271**	50
	9,141	6,958

19 AVAILABLE-FOR-SALE FINANCIAL ASSETS — GROUP

	2011 RMB'000	2010 RMB'000
At 1 January	213,938	—
Exchange differences	(12,953)	—
Additions during the year	1,016,375	208,289
Fair value gain transferred (from)/to equity	(5,649)	5,649
Impairment losses (Note (e))	(238,313)	—
At 31 December	973,398	213,938

The available-for-sale financial assets include the following:

	2011 RMB'000	2010 RMB'000
Unlisted equity securities in the PRC		
— MSYH Group (Note (a))	130,000	192,938
— Yunfeng Fund (Note (b))	630,090	—
— CITIC Mezzanine Fund I (Note (c))	150,000	—
— Other investment	21,000	21,000
Listed equity securities in the US		
— Mecox Lane (Note (d))	42,308	—
	973,398	213,938
Market value of listed securities	42,308	—

Notes:

(a) This represents the Group's holding of 22.05% equity interests in Mai Sheng Yue He Sporting Goods Co., Limited ("MSYH") which wholly owns various companies engaging in the distribution and retail of sport-related products in various provinces in the PRC ("MSYH Group"). The Group started the investments in the companies now comprising the MSYH Group in 2009; by then the companies were regarded as associated companies of the Group. Pursuant to a re-organization in August 2010, the Group ceased to have significant influence over the MSYH Group, accordingly, the Group's interests in associated companies were transferred to available-for-sale financial assets in August 2010.

As at 31 December 2011, the fair value of the investment in MSYH Group was estimated to be RMB130,000,000 and a provision of RMB57,289,000 was made. The fair values of investments in MSYH Group as at each balance sheet date are determined with reference to a valuation model based on estimated discounted cash flows.

(b) On 22 September, 2011, through a subsidiary of the Company, the Group entered into subscription and limited partnership agreements with Yunfeng E-commerce funds ("Yunfeng Funds"), pursuant to which the Group subscribed for limited partnership interests with a total capital commitment of USD100,000,000 (equivalent to RMB638,080,000). The Yunfeng Funds are established for the purpose of making investments in Alibaba Group Holding Limited, a leading group in the Chinese e-commerce industry.

As at 31 December 2011, the Group has fully paid the capital commitment of USD100,000,000, and the investment was stated at fair value which was determined to be the same as the cost of investment which is equivalent to RMB630,090,000 (excluding the exchange losses of RMB7,990,000) given the short period of investment which is equivalent to RMB630,090,000 (excluding the exchange losses of RMB7,990,000) and no significant changes in market conditions.

19 AVAILABLE-FOR-SALE FINANCIAL ASSETS — GROUP (CONTINUED)

Notes: (continued)

(c) On 1 September 2011, through a subsidiary of the Company, the Group entered into subscription agreements and limited partnership agreements, pursuant to which the Group subscribed for limited partnership interests with a total capital commitment of RMB300,000,000 in CITIC Mezzanine Fund I. The CITIC Mezzanine Fund I is a limited partnership established for the purpose of making equity and debt investments in the PRC. As at 31 December 2011, the Group has paid RMB150,000,000, being 50% of the capital commitment, and the investment was stated at fair value which was determined to be the same as the cost of investment given the short period of investment and no significant changes in market conditions..

(d) On 2 March 2011, the Group entered into a share purchase agreement with two shareholders of Mecox Lane Limited ("Mecox Lane"), a company listed on NASDAQ in the United States of America ("USA") and engaged in sales of apparel and accessories on online platforms in the PRC. Pursuant to the share purchase agreement, the Group purchased 40,519,225 ordinary shares of Mecox Lane, representing approximately 10% of the issued shares of Mecox Lane, at a price of US$0.8571 per share, totaling USD34,729,000 (equivalent to approximately RMB228,295,000). The Group is subject to a one-year lock-up period, starting from the closing date of the share purchase on 25 March 2011. In addition, the Group has options to purchase up to 18,306,117 ordinary shares of Mecox Lane at an exercise price of USD1.1429 per ordinary share during a two-years period starting from 25 March 2011.

As at 31 December 2011, the investment was stated at fair value of RMB42,308,000 which was determined with reference to the quoted price of the listed shares of Mecox Lane. The decline in fair values of the investment was considered significant, accordingly, the Group recognised a loss of RMB181,024,000 (excluded exchange losses of RMB4,963,000) in respect of provision for impairment of this investment.

(e) Changes in the fair values of the investments are recognised in other comprehensive income while the impairment losses are charged to the income statement. As at 31 December 2011, the declines in relation to the fair value of investments in MSYH and Mecox Lane were considered significant, the Group recognised losses of RMB57,289,000 and RMB181,024,000 for the two investments respectively.

20 DEFERRED INCOME TAX — GROUP

	2011 RMB'000	2010 RMB'000
Deferred tax assets		
— To be recovered after more than 12 months	—	—
— To be recovered within 12 months	112,542	57,448
	112,542	57,448
Deferred tax liabilities		
— To be recovered after more than 12 months	(30,849)	(5,380)
— To be recovered within 12 months	(73)	(73)
	(30,922)	(5,453)

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.

20 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	Provision for impairment of trade receivables RMB'000	Other accrued expenses RMB'000	Total RMB'000
At 1 January 2010	7,695	1,406	—	7,748	16,849
Credited to the income statement (Note 10)	32,755	3,747	—	4,097	40,599
At 31 December 2010	40,450	5,153	—	11,845	57,448
(Charged)/credited to the income statement (Note 10)	(4,776)	49,742	10,000	128	55,094
At 31 December 2011	**35,674**	**54,895**	**10,000**	**11,973**	**112,542**

Deferred tax liabilities:

	Fair value gains RMB'000	Withholding income tax on profit distribution of PRC subsidiaries RMB'000	Others RMB'000	Total RMB'000
At 1 January 2010	(3,152)	—	(916)	(4,068)
Credited/(charged) to the income statement (Note 10)	74	—	(47)	27
Charged directly to equity in relation to fair value change on available for sale financial assets	(1,412)	—	—	(1,412)
At 31 December 2010	(4,490)	—	(963)	(5,453)
Credited/(charged) to the income statement (Note 10)	73	(27,000)	46	(26,881)
Credited directly to equity in relation to fair value change on available for sale financial assets	1,412	—	—	1,412
At 31 December 2011	**(3,005)**	**(27,000)**	**(917)**	**(30,922)**

As at 31 December 2011, deferred income tax assets of RMB113,660,000 (2010: RMB94,359,000) have not been recognised in respect of the tax losses amounting to RMB408,979,000 (2010: RMB325,917,000) which can be carried forward against future taxable income. The tax losses mainly resulted from accumulated operating losses of the subsidiaries of the Group.

20 DEFERRED INCOME TAX — GROUP (CONTINUED)

As at 31 December 2011, deferred income tax liabilities of RMB27,000,000 have been recognised for the withholding tax that would be payable on the unremitted earnings for the year ended 31 December 2011 of a PRC subsidiary. As at 31 December 2010, deferred income tax liabilities of RMB173,364,000 have not been recognised for the withholding tax that would be payable on the unremitted earnings, totaling RMB3,467,278,000 of certain subsidiaries in the PRC. The Group determined that no deferred withholding tax liabilities shall be recognised as the Group has no plan to distribute such profits in the foreseeable future.

21 INVENTORIES — GROUP

	2011 **RMB'000**	2010 RMB'000
Finished goods		
— Carried at cost	**139,328**	186,761
— Carried at net realizable value	**237,546**	47,946
Raw materials and others		
— Carried at cost	**26,103**	19,205
— Carried at net realizable value	**679**	1,790
	403,656	255,702

The cost of inventories recognised as cost of goods sold and distribution costs amounted to approximately RMB1,215,093,000 (2010: RMB1,671,160,000) (Note 7) for the year ended 31 December 2011.

In the recent years, the sports goods industry in China has been facing a new series of challenges, including intensifying competition and excessive inventory. The Group has taken steps to address the problem of accumulation of inventory faced by the distributors by adjusting the Group's product offerings and reducing the distributors' volume of sales orders. With the aim to building a stronger distributor network and after reviewing the financial position and the inventory level of its distributors in June 2011, on top of the inventories re-purchase in 2010, the Group made an one-time voluntary offer to its distributors and re-purchased slow-moving inventory of the distributors at the original cost of which the Group had sold to such distributors.

Due to the inventory re-purchase plan, the China segment revenue for the whole year ended 31 December 2011 reduced by RMB592,818,000, and the Group incurred a loss from provision for impairment of inventory of RMB215,878,000 (2010: RMB13,844,000) (Note 7) for the year ended 31 December 2011. The amount of provision for impairment of investories has been disclosed in the consolidated income statement.

22 TRADE RECEIVABLES — GROUP

	2011 RMB'000	2010 RMB'000
Trade receivables		
— Third parties	416,926	524,461
— Related parties (Note 35(b))	188,724	188,816
	605,650	713,277
Less: provision for impairment	(58,029)	(18,769)
Trade receivables, net	547,621	694,508

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 2011 and 2010 was as follows:

	2011 RMB'000	2010 RMB'000
Current	290,345	571,110
Within 30 days	154,226	116,985
31 to 120 days	147,989	24,880
Over 120 days	13,090	302
	605,650	713,277

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 2011, trade receivables of RMB315,305,000 (2010: RMB142,167,000) were past due, of which RMB58,029,000 (2010: RMB18,769,000) 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:

	2011 RMB'000	2010 RMB'000
At 1 January	18,769	15,722
Provision for impairment losses of receivables	38,833	1,867
Exchange difference	427	1,180
At 31 December	58,029	18,769

23 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES — GROUP AND COMPANY

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current portion:				
Advance payments to suppliers	**17,073**	29,182	**—**	—
Interest receivables	**27,890**	37,550	**1,348**	4,377
Deposits for operating leases	**21,229**	7,277	**—**	—
Other receivables	**34,146**	20,339	**6,589**	3,318
	100,338	94,348	**7,937**	7,695
Non-current portion:				
Loans granted to the MSYH Group (Note 35(b))	**18,723**	19,229	**—**	—
Deposits for operating leases	**14,983**	26,168	**—**	—
	33,706	45,397	**—**	—

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.

24 OTHER FINANCIAL ASSETS — GROUP

	2011	2010
	RMB'000	RMB'000
Held-to-maturity financial assets		
— State treasury bonds	**—**	251,639
Loans and receivables		
— Treasury products issued by commercial banks	**1,068,255**	1,270,858
Total of other financial assets	**1,068,255**	1,522,497
Less: non-current portion	**—**	(153,211)
Other financial assets — current portion	**1,068,255**	1,369,286

The Group 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 2.79 % to 5.7% (2010: 2.25% to 4%) per annum, denominated in RMB and with maturity periods from one to two years.

25 CASH AND BANK BALANCES — GROUP AND COMPANY

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Long term bank deposit — maturity within one year	**—**	150,000	**—**	—
Restricted bank deposits	**136,578**	36,107	**2,521**	2,649
Term deposits with initial terms over three months and within one year	**2,915,408**	4,192,741	**468,117**	1,191,610
Cash and cash equivalents	**722,882**	649,022	**338,302**	32,961
	3,774,868	5,027,870	**808,940**	1,227,220

The restricted bank deposits as at 31 December 2011 comprised deposits held in bank accounts for advertising fees payable and for issue of letters of credit for certain subsidiaries of the Group. As at 31 December 2011, the average interest rate on the restricted bank deposits was 0.21% (2010: 0.68%) per annum.

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

As at 31 December 2011 and 2010, the cash and bank balances were denominated in the following currencies:

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**2,877,308**	3,220,903	**335,064**	—
USD	**337,467**	1,120,128	**310,789**	937,530
HKD	**475,741**	613,679	**163,087**	289,690
JPY	**83,685**	72,610	**—**	—
Others	**667**	550	**—**	—
	3,774,868	5,027,870	**808,940**	1,227,220

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.

26 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 2011 and 2010	10,000,000,000	100,000

	Issued and fully paid				
	Number of issued ordinary shares of par value HKD0.01	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 2010	5,666,401,000	56,665	54,810	4,094,339	4,149,149
Dividends paid	—	—	—	(1,205,243)	(1,205,243)
Shares purchased for Restricted Share Award Scheme (Note 27 (b))	(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				2,336,055	
Proposed final dividend and final special dividend (Note 32)				553,041	
				2,889,096	
At 1 January 2011	**5,636,401,000**	**56,665**	**54,810**	**2,889,096**	**2,943,906**
Shares repurchased and cancelled (Note (a))	**(30,000,000)**	**(300)**	**(248)**	**(42,969)**	**(43,217)**
Dividends paid (Note 32)	**—**	**—**	**—**	**(710,567)**	**(710,567)**
At 31 December 2011	**5,606,401,000**	**56,365**	**54,562**	**2,135,560**	**2,190,122**
Represented by:					
Share capital and premium				**2,135,560**	
Proposed final dividend and final special dividend (Note 32)				**—**	
				2,135,560	

26 SHARE CAPITAL AND SHARE PREMIUM ACCOUNT — GROUP AND COMPANY (CONTINUED)

Notes:

(a) During the year ended 31 December 2011, the Company repurchased a total of 30,000,000 its own shares listed on the Main Board of the Stock Exchange of Hong Kong Limited. These repurchased shares were cancelled upon repurchase and, accordingly, the issued share capital of the Company was reduced by the nominal value of these shares. The premium paid on repurchase was deducted from the share premium account. The details of the shares repurchased are as follows:

Date of repurchase	Number of shares of HKD0.01 each	Price per share Highest HKD	Price per share Lowest HKD	Aggregate consideration paid HKD'000	Equivalent aggregate consideration paid RMB'000
11 July 2011	20,000,000	1.79	1.71	35,083	29,080
20 July 2011	10,000,000	1.71	1.68	17,054	14,137
	30,000,000			52,137	43,217

(b) 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.

27 SHARE BASED COMPENSATION SCHEMES

(a) 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 executive director and chief executive officer of the Group. The share options were canceled as Ms. Zerbib resigned on 20 October 2011 and the amortisation expense related to the un-vested option amounting to RMB233,000 was reversed.

27 SHARE BASED COMPENSATION SCHEMES (CONTINUED)

(a) Share Option Scheme (continued)

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2011		2010	
	Average exercise price in HK$ per share	**Options (thousands)**	Average exercise price in HK$ per share	Options (thousands)
At 1 January	**4.12**	**3,000**	—	—
Granted	—	—	4.12	3,000
Cancellation	—	**(3,000)**	—	—
At 31 December	—	—	4.12	3,000

(b) Restricted Share Award Scheme

The Company adopted the Restricted Share Award Scheme (Note 2.21(b)) 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. No further purchase of shares of the Company has been made since December 2010. The total amount of RMB87,138,000 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 2011 (2010: nil).

28 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 2010	295,001	—	15,958	(382,411)	—	—	3,276,507	3,205,055
Profit for the year	—	—	—	—	—	—	1,463,692	1,463,692
Change in fair value of available-for-sale financial assets (Note 19)	—	—	—	—	4,237	—	—	4,237
Foreign currency translation reserve (Note (b))	—	—	—	(16,350)	—	—	—	(16,350)
Shares purchased for Restricted Share Award Scheme (Note 27(b))	—	—	—	—	—	(87,138)	—	(87,138)
Share-based compensation (Note 27(a))	—	1,575	—	—	—	—	—	1,575
Appropriation to statutory reserves (Note (c))	—	—	60	—	—	—	(60)	—
At 31 December 2010	295,001	1,575	16,018	(398,761)	4,237	(87,138)	4,740,139	4,571,071
At 1 January 2011	**295,001**	**1,575**	**16,018**	**(398,761)**	**4,237**	**(87,138)**	**4,740,139**	**4,571,071**
Profit for the year	**—**	**—**	**—**	**—**	**—**	**—**	**102,186**	**102,186**
Change in fair value of available-for-sale financial assets (Note 19)	**—**	**—**	**—**	**—**	**(4,237)**	**—**	**—**	**(4,237)**
Foreign currency translation reserve (Note (b))	**—**	**—**	**—**	**(67,480)**	**—**	**—**	**—**	**(67,480)**
Share-based compensation (Note 27(a))	**—**	**(233)**	**—**	**—**	**—**	**—**	**—**	**(233)**
Dividends relating to the shares held for Restricted share Award Scheme (Note 27(b))	**—**	**—**	**—**	**—**	**—**	**3,743**	**—**	**3,743**
Appropriation to statutory reserves (Note (c))	**—**	**—**	**1,765**	**—**	**—**	**—**	**(1,765)**	**—**
At 31 December 2011	**295,001**	**1,342**	**17,783**	**(466,241)**	**—**	**(83,395)**	**4,840,560**	**4,605,050**

28 RESERVES — GROUP AND COMPANY (CONTINUED)

	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 2010	10,052,372	—	(415,772)	182,950	9,819,550
Loss for the year (Note 12)	—	—	—	(5,746)	(5,746)
Foreign currency translation reserve (Note (b))	—	—	(74,361)	—	(74,361)
Share-based compensation (Note 27(a))	—	1,575	—	—	1,575
At 31 December 2010	10,052,372	1,575	(490,133)	177,204	9,741,018
At 1 January 2011	**10,052,372**	**1,575**	**(490,133)**	**177,204**	**9,741,018**
Profit for the year (Note 12)	**—**	**—**	**—**	**1,120,238**	**1,120,238**
Foreign currency translation reserve (Note (b))	**—**	**—**	**(121,760)**	**—**	**(121,760)**
Share-based compensation (Note 27(a))	**—**	**(233)**	**—**	**—**	**(233)**
At 31 December 2011	**10,052,372**	**1,342**	**(611,893)**	**1,297,442**	**10,739,263**

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 reorganization 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.

29 TRADE PAYABLES — GROUP

The ageing analysis of trade payables as at 31 December 2011 and 2010 was as follows:

	2011 RMB'000	2010 RMB'000
Current	**267,291**	367,251
Within 30 days	**4,599**	670
31 to 120 days	**3,770**	178
Over 120 days	**74**	854
	275,734	368,953

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.

30 ACCRUALS AND OTHER PAYABLES — GROUP AND COMPANY

	Group		Company	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Advance receipts from customers	**144,179**	55,820	**—**	—
Salary and welfare payable	**64,303**	66,803	**—**	—
Other taxes and levies payable	**1,464**	30,864	**—**	—
Accruals and other payables	**99,426**	82,139	**3,271**	50
	309,372	235,626	**3,271**	50

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

31 PROVISIONS — GROUP

	2011 RMB'000	2010 RMB'000
China Segment	—	155,143
Japan Segment	27,184	33,383
At 31 December	27,184	188,526

The provision for the China segment represents provision for the re-purchase of inventories.

The provision for Japan segment represents provision for sales returns and sales discount.

The movements in provisions for the year were as follows:

	2011 RMB'000	2010 RMB'000
At 1 January	188,526	37,561
Utilisation	(198,676)	(41,840)
Provision	37,334	192,805
At 31 December	27,184	188,526

32 DIVIDENDS

	2011 RMB'000	2010 RMB'000
Interim dividend paid of RMB1.19 cents (2010: 4.16 cents) per share	**67,430**	235,722
Interim special dividend paid of RMB1.59 cents (2010: 4.16 cents) per share	**90,096**	235,722
No proposed final dividend for 2011 (2010: 3.59 cent per share)	**—**	203,424
No proposed final special dividend for 2011 (2010: 6.17 cent per share)	**—**	349,617
	157,526	1,024,485

The dividends paid in 2011 amounted to RMB710,567,000 or RMB12.54 cents per share (2010: RMB1,205,243,000, or RMB21.27 cents per share), comprising 2010 final dividends of RMB553,041,000 (2010: 2009 final dividends of RMB733,799,000) and 2011 interim dividends of RMB157,526,000 (2010: 2010 interim dividends of RMB471,444,000). The dividends of RMB3,743,000 were paid to the share held for Restricted Share Award Scheme (Note 27(b)).

Pursuant to a resolution passed on 27 March 2012, the board of directors of the Company does not propose a final dividend for the year ended 31 December 2011.

The aggregate amounts of the dividends paid during 2011 and 2010 have been disclosed in the consolidated income statement in accordance with the Hong Kong Companies Ordinance.

33 CASH GENERATED FROM OPERATIONS

	2011 RMB'000	2010 RMB'000
Profit before income tax for the year	**228,078**	1,837,439
Adjustments for:		
— Depreciation of property, plant and equipment (Note 14)	**18,424**	14,743
— Loss on disposal of property, plant and equipment	**11,239**	1,318
— Reversal of impairment losses of property, plant and equipment (Note 14)	**—**	(45)
— Amortisation of lease prepayments (Note 15)	**16,338**	43,125
— Amortisation of intangible assets (Note 16)	**20,114**	18,322
— Provision for impairment losses of inventories (Note 21)	**215,878**	13,844
— Provision for impairment losses of trade and other receivables (Note 7)	**38,833**	1,867
— Provision for financial assets (Note 19)	**238,313**	—
— Income from financial assets and liabilities	**(44,383)**	(32,224)
— Share of results of jointly controlled entities and associated companies	**(135)**	(2,249)
— Interest income from bank deposits (Note 9)	**(88,864)**	(84,243)
— Foreign exchange (gains)/losses, net (Note 9)	**(970)**	16,621
	652,865	1,828,563
Changes in working capital:		
— Inventories	**(363,832)**	(46,265)
— Trade receivables, prepayments, deposits and other receivables	**101,657**	(340,313)
— Trade payables, provisions, accruals and other payables	**(160,387)**	305,659
— Restricted bank balances	**(100,472)**	1,241
Cash generated from operations	**129,831**	1,748,885

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

	2011 RMB'000	2010 RMB'000
Net book amount (Note 14)	**11,500**	1,451
Loss on disposal of property, plant and equipment	**(11,239)**	(1,318)
Proceeds from disposal of property, plant and equipment	**261**	133

34 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:

	2011	2010
	RMB'000	RMB'000
No later than 1 year	**44,716**	65,359
Later than 1 year and no later than 5 years	**24,607**	45,880
	69,323	111,239

(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:

	2011	2010
	RMB'000	RMB'000
No later than 1 year	**—**	6,156
Later than 1 year and no later than 5 years	**—**	1,896
	—	8,052

(c) Capital commitments

	2011	2010
	RMB'000	RMB'000
Contracted but not provided for		
— For purchase or property, plant and equipment	**—**	8,356
— For investment in CITIC Mezzanine Fund I (Note 19(c))	**150,000**	—

34 COMMITMENTS (CONTINUED)

(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:

	2011 **RMB'000**	2010 RMB'000
No later than 1 year	**21,418**	23,488
Later than 1 year and no later than 5 years	**45,915**	57,404
Over 5 years	**5,555**	17,552
	72,888	98,444

The Company did not have significant commitments as at 31 December 2011 and 2010.

35 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, Executive director and the Chief Executive Officer of the Company. Therefore, close family members of Mr. Chen Yihong and parties that are controlled, jointly controlled or significantly influenced by Mr. Chen Yihong's close family members are considered to be related parties of the Company as well.

35 RELATED PARTY TRANSACTIONS (CONTINUED)

During the years ended and as at 31 December 2011 and 2010, the Group had the following transactions and balances with related parties:

(a) Transactions with related parties

	2011 RMB'000	2010 RMB'000
Sales of goods:		
— Associated companies of the Group	—	888,812
— The MSYH Group (Note 19(a))	**946,153**	520,661
	946,153	1,409,473
Purchase of goods:		
— Jointly controlled entities of the Group	**56,454**	35,659
Lease income of flagship stores		
— Associated Companies of the Group	—	7,464
— The MSYH Group	**4,458**	5,449
	4,458	12,913
Loan (repaid by)/granted to:		
— The MSYH Group	**(506)**	19,229

35 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Balances with related parties

	2011 **RMB'000**	2010 RMB'000
Trade receivables (Note 22):		
— The MSYH Group	**188,724**	188,816
Other receivables (Note 23):		
— The MSYH Group	**18,723**	22,047
Trade payables		
— Jointly controlled entities of the Group	**5,554**	3,600

(c) Key management compensation

	2011 **RMB'000**	2010 RMB'000
Salaries, bonus and other welfares	**22,461**	16,274
Pension — defined contribution plans	**123**	135
	22,584	16,409

Notes:

(i) Mr. Chen Yihong's brother is one of the directors of the MSYH Group and is regarded as having significant influence over the MSYH Group. As the Company is controlled by Mr. Chen Yihong, the MSYH 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 MSYH 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.

36 PARTICULARS OF PRINCIPAL SUBSIDIARIES

As at 31 December 2011, 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) Cooperative U.A.	Netherlands	EUR755,738	100%	Investment holding, Netherlands
光景集團有限公司 Brilliant King Group Ltd	British Virgin Island	USD1	100%	Investment holdings, British Virgin Island
明泰企業有限公司 Bright Pacific Enterprises Limited	British Virgin Island	USD1	100%	Investment holdings, British Virgin Island
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 Gabbana 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	RMB50,418,451	100%	Design and consulting services, PRC

36 PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Company name	Place of incorporation	Particulars of issued/ registered capital	Interest held	Principal activities and place of operation
Indirectly held: (continued)				
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
北京中翼鳳凰體育用品有限公司 Beijing Wing in Phenix Sports Goods Co., Limited	Beijing, PRC	RMB5,000,000	80%	Design, production and sales of sport-related footwear, apparel and accessories, PRC
北京信達伯潤商貿有限公司 Beijing Xindaborun Goods Trading Co., Ltd.	Beijing, PRC	RMB5,000,00	100%	Sales of sport-related goods and others, PRC
北京達尼亞體育發展有限公司 Beijing Dagnas Sports Development Co Ltd	Beijing, PRC	RMB10,000,000	100%	Design, production and sales of sport-related footwear, apparel and accessories, PRC
北京快樂運動體育用品有限公司 Beijing Happy Sporting Goods Co. Ltd.	Beijing, PRC	RMB3,000,000	100%	Retail sales of sports-related products, apparel and accessories, imports and exports, PRC

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