DONGXIANG

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 2013


Kappa

CONTENTS


VISION
MISSION
Kappa

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


Kappa


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Corporate Information

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

Independent Non-Executive Directors
Mr. Gao Yu
Dr. Xiang Bing
Mr. Xu Yudi

Auditor
PricewaterhouseCoopers
Certified Public Accountants

Legal Advisers
Norton Rose Hong Kong
Conyers Dill & Pearman
Hylands Law Firm

Authorised Representatives
Mr. Gao Yu
Ms. Wai Pui Man

Company Secretary
Ms. Wai Pui Man

Principal Share Registrar and Transfer Office
Royal Bank of Canada Trust Company
(Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
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
China Citic Bank
China Merchants Bank
The Hongkong and Shanghai Banking
Corporation Limited

Website
www.dxsport.com


Kappa

Five-year financial highlights

(All amounts in Renminbi million unless otherwise stated)

	Note	Year ended 31 December				
		2013	2012	2011	2010	2009
Sales		**1,414**	1,772	2,742	4,262	3,970
Operating profit		**84**	89	99	1,741	1,697
Profit before income tax		**275**	271	228	1,837	1,796
Profit attributable to equity holders		**210**	177	102	1,464	1,460
Non-current assets		**3,747**	1,565	1,557	950	838
Current assets		**5,221**	5,764	5,895	7,442	7,073
Current liabilities		**311**	360	621	872	552
Net current assets		**4,910**	5,404	5,274	6,570	6,521
Total assets		**8,968**	7,329	7,452	8,392	7,911
Total assets less current liabilities		**8,657**	6,969	6,831	7,521	7,360
Equity holders' equity		**8,609**	6,923	6,795	7,515	7,354
Gross profit margin (%)		**48.2**	47.5	55.0	59.7	60.4
Net profit margin (%)		**14.9**	10.0	3.7	34.3	36.8
Earnings per share						
— basic (RMB cents)		**3.82**	3.19	1.82	25.83	25.76
— diluted (RMB cents)		**3.82**	3.19	1.82	25.82	25.76
Total assets per share (RMB cents)	1	**162.80**	132.33	132.92	148.11	139.63
Debt to equity holders' equity ratio	2	**0.04**	0.06	0.10	0.12	0.08

Notes:

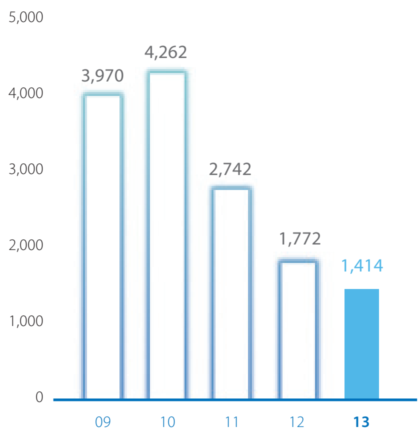
(1) The number of ordinary shares used in the calculation for the year ended 31 December 2013, 2012, 2011, 2010, and 2009 are 5,508,643,000 shares, 5,538,588,000 shares, 5,623,497,000 shares, 5,666,053,000 shares and 5,666,066,000 shares, which were the weighted average number of shares for the years.

(2) 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.

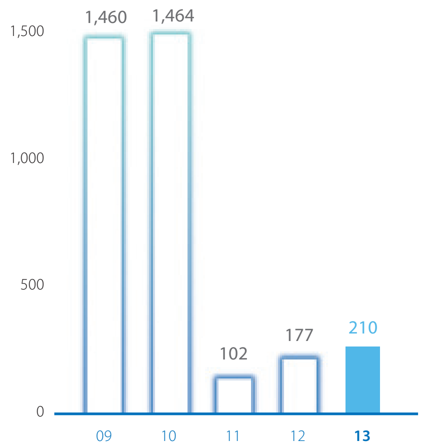
FIVE-YEAR FINANCIAL HIGHLIGHTS

(All amounts in Renminbi million unless otherwise stated)

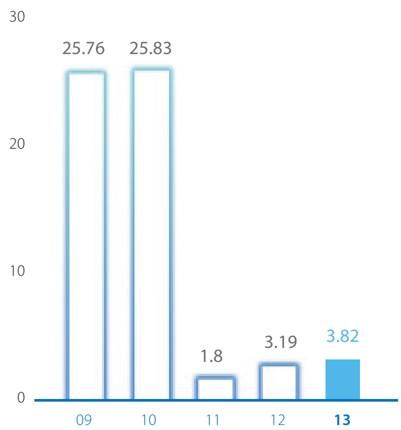
SALES



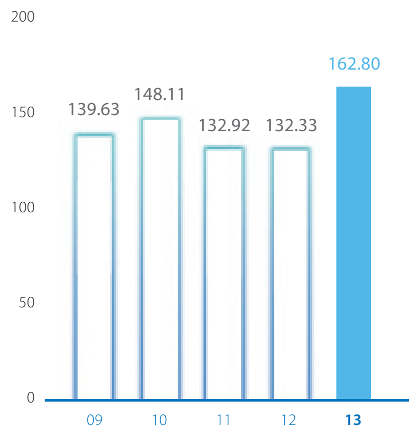
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS



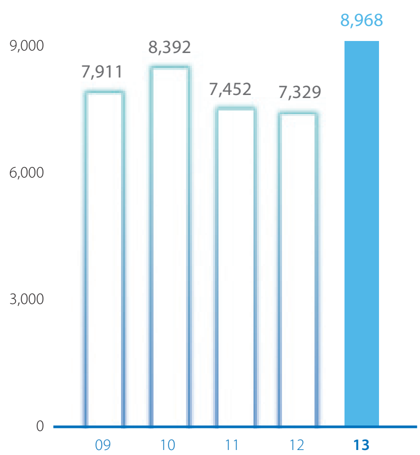
EARNINGS PER SHARE — BASIC (RMB CENTS)



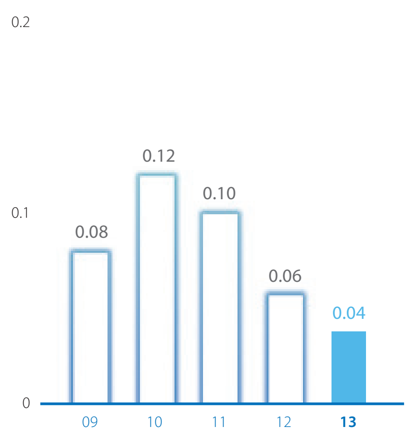
TOTAL ASSETS PER SHARE (RMB CENTS)



TOTAL ASSETS



DEBT TO EQUITY HOLDERS' EQUITY RATIO (TIMES)




Kappa


KAPPA
ITALIA1916
KAPPA ITALIA

Chairman's statement

Dear Shareholders,

In 2013, we experienced a warm winter all across China, from North to South, which was an extremely rare phenomenon in our country. For the sporting goods industry, though, the ongoing austere conditions have yet to come to an end. In a nutshell, conditions in the sporting goods industry during the past year were volatile and challenging. While general destocking and closedown of outlets and different levels of setback in business results were plain for all to see, more complicated and thorny "new" issues, such as drastic changes in the distribution channels, disorderly market competition, and the upgrade of consumers' tastes and habits, were taking place at a more subtle level.

Against such a backdrop, the Group reported a 18.6% year-on-year growth in net profit attributable to equity holders for the 12 months ended 31 December 2013 to RMB210 million. Basic earnings per share improved 19.7%, year-on-year, to RMB3.82 cents. As at 31 December 2013, cash and bank balance and treasury products amounted to RMB4,648 million, providing the financial conditions and flexibility required for the implementation of strategic measures for long-term development. In line with the Group's usual dividend policy, we have proposed to distribute 30% of the net profit attributable to equity holders for the year ended 31 December 2013 as final dividend. In view of the sound financial position of the Group, the Board of Directors has further proposed to distribute 40% of the net profit attributable to equity holders for the year ended 31 December 2013 as special dividend. Therefore, the overall dividend payout ratio for the year ended 31 December 2013 is 70%.

In view of the baffling changes, which sometimes represented radical or revolutionary transformation, taking place in the past year, the customary mindset from the past is no longer valid. New issues and challenges require to be solved by new ideas and approaches. As China Dongxiang welcomed its 12th year in operation, we had been thinking and investigating how an "old" enterprise could embrace changes and gleam with a youthful vigor that would remain fresh and grow in sophistication as the years go by. With that thinking in mind, China Dongxiang implemented the following important measures in 2013.

In terms of sales channels, we have evolved from a system comprising authorised dealers only to a mixture of "self-owned retail stores + dealership + franchise chain." These three formats were effectively combined according to the characteristics and needs of different regions for maximum market development, better business control and the building of a solid and sound network. In 2013, the Group established 7 subsidiaries operating self-owned retail stores to bring the total number of self-owned outlets to 272 supported by close to 800 staff. These outlets have made sizeable contributions in terms of business revenue, market development and brand image. From a strategic point of view, this crucial step will have profound significance for the future transformation and development of the Group. Leveraging its diversified portfolio of sales channels, the Group further reduced and optimised its inventory in 2013 to

CHAIRMAN'S STATEMENT

dispose of off-season inventory with a total worth of over RMB1 billion in terms of tag price. The Group did not neglect the protection of its brand image and the ongoing development of new channels in the course of destocking, which substantially alleviated the pressure on future operations.

We are convinced that products always speak the loudest in corporate marketing. As a label in sports fashion, the needs of end-users have always represented a primary concern for us, who are committed to innovation and ongoing improvement and for which mediocrity and inflexibility are not an option. Instead, we strive to provide to consumers products with character and unique styles. The "Kappa KOMBAT" series, including new product lines such as KOMBAT hoodie and KOMBAT down feather jackets in addition to the popular KOMBAT pants, was met with enthusiastic market response and recognition upon its official launch in 2013.

In terms of brand promotion, we launched publicity campaigns in sophisticated style, but not necessarily massive scale. The "LOVE•KOMBAT" product launch presentation for the "KOMBAT" series held in 2013, for example, showcased Kappa as a subtle brand with exceptional style by cleverly combining the impact of the media, celebrities, designers, distributors and consumers. In the meantime, through various forms of cooperation with different media groups such as Trends Media Group, Mahua Funage Play, Music Radio and CCTV5, we succeeded in effectively marketing the brand in a fashionable manner and with precision to impart in consumers a more distinctive, affable and characteristic image for Kappa.

The strategy of "Brand + Retail" can only be successful if rolled out on all fronts in an integrated and well-balanced manner. In 2013, the Group's supply chain and logistics systems were substantially upgraded and optimised. The rolling order system of the supply chain, the incorporation of technologies from Japan, as well as B2C-based fast logistical distribution, have afforded strong support for front-desk business development.

If the aforesaid represent a somewhat staggering move in our new beginnings, major strides forward by China Dongxiang should be expected in 2014 on the road to reform. We will continue to develop the business setup of "self-owned retail + dealership + franchise chain" in greater depth, striving to restore our channel network to a more healthy and efficient state sooner. We will also seek to respond to the high expectations from customers and consumers for Kappa as a sporting fashion by offering products with a greater design tone and fashion sense. Meanwhile, we will increase efforts in the development of our brand image, supply chain system, logistics system and e-commerce platform.

On behalf of China Dongxiang Group, I would like to take this opportunity to express sincere appreciation to our shareholders and partners for their longstanding trust and support. "Every present state of a simple substance is naturally a consequence of its preceding state, so its present is pregnant with its future," says Leibniz the great philosopher. We firmly believe that, with constant reflections, swift actions and the boldness to reform, there is no doubt that China Dongxiang, which has delivered illustrious track records in the past, will develop a path with broad prospects that remains fresh and grows in sophistication as the years go by.

Chen Yihong
Chairman

18 March 2014

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.

BRAND PORTFOLIO

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

Phenix

- A top international ski brand with great emphasis on functional performance and fashionable style of equipment through excellence in every detail
- Its simple design yet eye-catching design represents a perfect blend of function and fashion
- It reflects detail-attentive peculiar styles of Japanese designers, and their R&D philosophy of positively absorbing the design features of other products and industries
- An outdoor product line that featured the fusion of fashion and functionality was officially launched in 2011

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

X-NIX

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

inhabitant

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

Management discussion and analysis

MACROECONOMIC REVIEW

Under the ongoing impact of the international financial crisis, global economic recovery in 2013 was mild and uneven among nations, as real GDP growth remained below the average level of 4% reported for the decade prior to the financial crisis. In 2013, major central banks in the world continued to follow an accommodative monetary policy with short-term interest-rate levels approaching zero. The European Central Bank continued to lower interest rates by large margins, while the U.S. Federal Reserve Board purchased Treasuries and mortgage bonds on an ongoing basis. Elsewhere, the Bank of Japan started quantitative easing at the beginning of the year, resulting in the decrease in real income and a weaker Yen.

In 2013, the Chinese economy reported growth amidst general stability. In the latter half of the year, the fundamental objective of government policies was tilted towards growth following various government meetings. Measures were adopted to support small enterprises, accelerate investments in railway, provide assistance to the export sector, delegate administrative approval authority, encourage use of idle funds and relax financing restrictions for property developers, etc, to counter the risk of unduly economic regression. As at the end of the second quarter, aggregate financing in the Chinese economy had reversed to growth, while financial expenditure rebounded significantly. GDP grew by 7.8% during the third quarter, driven mainly by investments which contributed close to 56%. The fourth quarter saw continued growth with rising retail and property prices in the wake of massive capital influx into China. Nevertheless, China is undergoing a crucial period of economic transformation, where the foundation for economic recovery has yet to be further strengthened, pending resolution of deep-lying issues accumulating over prolonged periods.

INDUSTRY REVIEW

Domestic consumption remained sluggish in 2013, as the growth in total retail sales of consumer goods for the year slowed down by 1.2 percentage points compared to the previous year. 2013 has also been a year of opportunities as well as challenges for the sporting goods industry. Under the double impact of lacklustre sentiments in the retail market and fierce competition with e-commerce, traditional brand operators were facing cutbacks to various extents in terms of sales, profit and the size of their retail networks, while physical sales channels continued to dwindle.

The thriving development of the Internet, and the Mobile Internet in particular, has brought about fundamental changes to human life in terms of lifestyle, consumption pattern and mindset. Leveraging advantages in cost, easy application and product offerings, e-commerce players in China have been growing at lightning speed. The rapid rise of e-commerce has dealt a heavy blow to traditional marketing channels in the industry. Brand operators have begun to turn to e-commerce by gradually integrating online and offline resources on the back of their strengths in supply chain and operations. With the rising costs of distribution and circulation, the cost advantage of online goods will be undermined hampered, while traditional brands that have resorted to Internet sales will remain in an advantageous position.

In the age of Internet, the sportswear industry will return to the basics, that is, the very nature of business activities: enhancing consumers' experience by focusing on what they want. Currently, the domestic sportswear industry is undergoing a crucial stage of transformation and evolution. Against a larger backdrop where opportunities as well as challenges exist, traditional brand operators have no choice but persist in developing both online and offline businesses in a synergised manner to optimize distribution of sales channels, build brands, design new products, enhance control and management as well as operating capability effectively, in order to remain sustainable and competitive in the market.

BUSINESS REVIEW

In 2013, the Group continued to adopt prudent business strategies in persistent implementation of its objectives and directions for reform to lay a strong foundation for business development.

MANAGEMENT DISCUSSION AND ANALYSIS

2013 Music Radio for Schooling — Charitable Schooling Assistance Campaign

"LOVE•KOMBAT" product launch presentation

Brand Building and Marketing

PRC — Kappa brand

During the period under review, the Kappa brand in China closely followed popular trends and delivered an excellent performance in creating online hypes, launching non-Internet marketing programmes and media integration.

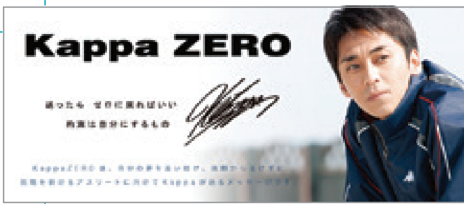
In view of the dominance of social networking platforms, Kappa continued to use brand marketing via emerging channels such as Weibo and WeChat. Through mix and match recommendations, promotional information, pictures of our branded apparels and interactions with celebrities in the industry posted on these platforms, our brand image has been enhanced with increased exposure to our target customer groups. We succeeded in making inroads with new media terminals, with advertisements on the customer-end of the CCTV5 Apps for smart phones effectively reaching our targeted groups.

On 20 December 2013, a "LOVE•KOMBAT" product launch presentation was held, as the Kappa China team drew on the strengths of their best designers to unveil new items in the "KOMBAT" series as the star products for the Spring and Summer seasons of 2014. While the KOMBAT designers explained the concepts and unique features of the new additions to the series, which included K-tops, pants and suits, artists including Daniel Chan and Wang Li Kun were invited to give a lively showcase of the flair and dynamism of the KOMBAT series, ensuring a vivid, visual experience of the brand new Kappa products for all attending guests.

In terms of corporate social responsibility, Kappa participated as a sponsor for the "2013 Music Radio for Schooling — Charitable Schooling Assistance Campaign" (2013 Music Radio 我要上學・回家助學行動) jointly organised by China National Radio and China Children and Teenagers' Fund during the latter half of the year. Through a range of activities including charity visits, show tours, Kappa Store Manager for the Day, charity golf tournament and charity gala shows, etc, celebrities were invited to participate in providing charity donations and encouragement to children in rural areas in west China, resulting in positive exposure for Kappa which has enhanced its brand reputation among consumers.

Meanwhile, Kappa continued to enhance its close cooperation with lifestyle and sports media, ensuring accurate and effective promotion of its products to increase brand exposure. Magazines we have cooperated with included: Fashion Cosmo, SoCool, Trends Health for Women, China Fashion Weekly, Harper's Bazaar, Woman's Day, LifeStyle Star, Good Housekeeping, Bazaar Men's Style, Golf Travel, Sports Vision, Fashion Weekly, Trends Health, and etc. Sound marketing effects were generated from such extensive media coverage with specific targets.

MANAGEMENT DISCUSSION AND ANALYSIS



Famous Japanese motorist Katsuyuki Mori as Kappa Japan's brand ambassador

Shiho Oyama, famous lady golfer sponsored by Japan Kappa Golf

PRC — RDK brand

RDK continued to be positioned as a mid-to-high market brand designed offering alternatives to the new middle class who longed for self-expression. Against fast-moving time and ever-changing trends, RDK is not unlike a dancer with mastery in the art of balance, striking balance between polish and texture, grayscale and colour, wool and fine nylon to interpret fashion that befits the new middle class.

In connection with marketing, RDK enhanced interaction with consumers on the Internet to address its target customer group of avant-garde and trendy individuals. The RDK philosophy and other product information are communicated in a timely manner through social networking platforms such as Weibo and WeChat, as well as popular online stores such as Tmall and shangpin.com. In the meantime, RDK also enhanced promotion at retail stores for greater exposure to consumers. In particular, joint efforts with shopping malls were pursued during festivities to increase brand recognition and reception. During CHIC (China International Clothing and Accessories Fair), the RDK team was vigorously involved in the section entitled CHIC-YOUNGBLOOD, drawing the attention of trendy design houses and art and culture groups. The label enjoyed positive exposure and its brand influence was substantially increased as a result.

Japan — Kappa brand

During 2013, the Kappa Japan team opted for the celebrity approach in marketing and appointed famous Japanese motorist Katsuyuki Mori as its brand ambassador and star footballer Ogasawara Mitsuo as spokesperson for its soccer shoe line. Meanwhile, the victories of Shiho Oyama, famous lady golfer sponsored by Kappa Golf, at the finals of LPGA 2013 and the "LPGA Tour Championship RiCO Cup" also generated positive media exposure for the Kappa Golf brand. The strategy of celebrity effect has greatly enhanced Kappa's popularity in Japan.

In terms of product marketing, our brand presence has been further enhanced with closer encounters with consumers through interactive activities on the Kappa Golf webpage on Facebook, the U.S. social networking platform. Based on their respective characteristics, Kappa launched separate promotions of its general training products and Golf products in various magazines, such as "PREPPY," "ALBA," "Sakka Nihon," "LEON," "GOLF LEON," "Samura Kicks," "Number," "Tarzan," "World Soccer Digest" and etc. More consumers have been following us as a result of our extensive promotional efforts.


ROBE DI KAPPA


phenix

MANAGEMENT DISCUSSION AND ANALYSIS

Japan — Phenix brand

As the most followed outdoor brand of Japan, Phenix focused its marketing efforts more on daily-life aspects, with a view to broadening the scope of brand followers. Such efforts included vigorous promotional campaigns that advertised the products in popular magazines such as "Gakujin," "BEPAL," "GoOut," "Soto," "The Day," "Out Standing," "Hunt" and "Peaks." Save as the professional, functional qualities being emphasised, the mix and match of the brand's fashionable offerings was also demonstrated, with the aim of providing a new visual experience for the target consumer group of professionals.

Innovations in Product Design, Research and Development

Kappa KOMBAT

The KOMBAT series was Kappa's classic product range in the 1980s for the combination of sporting functionality and fashionable design. It marked the success of Kappa in transforming from a leisure label to a sports brand. Today, the reincarnated KOMBAT series continue to draw inspirations from its predecessor, preserving the sporting functions while adding designs of the latest fashion. Sportswear is presented as fashion, a combat suit with positive energy tailored for youngsters who love to live and dare to dream.

The design idea of the Kappa KOMBAT series springs from the impression of the human body in action in sports. It is a modernised interpretation of the classic version, although the cocoon profile with a short front and a long rear has been inherited from the previous version, giving it an immediately avant-garde, distinctive appearance. Design-wise, the KOMBAT hoodie continue to rely on 3D cuttings to highlight the beauty of the silhouette, creating an unbridled overall shaping to complete a perfect blend of fashion and comfort. The use of fleece represents another smart move that increases comfort while enhancing the solid feel, imparting a fresh sense of the youthfulness, energy and confidence of youngsters.

The design of the Kappa KOMBAT pants is inspired by the tight pants in football training. The designer has taken into full consideration of ergonomic concerns when creating them as daily casual wear. The 3D cuttings added at the knee and thigh positions provide a perfect display of the loose shape above the knee and the tight one below it, while effectively stretching and streamlining the leg-shape. Based on the designer's in-depth observation of the shapes of the legs of Asians, the KOMBAT pants come in four different models, and each model features specifically different 3D cuttings for better shaping effect.

Kappa accessories

In the current market where trendiness prevails, accessories are indispensable for the mix and match process. Kappa puts a lot of effort in the design and research of accessories to ensure that they provide the final touch that makes the wearer stands out above the rest.

The polka-dot hat vivifies the overall appearance with the teasing design.

The glittering stitch neck warmer in a fluorescent colour, adorned by graceful, minimalist diamond-shaped patterns, befits the image of a metropolitan lady who is heartwarming and fashionable.

The backpack with the graphic imprint of a parachute, reflecting the carefree attitude of the owner, is perfect for an energetic bicycle ride during weekends.

Kappa running windbreakers

Kappa's running windbreakers are highly functional, with light water-proof coating materials affording protection against wind and rain. The raindrop design and the minute spots of deliberate colour clash speak eloquently of the refreshing character of youth guys from the city.

Kappa retro

The retro hoodies, dedicated especially to the young, bright and passionate sports fans, come with marvelous energy and liveliness embodied by diverse colours and patterns. The classical style is reinvented in the details, as the design seeks to give an interpretation of modern trends. The joined pieces on the sleeves impart a strong sporting sense, while the large-type text on the chest further reinforces the call for energy.

The retro Kappa King running shoes come in a bold, electric fluorescent colour, an astounding style beyond the wildest imagination of any runner.

MANAGEMENT DISCUSSION AND ANALYSIS

Raincoat for general training

The raincoat launched in the Fall/Winter season of 2013 as part of the new training suit series of Kappa Japan is comparable in functions to its previously marketed counterparts, boasting water resistance 20,000 mm, moisture permeability of 10,000g/ m^2/24h and a water-proof sealing strip to ensure the enjoyment of sports on a rainy day. The detachable polar fleece liner provides further options that give it an outstanding price-performance ratio.

Our research, development and design team in Japan continued to make positive contributions in 2013, as they stepped up with their research and development on details with enhanced efficiency. New technologies were created to enhance the functional applications of our apparel products, giving substance to the notion of "scientific apparel as reasonable clothes" and the pledge of "handling details beyond customers' imagination."

Upgrading our retail network

During the period under review, the Group continued to optimise its sales network and store efficiency, assessed its store network and made adjustments accordingly. As at 31 December 2013, the Group had a total of 1,183 Kappa retail stores operated directly or indirectly, with 21 distributors under the China segment. The distribution network of retail stores covered all major provincial capital cities and other major cities and townships in China.

Since the incorporation of its first regional subsidiary in Hunan in the latter half of 2012, the Group has by now established 7 subsidiaries located variously in Hunan, Dalian, Henan, Hubei, Shenzhen, Shanghai and Harbin, all reporting satisfactory results. Through trial and implementation, regional retail companies' management control over the end-market has been established. While stabilising our channels, we are also able to gain in-depth understanding of end-market requirements and secure direct feedback for brand operations.

Apart from the traditional sales in retail stores, the Group also places great emphasis on online sales. An e-commerce platform not only provides an efficient channel for stock clearance, but also enables customers to buy branded products at any destination and purchase Kappa products from multiple platforms, as demonstrated by the Group's cooperation with taobao.com, tmall.com and other e-commerce platform providers. Meanwhile, brand information is constantly updated through our own website ikappa.com.cn, so products of the new season are showcased to consumers in a timely and effectively manner. The Group is committed to building its integrated Internet sales platform in a bid to promote its brands and increase sales.

Outlook

Regardless of how fashion evolves and the market changes, China Dongxiang will remain committed to its product philosophy of "sports, fashion, sexiness and style" and its core value of "pragmatism, innovation and passion", sparing no efforts as it continues to pursue reform and innovation through thick and thin.

The Group will continue to intensify reforms and explore new sales channels, building a model of sales channel incorporating "self-operated retail stores + dealership + franchise chain". Meanwhile, we will provide quality products with fashion elements by vigorously consolidating design resources with R&D resources and taking into consideration of brand positions and market demand, fulfilling consumer's desires for personality and variety.

The Group will continue to optimize our supply chain, increase the efficiency of order replenishment and incorporate the B2C concept of swift logistics distribution, establishing an enormous platform for business development.

2014 will continue to be a challenging year for China Dongxiang. The effectiveness of our adjustments to retail channels and market response to the transformation of products have yet to be observed, considered and acted in response, but as told in our mission statement, China Dongxiang is committed to "creating the most desired Sport-Life brand". Persistence in innovation and round-the-clock efforts will assure maximum return for the support of our shareholders and consumers.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The sales for the year ended 31 December 2013 of the Group was RMB1,414 million, decreased by 20.2% as compared to RMB1,772 million for the year ended 31 December 2012. Profit attributable to equity holders for the year ended 31 December 2013 was RMB210 million, increased by 18.6% as compared to RMB177 million for the year ended 31 December 2012.

Key Financial Performance by Segments

		Group *(Note 3)* **Year ended 31 December**			**China Segment** *(Note 1)* **Year ended 31 December**			**Japan Segment** *(Note 2)* **Year ended 31 December**		
	Note	**2013 RMB million**	2012 RMB million	**Change**	**2013 RMB million**	2012 RMB million	**Change**	**2013 RMB million**	2012 RMB million	**Change**
Key items of consolidated income statement										
Sales		**1,414**	1,772	−20.2%	**904**	1,165	−22.4%	**510**	607	−16.0%
Gross profit (before provision for impairment of inventories)	4	**681**	842	−19.1%	**499**	595	−16.1%	**182**	247	−26.3%
Operating profit	3	**84**	89	−5.6%						
Profit attributable to equity holders of the Company	3	**210**	177	18.6%						
		RMB cents	RMB Cents							
Basic earnings per share		**3.82**	3.19	19.7%						
Diluted earnings per share		**3.82**	3.19	19.7%						
		%	%	%pts	**%**	%	%pts	**%**	%	%pts
Profitability ratios										
Gross profit margin (before provision for impairment of inventories)	4	**48.2%**	47.5%	0.7	**55.2%**	51.1%	4.1	**35.7%**	40.7%	−5.0
Operating profit margin		**5.9%**	5.0%	0.9						
Effective tax rate		**26.2%**	28.5%	−2.3						
Net profit margin		**14.9%**	10.0%	4.9						
Key operating expenses ratios (as percentage of sales)										
Sales expenses		**7.9%**	8.1%	−0.2	**7.9%**	8.2%	−0.3	**7.9%**	7.8%	0.1
Advertising and marketing expenses		**3.1%**	6.0%	−2.9	**3.2%**	7.7%	−4.5	**2.9%**	2.8%	0.1
Employee salary and benefit expenses		**10.8%**	10.6%	0.2	**11.0%**	11.0%	0	**10.6%**	9.9%	0.7
Design and product development expenses	3	**3.4%**	5.0%	−1.6						
		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	**131**	114	17	**151**	121	30	**96**	101	−5
Average trade payable turnover days	6	**68**	79	−11	**52**	72	−20	**88**	89	−1
Average inventory turnover days	7	**210**	229	−19	**260**	277	−17	**147**	153	−6
Asset ratio										
Current ratio		**16.8**	16.0	0.8	**25.4**	22.4	3.0	**2.0**	2.5	−0.5

Notes:

1. The China segment principally represents the wholesale of sport-related products under Kappa Brand in China and Macau. It also includes the international business under Kappa Brand as well as domestic businesses under the Phenix brand and RDK brand.
2. The Japan segment principally represents the 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 as well as segmental design and products development expenses as a percentage of sales are not meaningful.
4. Provision for inventories is included in costs to sell in accordance with International Financial Reporting Standards. The Group is in the opinion that for the ease of comparative analysis, gross profit before provision for impairment of inventories would be more reasonable for comparison.
5. Average trade receivable 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 payable 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Sales Analysis

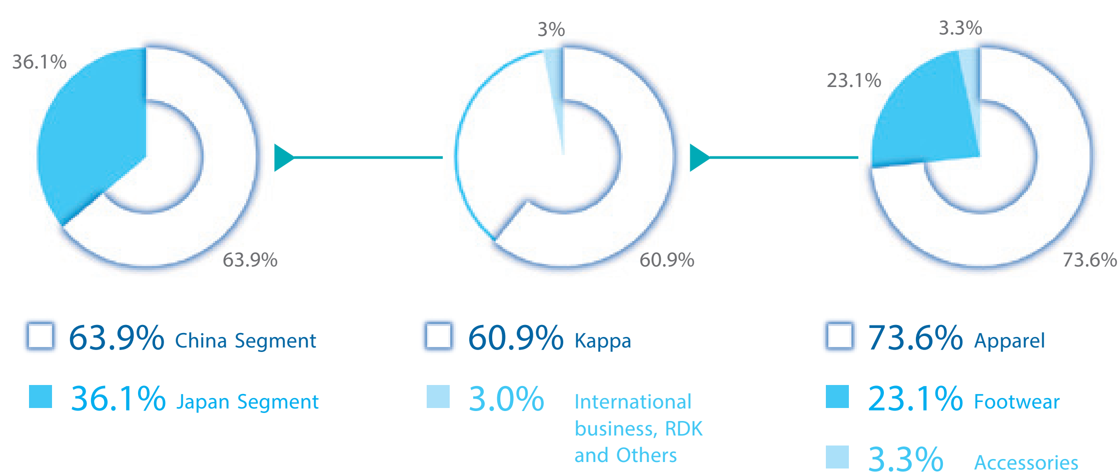
Sales analyzed by geographical segments, business segments and product categories

	Year ended 31 December						
	2013			2012			
	RMB million	**% of product/ brand mix**	**% of Group sales**	RMB million	% of product/ brand mix	% of Group sales	**Change**
CHINA SEGMENT							
Kappa Brand							
Apparel	**634**	**73.6%**	**44.8%**	789	69.9%	44.5%	–19.6%
Footwear	**199**	**23.1%**	**14.1%**	300	26.6%	16.9%	–33.7%
Accessories	**28**	**3.3%**	**2.0%**	40	3.5%	2.3%	–30.0%
Kappa Brand total	**861**	**100.0%**	**60.9%**	1,129	100.0%	63.7%	–23.7%
International business, RDK and others	**43**		**3.0%**	36		2.0%	19.4%
CHINA SEGMENT TOTAL	**904**		**63.9%**	1,165		65.7%	–22.4%
JAPAN SEGMENT							
Phenix Brand	**345**	**67.6%**	**24.4%**	397	65.4%	22.4%	–13.1%
Kappa Brand	**165**	**32.4%**	**11.7%**	210	34.6%	11.9%	–21.4%
JAPAN SEGMENT TOTAL	**510**	**100.0%**	**36.1%**	607	100.0%	34.3%	–16.0%
THE GROUP TOTAL	**1,414**		**100.0%**	1,772		100.0%	–20.2%

Sales analysis by geographical segments
The Group

Sales analysis by business
China Segment

Sales analysis by products categories
Kappa Brand (China Segment)



MANAGEMENT DISCUSSION AND ANALYSIS

China Segment

Kappa Brand

Total sales from the Kappa Brand business, the core business of the Group, for the year ended 31 December 2013 was RMB861 million, decreased by RMB268 million from RMB1,129 million for the year ended 31 December 2012. Such decrease was principally due to: 1) the further adoption of the sales method of "sales order + rolling order" in 2013 for easing inventory pressure of distributors. The Group actively reduced part of the sales orders by distributors and maintained close communication with them to understand their demand. Stock replenishment through the "rolling order" method enabled Kappa brand products that meet consumers' needs to be launched to the end-user retail market; 2) in 2013, while the sportswear industry in China was still undergoing the process of inventory clearance, some end-user outlets recorded unsatisfactory profitability. In a bid to save resources and enhance profitability, the Group and our distributors closed down most of the retail stores with low efficiency. A net closure of 826 retail stores was recorded for the year, and the number of Kappa Brand retail stores decreased to 1,183 as at 31 December 2013 from 2,009 as at 31 December 2012.

International Business, RDK and Others

Sales from international business, RDK and other brands increased by RMB7 million to RMB43 million for the year ended 31 December 2013 from RMB36 million for the year ended 31 December 2012. Such increase was mainly due to the growth in sales of international business.

Japan Segment

Sales from Japan segment for the year ended 31 December 2013 decreased by RMB97 million to RMB510 million from RMB607 million for the year ended 31 December 2012. The decrease in sales of Japan Segment was mainly due to the rapid depreciation in exchange rate between Japanese Yen against RMB in 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

Sales of Kappa brand products in China segment analyzed by sales channels

	Year ended 31 December				
	2013		2012		**Change**
	Sales	**% of sales of Kappa brand**	Sales	% of sales of Kappa brand	
	RMB million		RMB million		
Wholesale	**700**	**81.3%**	1,058	93.7%	–33.8%
Retail	**161**	**18.7%**	71	6.3%	126.9%
Total of Kappa brand	**861**	**100.0%**	1,129	100.0%	–23.7%

Sales of Kappa brand products via wholesale channel in China segment decreased by RMB358 million to RMB700 million for the year ended 31 December 2013 from RMB1,058 million for the year ended 31 December 2012, representing 81.3% of the total sales of Kappa brand in China segment in 2013 as compared with 93.7% in 2012. Retail business of Kappa brand in China segment has developed well since its commencement in the second half of 2012. As at 31 December 2013, the number of self-owned retail stores operated by our subsidiaries reached 272. Sales via retail channel increased by RMB90 million to RMB161 million for the year ended 31 December 2013 from RMB71 million for the year ended 31 December 2012, representing 18.7% of the total sales of Kappa brand in China segment in 2013 (2012: 6.3%).

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

	Year ended 31 December					
	2013		2012		**Change**	
	ASP	**Total units sold**	ASP	Total units sold	**ASP**	**Total units sold**
	RMB	**in '000**	RMB	in '000		
Apparel	**132**	**4,478**	125	5,944	5.6%	–24.7%
Footwear	**155**	**1,191**	159	1,783	–2.5%	–33.2%

Notes:

1. Average selling price per unit represent the sales for the period divided by the total units sold for the period.

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.

In 2013 and 2012, average selling prices per unit for apparel products were RMB132 and RMB125 respectively, and average selling prices per unit for footwear products were RMB155 and RMB159 respectively. Decreases in average selling prices for footwear products were mainly due to the effect of further accelerating inventory clearance for off-season products.

Total units sold for apparel and footwear products in the period under review, fell to a greater degree, by 24.7% and 33.2%, respectively, as compared to the same period last year, which were primarily due to our initiative to decrease the distributors' target of sales orders for easing their inventory pressure in 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

Cost of Goods Sold and Gross Profit

Cost of goods sold of the Group has dropped by RMB197 million, or 21.2%, to RMB733 million for the year ended 31 December 2013 (2012: RMB930 million).

For the year ended 31 December 2013, our gross profit before provision for impairment of inventories has dropped by RMB161 million, or 19.1% to RMB681 million (2012: RMB842 million). Our overall gross profit margin before provision for impairment of inventories for the year ended 31 December 2013 rose slightly by 0.7 percentage point to 48.2% from 47.5% for the year ended 31 December 2012.

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

	Year ended 31 December		
	2013	2012	**Change**
	Gross profit margin*	Gross profit margin*	% pts
China segment			
Kappa Brand:			
Apparel	**58.9%**	53.3%	5.6
Footwear	**50.7%**	47.0%	3.7
Accessories	**63.1%**	55.4%	7.7
Kappa Brand overall	**57.2%**	51.7%	5.5
International business and others	**15.1%**	31.5%	–16.4
China segment overall	**55.2%**	51.1%	4.1
Japan segment	**35.7%**	40.7%	–5.0
Group overall	**48.2%**	47.5%	0.7

* Before provision for impairment of inventories

Gross profit margin of Kappa Brand in China segment for the year ended 31 December 2013 rose by 5.5 percentage points to 57.2% from 51.7% for the year ended 31 December 2012. Such rise was mainly due to increased discount offer of off-season products as well as high profit margin of new products maintained in 2013, with such new products taking up a higher proportion of the sales.

Gross profit margin of Japan segment for the year ended 31 December 2013 was 35.7%, dropped by 5 percentage points as compared to 40.7% for the year ended 31 December 2012. Such decrease was mainly due to increase in production costs and decreased discount offer for off-season inventory clearance.

Other Gains, Net

Other gains for the year ended 31 December 2013 was RMB53 million (2012: RMB70 million), of which RMB11 million (2012: RMB46 million) was subsidy income from the government for China segment, RMB34 million was income derived from the investment in available-for-sale financial assets, and the balance was other incomes, such as the license fee received in China and Japan.

MANAGEMENT DISCUSSION AND ANALYSIS

Provision for Impairment of Available-for-sale Financial Assets

During the period, 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 RMB24 million for investment in CITIC Mezzanine Fund I and RMB3 million for investment in Yunfeng Fund II.

Distribution Expenses and Administrative Expenses

Distribution expenses and administrative expenses mainly comprised employee salaries and benefit expenses, advertising and marketing expenses, sales expenses, logistic fees and design and product development expenses. Total distribution expenses and administrative expenses for the year ended 31 December 2013 dropped by RMB143 million to RMB653 million as compared to RMB796 million in the year ended 31 December 2012, constituting 46.2% of the Group's total sales. As our further business adjustment has been conducting since the beginning of 2012, the Group has further optimised resources allocation and improved cost structure, in a bid to enhance production efficiency subject to reasonable cost control.

The Group has continued its streamlined strategies for making necessary adjustments in internal organisational structure and human resources. Our overall staff costs dropped substantially by RMB35 million to RMB153 million in 2013 from RMB188 million in 2012;

Advertising and marketing expenses decreased by RMB63 million to RMB44 million for the year ended 31 December 2013 from RMB107 million for the same period last year. The advertising and marketing expenses focused on implementing strategies on maintaining and protecting existing brand image, while capital investment were concentrated on advantageous projects and certain sponsorship and promotion activities which required large amount of investment with limited promotion effectiveness were terminated;

Sales expenses decreased by RMB31 million to RMB112 million for the year ended 31 December 2013 from RMB143 million for the year ended 31 December 2012. Such decline was mainly due to decrease in product display costs attributable to decrease in number of sales channels as well as optimization and termination of certain projects, such as leaseback arrangement of our flagship store;

In 2013, remarkable drop in logistics and transportation fee by RMB19 million from RMB90 million in the first half of 2012 to RMB71 million was due to a decrease in annual sales orders as well as prominent results achieved in stock clearance for off-season products;

The Group has rationalised consulting projects deemed to be unnecessary in 2013, resulting in decrease in consulting expenses to RMB4 million in 2013 from RMB7 million in 2012;

The Group took a more cautious approach in the investment in product development, which mainly drew on the Group's internal design resources, resulting in a significant drop in external design expenses. In 2013, our design and product development expenses was RMB48 million (2012: RMB89 million).

Operating Profit

For the year ended 31 December 2013, operating profit of the Group was RMB84 million (2012: RMB89 million). The operating profit margin was 5.9% for the year ended 31 December 2013 (2012: 5.0%).

Finance Income, Net

For the year ended 31 December 2013, finance income of the Group amounted to RMB191 million (2012: RMB183 million), which comprised income derived from investment in capital guaranteed treasury products of RMB141 million (2012: RMB78 million) and interest income from bank deposit of RMB54 million (2012: RMB100 million), while foreign exchange losses for the year was RMB1 million (2012: foreign exchange gains of RMB11 million).

MANAGEMENT DISCUSSION AND ANALYSIS

Taxation

For the year ended 31 December 2013, income tax expense of the Group amounted to RMB72 million (2012: RMB77 million). The effective tax rates for the year ended 31 December 2013 was 26.2% (2012: 28.5%). Such decrease was mainly due to the recognition of deferred tax for the losses accrued in prior years by Shanghai Taitan Sporting Goods Co., Limited, a subsidiary of the Group, during the year.

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 2013 was RMB210 million (2012: RMB177 million), and net profit margin of the Group was 14.9% (2012: 10.0%).

Earnings Per Share

The basic and diluted earnings per share were both RMB3.82 cents for the year ended 31 December 2013, increased by 19.7% against the basic and diluted earnings per share of RMB3.19 cents for the year ended 31 December 2012.

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

Final dividend and Final Special Dividend

The Company has paid an interim dividend and interim special dividend for the six months ended 30 June 2013 of RMB0.50 cent and RMB0.67 cent per ordinary share, respectively, with a total amount of RMB64,776,000.

The Board of the Company has recommended the distribution of a final dividend and a final special dividend of RMB0.64 cent and RMB0.85 cent per ordinary share, respectively (totalling RMB1.49 cent per ordinary share) for the year ended 31 December 2013.

The final dividend and final special dividend, subject to approval by the shareholders of the Company at the annual general meeting to be held on 14 May 2014, will be paid in Hong Kong Dollars based on the rate of HKD1.00 = RMB0.7895 being the official exchange rate of Hong Kong dollars against Renminbi as quoted by the People's Bank of China on 17 March 2014. The dividend will be paid on or about 30 May 2014 to shareholders whose names appear on the register of members of the Company on 23 May 2014.

Closure of Register of Members for the Entitlement of Final Dividend and Final Special Dividend

The Register of Members of the Company will be closed from 21 May 2014 to 23 May 2014 (both days inclusive), for the purpose of determining shareholders' entitlements to the 2013 final dividend and final special dividend. In order to qualify for the 2013 final dividend and final special dividend, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 20 May 2014.

FINANCIAL POSITION

Working capital efficiency ratios

China Segment

Average trade receivable turnover days for the year ended 31 December 2013 and 2012 were 151 days and 121 days, respectively. Our average trade receivable turnover days in 2013 increased as compared with that in 2012 as a result of decline in our revenue as well as caused by extending credit terms granted to our corporate clients with strong financial positions for supporting them to address the current market situation during the period under review.

MANAGEMENT DISCUSSION AND ANALYSIS

Average trade payable turnover days for the year ended 31 December 2013 and 2012 were 52 days and 72 days respectively. Remarkable decrease in average trade payable turnover days was primarily due to decrease in balance of trade payables resulting from drop in purchase orders.

Average inventory turnover days for the year ended 31 December 2013 and 2012 were 260 days and 277 days respectively. Drastic decrease in average inventory turnover days was due to our proactive stock clearance for off-season products via various channels as planned, resulting in significant decline in closing balance of inventory in China Segment as compared with the opening balance.

Japan Segment

Average trade receivable turnover days and average trade payable turnover days were 96 days and 88 days, respectively for the year ended 31 December 2013 as compared to 101 days and 89 days, respectively for the year ended 31 December 2012, representing decreases in the above turnover days. Average inventory turnover days were 147 days for the year ended 31 December 2013 as compared to 153 days for the year ended 31 December 2012. Such decrease was mainly due to clearance of obsolete inventories in 2013.

Liquidity and financial resources

As at 31 December 2013, cash and bank balances (including term deposits) of the Group amounted to RMB1,097 million, a decrease of RMB1,616 million as compared to a balance of RMB2,713 million as at 31 December 2012. This decrease mainly due to 1) an investment in capital guaranteed treasury products issued by banks of RMB1,149 million; 2) an investment in Rongyu Fund of RMB200 million; 3) second investment in CITIC Mezzanine Fund I of RMB150 million; 4) an investment in Yunfeng Fund LP II of equivalent to approximately RMB9 million; 5) an investment in Tebon Innovation Fund of RMB200 million; 6) payment of 2012 final dividend and special final dividend as well as 2013 interim dividend and special interim dividend for an aggregate amount of equivalent to approximately RMB120 million; 7) cash inflow from operating activities of approximately RMB271 million; 8) decrease in bank restricted deposits of approximately RMB85 million; 9) receipt of income distribution from CITIC Mezzanine Fund I and Rongyu Fund of approximately RMB35 million.

As at 31 December 2013, net assets attributable to our equity holders was RMB8,609 million (31 December 2012: RMB6,923 million). The Group's current assets exceeded current liabilities by RMB4,910 million (31 December 2012: RMB5,404 million). The Group also had a very strong liquidity position. The current ratio as of 31 December 2013 was 16.8 times (31 December 2012: 16.0 times).

As at 31 December 2013, the Group had no outstanding bank loans or other borrowings.

MANAGEMENT DISCUSSION AND ANALYSIS

Pledge of assets

As at 31 December 2013, the Group had approximately RMB52 million (31 December 2012: RMB137 million) were held in banks as guarantee deposit for the issue of letters of credit.

Capital commitments and contingencies

As at 31 December 2013, the Group paid a capital contribution of US$20 million for investment according to a limited partnership agreement with Yunfeng Fund LP II. As at 30 June 2013, the Group paid a capital contribution of US$1.5 million with remaining balance of US$18.5 million (equivalent to approximately RMB113 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 recognised 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 are not recognised in the income statement. Instead, it should be recognised as a separate component of equity of the Group.

The major operations of the Group were mainly carried out in the PRC and transacted in Renminbi. Except for foreign exchanges losses (gains) for the period under review mainly derived from our unutilised capital in foreign currencies in the PRC, the exchange rate risk of the Group was insignificant.

Significant investments and acquisitions

In May 2013, the Group, through its wholly-owned subsidiary, subscribed for the interests in limited partnership with Yunfeng Fund LP II of an aggregate of US$20 million according to a limited partnership agreement. The principal business of Yunfeng Fund LP II is equity investments in Great China (including Mainland of the PRC, Hong Kong, Macau and Taiwan areas). As at 31 December 2013, capital contribution of of US$1.54 million was paid.

In May 2013, the Group, through its wholly-owned subsidiary, subscribed for the interests in limited partnership with Rongyu Fund of an aggregate of RMB200 million according to a limited partnership agreement. The principal business of Rongyu Fund is equity investments in Mainland China. As at 31 December 2013, the amount for subscription of the interests was fully settled.

In June 2013, the remaining amount of RMB150 million for capital contribution into CITIC Mezzanine Fund I was settled by a wholly-owned subsidiary of the Group. In September 2011, the Group, through its wholly-owned subsidiary, subscribed for the interests in limited partnership with CITIC Mezzanine Fund I of an aggregate of RMB300 million according to a limited partnership agreement. As at 31 December 2013, the amount for subscription of the interests was fully settled.

In December 2013, the Group, through its wholly-owned subsidiary, subscribed for the interests in limited partnership with Tebon Innovation Fund of an aggregate of RMB200 million according to a limited partnership agreement. The principal business of Tebon Innovation Fund is equity investments in Great China. As at 31 December 2013, the amount for subscription of the interests was fully settled.

Save as disclosed above, the Group has made no significant investment or any material acquisition or disposal of subsidiaries during the year ended 31 December 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

Events occurring after the balance sheet date

On 29 January 2014, the Group entered a definitive share purchase agreement with Cnshangquan E-Commerce Co., Ltd., in pursuant to which the Group agreed to dispose 35,380,806 ordinary shares in Mecox Lane at a cash consideration of approximately US$4.8 million in aggregate. The share purchase transaction is expected to complete in the second quarter of 2014, subject to the satisfaction of customary closing conditions set out in share purchase agreement, including an approval of the PRC government.

Save as disclosed above, the Group has no other events occurring after the balance sheet date for the year ended 31 December 2013.

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 2013, we summarize the investor relations achievements as below:

RESULTS ANNOUNCEMENT, ROAD SHOW AND INVESTMENT SUMMITS

Right after the announcements of the 2012 annual results and the 2013 interim results, which were in March and September 2013 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 the results announcement which were hosted in Hong Kong. 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 2013, a total of 234 face-to-face meetings and telephone conferences were conducted with investors and analysts.

Investors Store Visits

In 2013, based on the needs of our investors and analysts, and for them to better understand our operation, we arranged more than 20 stores visits in Beijing, Sichuan, Shanghai, Shenyang, Shenzhen, Guangzhou, and etc.

New Product Launch Campaign Reversed Roadshow

In December 2013, we invited several investors and analysts to attend our Kappa brand's new Kombat series product launch campaign, 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. We have also invited several investors and analysts to watch 'Mahua Funage', a play sponsored by the company.

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.

INVESTOR RELATIONS REPORT

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 meeting, 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 2013, the Group was accredited for "The Best Small-Medium Cap Listed Company" at the China Securities "Golden Bauhinia Awards".

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 and Senior Management

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)	55	Chairman, Chief Executive Officer and Executive Director
Mr. Qin Dazhong (秦大中)	45	Chief Operating Officer and Executive Director
Mr. Gao Yu (高煜)	40	Independent Non-Executive Director
Mr. Xu Yudi (徐玉棣)	62	Independent Non-Executive Director
Dr. Xiang Bing (項兵)	51	Independent Non-Executive Director

EXECUTIVE DIRECTORS

Mr. Chen Yihong (陳義紅), aged 55, is our founder, chairman, chief executive officer 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 45, is our chief operating officer and executive director. Mr. Qin is primarily responsible for operating the business and the overall financial affairs of the Company. Mr. Qin joined Beijing Dongxiang as general manager since October 2002 and has over 16 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Gao Yu (高煜), aged 40, is our independent 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.

Mr. Xu Yudi (徐玉棣), aged 62, 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's 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

DIRECTORS AND SENIOR MANAGEMENT

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 51, is our independent non-executive director. Dr. Xiang obtained a Doctoral degree in accounting from the University of Alberta in Canada. He has over 16 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 of E-House (China) Holdings Limited (易居(中國)控股有限公司). A company 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 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.

Between July 2006 and May 2013, Dr. Xiang was an 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). A company listed on the New York Stock Exchange.

SENIOR MANAGEMENT

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 24 years of experience in relevant industry. He joined the Group in April 2008 and is the head of Phenix Co., Ltd.

Corporate social responsibilities

CHARITY WORK

Mindful of its corporate social responsibilities, Kappa is committed to serving the society. During the latter half of 2013, we participated as a sponsor for the "2013 Music Radio for Schooling - Haima Automobile Charitable Schooling Assistance Campaign" (2013 Music Radio我要上學 — 海馬汽車愛•回家助學行動) jointly organised by Music Radio of China National Radio and China Children and Teenagers' Fund, which was aimed at providing charity and encouragement to children in the impoverished areas of Gansu, Qinghai, Guizhou and Shiqu of Sichuan by gathering charitable offerings from all sectors in the community. Activities launched included charity visits, show tours, Kappa Store Manager for the Day, charity golf tournament and charity gala shows, etc, during which celebrities contributed their part in the writing of a chapter on love as they were invited to extend the charitable act and make kindness felt in the remotest regions.

ENVIRONMENTAL PROTECTION

As a responsible global corporate citizen, the Group is profoundly 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 have been taken. Through the use of energy-efficient lights and the installation of the internal automatic lighting control system, which turns off office lighting automatically during non-business hours to avoid lights staying on all night long, we have saved up hundreds of thousands of Kwh each year. We have also installed water conservation valves in our internal water supply equipment and our annual water consumption has reduced by 25% as a result. During summer and winter, the room temperature of the air-conditioning system is set at a reasonable level to increase air-conditioning efficiency and avoid unnecessary waste of electric power. Automatic controls have also been installed to significantly reduce the loading of electricity consumption. The Group has also conducted a general stock-taking in respect of its fixed assets, whereby idle assets have been reallocated for use to enhance effective utilisation of assets and realise resource conservation. The Group has also persisted in battery sorting and recycling to avoid secondary pollution of soil. Employees are encouraged to use the Group's shuttle bus and public transportation instead of driving their private cars in their daily commuting, so as to reduce the impact of tailpipe emission on the environment.

STAFF DEVELOPMENT

Human resources represent important strategic resources for modern enterprises that play a vital part in the improvement of management efficiency and the enhancement of productivity. As China Dongxiang Group drives forward in the fast lane of business development, great importance has been attached to the development of the human resource management system and the cultivation of high-calibre personnel.

OPTIMISATION OF GROUP ORGANISATION AND STRUCTURE

China Dongxiang has taken actions to streamline its business processes and optimise its organisation and structure in timely response to market changes. Staff headcount has been increased for key businesses while streamlined for back-office functions in accordance with the Company's development strategy, in a bid to enhance efficiency and improve our operating results.

IMPROVEMENT OF PERFORMANCE MANAGEMENT SYSTEM

In its practice of performance management, China Dongxiang Group seeks in a proactive manner to draw lessons from past experiences, correct any shortcomings and optimise its performance management policy. While meeting the needs of business development, we also aim to practice succinct, pragmatic and highly efficient management, such that our performance management system embodies appraisal concerns which are results-oriented, while providing effective incentives in organisation management.

CORPORATE SOCIAL RESPONSIBILITIES

STAYING FOCUSED ON PERSONNEL TRAINING AND DEVELOPMENT

In recent years, China Dongxiang Group has placed a particularly strong emphasis on the internal cultivation of high-calibre staff by improving its selection, appointment and retention mechanisms. Appropriate personnel have been deployed to key positions to ensure comprehensive management succession for the Company's core businesses. To cater to the needs for channel management, the Group has started a retail management trainee programme, whereby outstanding university graduates are recruited by selection to join specialised training regimes of the Company, in a move to stock and cultivate high-calibre personnel for the future in light of adjustments in channel management. Currently, some personnel trained through this system are playing important roles after their appointment to key positions in channel management.

Corporate Governance Report

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE (THE "CG CODE")

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. The Company has complied with the code provisions set out in the CG Code as contained in Appendix 14 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") for the year ended 31 December 2013, except one deviation from provision A.2.1 of the CG Code.

Provision A.2.1 of the CG 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 by directors and having made enquiries, confirmed that all the directors have complied with the required standards for the year ended 31 December 2013.

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 43 to 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 five members, of whom two are executive Directors, and three are independent non-executive Directors.

Executive Directors:
Mr. Chen Yihong *(Chairman and Chief Executive Officer)*
Mr. Qin Dazhong *(Chief Operating Officer)*

Independent Non-Executive Directors:

Mr. Gao Yu	*(re-designated from non-executive director to independent non-executive director and was appointed as members of the audit committee and the nomination committee with effect from 24 May 2013)*
Dr. Xiang Bing	
Mr. Xu Yudi	
Mr. Jin Zhi Guo	*(resigned as an independent non-executive director and members of the audit committee and the nomination committee with effect from 24 May 2013)*

Biographies of the directors are set out on pages 35 to 36. 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 formal letter of appointment with each Directors setting out the key terms and conditions of his/her appointment. The non-executive Director is appointed for a specific term of 1 year. Such appointment shall automatically renew at the expiry and shall continue for further successive periods of one year, subject to a maximum of three years.

CORPORATE GOVERNANCE REPORT

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

In accordance with Article 87 of the Company's articles of association, Mr. Chen Yihong and Dr. Xiang Bing shall retire from the office by rotation and, being eligible, shall offer themselves for re-election at the forthcoming Annual General Meeting ("AGM").

Mr. Qin Dazhong (re-elected as executive Director on 15 May 2012), Mr. Gao yu (re-elected as non-executive director on 15 May 2013) and Mr. Xu Yudi (re-elected as independent non-executive Director on 15 May 2013) 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.

DIRECTORS' AND OFFICERS' LIABILITIES INSURANCE

The Company has arranged appropriate directors' and officers' liabilities insurance coverage for the Directors and officers of the Company.

DIRECTORS' CONTINUOUS TRAINING AND DEVELOPMENT PROGRAMME

Pursuant to CG provision A.6.5 of the Code of the Listing Rules, all directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the board remains informed and relevant.

The Company has put in place an on-going training and professional development program for directors.

Each newly appointed director would receive an induction package covering the statutory and regulatory obligations of a director of a listed company. The Company also provides training to develop and refresh the directors' knowledge and skill.

All directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company has sent reading materials to directors on regulatory updates or information relevant to the Company or its business.

In August 2013, the Company, together with Norton Rose FulBright Hong Kong, organized a training session to provide the Directors with an update on the Listing Rules.

During the financial year, the Directors participated in the following training:

	Attending seminars relating to rules and regulations	**Reading newspapers, journals and updates relating to the economy and business management and duties of directors**
Executive Directors		
Chen Yihong	√	√
Qin Dazhong	√	√
Independent Non-executive Directors		
Gao Yu (Note 1)	√	√
Xiang Bing	√	√
Xu Yudi	√	√
Jin Zhi Guo (Note 2)	—	√

Note 1 re-designated from non-executive director to independent non-executive director and was appointed as members of the audit committee and the nomination committee with effect from 24 May 2013

Note 2 resigned as an independent non-executive director and members of the audit committee and the nomination committee with effect from 24 May 2013

BOARD AND COMMITTEES MEETINGS

In 2013, the Board held 4 meetings. The attendance of the directors at Board meetings, principal Board Committee meetings and Annual General Meeting ("AGM") held in 2013 is set out in the table below.

	Board meetings in 2013	Audit committee meetings in 2013	Attendance of Remuneration committee meeting in 2013	Nomination committee meeting in 2013	AGM in 2013
Executive Directors					
Chen Yihong	4/4	N/A	1/1	1/1	0/1
Qin Dazhong	4/4	N/A	N/A	N/A	1/1
Independent Non-Executive Directors					
Gao Yu (Note 1)	4/4	2/2	N/A	1/1	1/1
Jin Zhi Guo (Note 2)	1/1	1/1	N/A	N/A	0/1
Xiang Bing	3/4	3/3	1/1	1/1	0/1
Xu Yudi	4/4	3/3	1/1	N/A	1/1

Note 1 re-designated from non-executive director to independent non-executive director and was appointed as members of the audit committee and the nomination committee with effect from 24 May 2013

Note 2 resigned as an independent non-executive director and members of the audit committee and the nomination committee with effect from 24 May 2013

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 Committee, Remuneration Committee, Nomination Committee and Executive Committee is governed by its respective Terms of Reference, which are available on the Company's website at www.dxsport.com. All committees are provided with sufficient resources to discharge their duties, and they are also authorised to obtain external legal or other independent professional advice if they consider it necessary to do so.

AUDIT COMMITTEE

Members: Mr. Xu Yudi (chairman), Dr. Xiang Bing and Mr. Gao Yu. 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.

CORPORATE GOVERNANCE REPORT

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 2013. The major work performed by the Audit Committee in 2013 included:

(i) Review and recommend the Board's approval of the 2013 external audit plan and 2013 internal audit plan;

(ii) Review and recommend the Board's approval of the 2012 annual financial statements and 2013 interim financial statements;

(iii) Review of the 2013 external audit report and internal audit report;

(iv) Approval of the remuneration and terms of engagement of PricewaterhouseCoopers for the 2013 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 2013. The major work performed by Remuneration Committee in 2013 included reviewing and determining the Directors' remuneration for the year ending 31 December 2014.

NOMINATION COMMITTEE

Members: Mr. Chen Yihong (chairman), Mr. Gao Yu and Dr. Xiang Bing. 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 Nomination Committee include:

(a) to review the structure, size and composition and diversity (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(b) to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

CORPORATE GOVERNANCE REPORT

(c) to assess the independence of independent non-executive directors of the Company and review the independent non-executive directors' annual confirmations on their independence and where the Board proposes a resolution to elect an individual as an independent non-executive director at the general meeting, it should set out in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting why they believe he should be elected and the reasons why they consider him to be independent;

(d) to make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive;

(e) to seek independent professional advice to perform its responsibilities where necessary; and

(f) to report back to the Board on its decisions or recommendations (unless there are legal or regulatory restrictions on its ability to do so) and to prepare a summary of its work during the year for inclusion in the Company's corporate governance (including a report the policies, procedures, process and criteria it has adopted to select and recommend candidates for directorship during the year).

The Nomination Committee met one time in the year of 2013. The major work performed by Nomination Committee in 2013 included reviewing the structure, size, composition and diversity of the board and assess the independence of independent non- executive directors of the company.

BOARD DIVERSITY POLICY

The Board adopted the board diversity policy ("Board Diversity Policy") in August 2013 in accordance with the requirement set out in the CG Code. Such policy aims to set out the approach to achieve diversity on the Board. All Board appointments shall be based on meritocracy, and candidates shall be considered against objective criteria, having due regard for the benefits of diversity on the Board. Selection of candidates shall be based on a range of diversity perspectives, including but not limited to, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision shall be based on merit and contribution that the selected candidates shall bring to the Board. The Nomination Committee monitors, from time to time, the implementation of the policy, and reviews, as appropriate, the policy to ensure the effectiveness of the policy.

EXECUTIVE COMMITTEE

Members: Mr. Chen Yihong (chairman), Mr. Qin Dazhong, Mr. Sun Jian Jun, Mr. Sun Ming and Tang Lijun.

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

CORPORATE GOVERNANCE REPORT

(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.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the following corporate governance duties as required under the Code:

(a) to develop and review the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(e) to review the Company's compliance with the Code and disclosure in the Corporate Governance Report.

During the year, the Board reviewed and considered the policy and practices of corporate governance 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 AND 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 2013.

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 recognised framework outlined by the Committee of Sponsoring Organisations 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 remuneration paid or payable to the Group's independent auditor, PricewaterhouseCoopers, and its affiliated firms, for services rendered is broken down below:

	2013 **RMB'000**
Statutory audit	**2,814**
Non-audit services	**1,053**
Total	**3,867**

The non-audit services mainly comprised tax compliance, interim review services and certain agreed upon procedure work. The responsibilities of the independent auditor with respect to the 2013 consolidated financial statements are set out in the section "Independent Auditor's Report" on pages 54 to 55.

COMPANY SECRETARY

Ms. Wai Pui Man, the Company Secretary of the Company, confirmed that she has taken no less than 15 hours relevant professional training during the financial year.

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.

CORPORATE GOVERNANCE REPORT

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 33 to 34 to provide a more comprehensive overview of the work performed by the IR Department in 2013.

SHAREHOLDERS' RIGHT

Pursuant to Articles 57 of the Articles of Association of the Company, each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting.

Pursuant to the Company's articles of association, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company. The contact details of the Board or the secretary are as below:

The Company Secretary
China Dongxiang (Group) Co., Ltd. Building 21, No. 2 Jingyuanbei Street,
Beijing Economic-Technology Development Area, Beijing 100176, China
Telephone: (8610) 6783 6585
Facsimile: (8610) 6785 6606
Email: ir@dxsport.com.cn

There are no provisions under the Company's articles of association or the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands regarding procedures for Shareholders to put forward proposals at general meetings other than a proposal of a person for election as director. Shareholders may follow the procedures set out above to convene an extraordinary general meeting for any business specified in such written requisition.

Shareholders can make any query in respect of the Company or to make a request for the Company's information to the extent such information is publicly available. The designated contact details are as above. Shareholders' questions about their shareholdings should be directed to Computershare Hong Kong Investor Services Limited, the Company's branch share registrar, at Shops 1712-16, 17th Floor, Hopewell Center, 183 Queen's Road East, Hong Kong.

CONSTITUTIONAL DOCUMENTS

As at 31 December 2013, the Group confirmed that there was not any change on the Memorandum and Articles of Association of the Company.

Report of the Directors

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 2013.

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 2013 is set out in the consolidated income statement on page 56.

DIVIDENDS

An interim dividend of RMB27,682,000 and an interim special dividend of RMB37,094,000 in respect of the 6 months ended 30 June 2013 were declared to Shareholders on 21 August 2013 and paid in September 2013.

The directors recommend a final dividend of RMB0.64 cent and final special dividend of RMB0.85 cent per ordinary share of the Company, amounting to approximately RMB35,433,000 and RMB47,059,000 respectively, subject to approval by the Shareholders of the Company at the AGM to be held on 14 May 2014 and are payable in Hong Kong Dollars based on the rate of HKD1.00 = RMB0.7895 being the official exchange rate of Hong Kong dollars against Renminbi as quoted by the People's Bank of China on 17 March 2014.

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 2013.

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 8 to 9.

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 2013 amounted to approximately RMB9,256,808,000, which is the total of the share premium account and reserves of the Company calculated in accordance with Companies Law of the Cayman Islands.

REPORT OF THE DIRECTORS

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

Independent Non-Executive Directors:

Mr. Gao Yu	(Re-designated from non-executive director to independent non-executive director and was appointed as members of the audit committee and the nomination committee with effect from 24 May 2013)
Dr. Xiang Bing	
Mr. Xu Yudi	
Mr. Jin Zhi Guo	(Resigned as an independent non-executive director and members of the audit committee and the nomination committee with effect from 24 May 2013)

In accordance with Article 87 of the Company's articles of association, Mr. Chen Yihong 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.

REPORT OF THE DIRECTORS

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 2013 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 35 to 36.

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 9.93% 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.

There were no share options granted, lapsed, exercised or cancelled during the year ended 31 December 2013. There was no share option outstanding under the Share Option Scheme as at 31 December 2013.

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.

With a view to allow the Board to have more flexibility in the administration of the scheme, the Share Award Scheme has been amended on 6 July 2012 pursuant to which, the grant share under the Share Award Scheme are subject to the vesting schedule or any other date as determined by the Chairman of the Board and the Chief Executive Officer (or any person designated by them).

For the year ended 31 December 2013, 1,700,000 Restricted Shares were granted to 2 eligible participants pursuant to the Restricted Share Award Scheme. 1,700,000 Restricted Shares were vested during the year. As at 31 December 2013, the number of Restricted Shares granted under the scheme amounted to 2,638,000 Shares, representing approximately 0.048% of the issued Shares as at the Adoption Date. Details of movements of the Restricted Shares under the Restricted Share Award Scheme for the year ended 31 December 2013 are as follows:

	Number of Restricted Shares				
Date of grant	**as at 01/01/2013**	**granted during the year**	**vested during the year**	**lapsed during the year**	**as at 31/12/2013**
27/03/2013	29,062,000	1,700,000	1,700,000	—	27,362,000

Save as disclosed above, at no time during the year was the Company or its subsidiaries a party to any arrangement to enable the Directors or any of their spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

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 2013, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2013, 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)	2,227,081,000 Shares	—	40.23%
Mr. Qin Dazhong	Interest of a controlled corporation(2)	211,864,000 Shares	—	3.83%

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.

REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 2013, 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 2013, 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		
Name of Shareholders	**Nature of interest**	**Long position**	**Short position**	**Approximate percentage of shareholding (%)**
Poseidon Sports Limited	Corporate interest	2,227,081,000	—	40.23%
Talent Rainbow Far East Limited[1]	Interest in a controlled corporation	2,227,081,000	—	40.23%
Harvest Luck Development Limited[1]	Interest in a controlled corporation	2,227,081,000	—	40.23%

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 2013, 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 2013, 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.

REPORT OF THE DIRECTORS

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 2013, the purchases from the largest supplier and the aggregated purchases from the largest five suppliers amounted for 6.0% and 20.9% of the Group's total purchases, and the sales to the largest customer and the aggregated sales to the largest five customers amounted for 10.5% and 25.2% of the Group's total sales, respectively.

CORPORATE GOVERNANCE

Throughout 2013, the Company has complied with all the code provisions, except one deviation from code provision A.2.1 of the Corporate Governance Code 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 39 to 46 of this report.

AUDITOR

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

On behalf of the Board
Chen Yihong
Chairman

18 March 2014

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 2013, 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

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with 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, 18 March 2014

Consolidated Income Statement

Year ended 31 December 2013

	Note	Year ended 31 December 2013 RMB'000	2012 RMB'000
Revenue	5	**1,413,692**	1,771,817
Cost of goods sold	6	**(733,184)**	(930,179)
Reversal of impairment losses of inventories	6	**30,665**	55,226
Gross profit		**711,173**	896,864
Distribution expenses	6	**(412,567)**	(580,484)
Administrative expenses	6	**(240,246)**	(215,851)
Other gains, net	7	**52,683**	70,254
Provision for impairment losses of available-for-sale financial assets	19	**(27,118)**	(82,221)
Operating profit		**83,925**	88,562
Finance income, net	9	**190,799**	183,163
Share of profits/(losses) of jointly controlled entities	17	**287**	(771)
Profit before income tax		**275,011**	270,954
Income tax expense	10	**(71,943)**	(77,150)
Profit for the year		**203,068**	193,804
Profit attributable to:			
— Owners of the Company		**210,266**	176,719
— Non-controlling interests		**(7,198)**	17,085
		203,068	193,804
Earnings per share attributable to owners of the Company during the year (expressed in RMB cents per share)			
— Basic earnings per share	11	**3.82**	3.19
— Diluted earnings per share	11	**3.82**	3.19
Dividends	32	**147,268**	123,462

The notes on pages 64 to 128 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

Year ended 31 December 2013

	Note	Year ended 31 December 2013 RMB'000	2012 RMB'000
Profit for the year		**203,068**	193,804
Other comprehensive income that may be reclassified to profit or loss:			
— Change in fair value of available-for-sale financial assets	19	**1,716,878**	137,194
— Currency translation differences	28	**(122,652)**	(35,076)
Other comprehensive income for the year, net of tax		**1,594,226**	102,118
Total comprehensive income for the year		**1,797,294**	295,922
Attributable to:			
— Owners of the Company		**1,804,492**	278,837
— Non-controlling interests		**(7,198)**	17,085
Total comprehensive income for the year		**1,797,294**	295,922

The notes on pages 64 to 128 are an integral part of these consolidated financial statements.

Consolidated balance sheet

As at 31 December 2013

	Note	As at 31 December 2013 RMB'000	2012 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	**85,967**	101,201
Lease prepayments	15	**12,008**	12,293
Intangible assets	16	**257,141**	272,027
Interests in jointly controlled entities	17	**15,591**	15,562
Available-for-sale financial assets	19	**3,223,605**	1,026,587
Deferred income tax assets	20	**97,829**	93,665
Prepayments, deposits and other receivables — non-current portion	23	**55,304**	43,886
		3,747,445	1,565,221
Current assets			
Inventories	21	**182,758**	287,325
Trade receivables	22	**333,041**	414,124
Prepayments, deposits and other receivables	23	**57,166**	88,276
Other financial assets	24	**3,551,091**	2,261,137
Cash and bank balances	25	**1,096,797**	2,712,996
		5,220,853	5,763,858
Total assets		**8,968,298**	7,329,079

CONSOLIDATED BALANCE SHEET

As at 31 December 2013

		As at 31 December	
		2013	2012
	Note	**RMB'000**	RMB'000
EQUITY			
Equity attributable to owners of the Company			
Share capital	26	**53,589**	53,589
Share premium account	26	**1,863,919**	1,984,059
Reserves	28	**6,691,690**	4,884,974
		8,609,198	6,922,622
Non-controlling interests		**14,626**	21,824
Total equity		**8,623,824**	6,944,446
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	20	**33,574**	24,162
		33,574	24,162
Current liabilities			
Trade payables	29	**148,035**	124,032
Accruals and other payables	30	**114,258**	210,518
Provisions	31	**17,836**	22,771
Current income tax liabilities		**30,771**	3,150
		310,900	360,471
Total liabilities		**344,474**	384,633
Total equity and liabilities		**8,968,298**	7,329,079
Net current assets		**4,909,953**	5,403,387
Total assets less current liabilities		**8,657,398**	6,968,608

The notes on pages 64 to 128 are an integral part of these consolidated financial statements.

The financial statements on pages 56 to 63 were approved by the Board of Directors on 18 March 2014 and were signed on its behalf.

Company Balance Sheet

As at 31 December 2013

	Note	As at 31 December 2013 RMB'000	2012 RMB'000
ASSETS			
Non-current assets			
Interests in subsidiaries	13	**6,907,017**	6,907,017
Amounts due from subsidiaries	13	**1,750,972**	1,800,975
		8,657,989	8,707,992
Current assets			
Trade receivables	22	**13,198**	—
Prepayments, deposits and other receivables	23	**5,372**	10,093
Amounts due from subsidiaries	13	**77,190**	76,632
Other financial assets	24	**437,813**	419,281
Cash and bank balances	25	**245,257**	392,208
		778,830	898,214
Total assets		**9,436,819**	9,606,206
EQUITY			
Equity attributable to owners of the Company			
Share capital	26	**53,589**	53,589
Share premium account	26	**1,863,919**	1,984,059
Reserves	28	**7,392,889**	7,447,155
Total equity		**9,310,397**	9,484,803
LIABILITIES			
Current liabilities			
Amounts due to subsidiaries	13	**124,404**	121,160
Accruals and other payables	30	**2,018**	243
Total liabilities		**126,422**	121,403
Total equity and liabilities		**9,436,819**	9,606,206
Net current assets		**652,408**	776,811
Total assets less current liabilities		**9,310,397**	9,484,803

The notes on pages 64 to 128 are an integral part of these financial statements.

The financial statements on pages 56 to 63 were approved by the Board of Directors on 18 March 2014 and were signed on its behalf.

Consolidated Statement of Changes in Equity

Year ended 31 December 2013

	Note	Attributable to owners of the Company						
		Share capital RMB'000	Share premium account RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2012		54,562	2,135,560	(235,510)	4,840,560	6,795,172	4,739	6,799,911
Comprehensive income								
Profit for the year		—	—	—	176,719	176,719	17,085	193,804
Other comprehensive income								
Available-for-sale financial assets	19	—	—	137,194	—	137,194	—	137,194
Currency translation differences		—	—	(35,076)	—	(35,076)	—	(35,076)
Total other comprehensive income, net of tax		—	—	102,118	—	102,118	—	102,118
Total comprehensive income		—	—	102,118	176,719	278,837	17,085	295,922
Shares repurchased and cancelled	26	(973)	(83,403)	—	—	(84,376)	—	(84,376)
Dividends relating to 2012 interim	26, 32	—	(68,098)	371	—	(67,727)	—	(67,727)
Shares vested under Restricted Share Award Scheme		—	—	716	—	716	—	716
Total contributions by and distributions to owners of the Company, recognised directly in equity		(973)	(151,501)	1,087	—	(151,387)	—	(151,387)
Appropriation to statutory reserves		—	—	2,264	(2,264)	—	—	—
Total transactions with owners, recognised directly in equity		(973)	(151,501)	3,351	(2,264)	(151,387)	—	(151,387)
Balance at 31 December 2012		53,589	1,984,059	(130,041)	5,015,015	6,922,622	21,824	6,944,446

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

	Note	Attributable to owners of the Company						
		Share capital RMB'000	Share premium account RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2013		53,589	1,984,059	(130,041)	5,015,015	6,922,622	21,824	6,944,446
Comprehensive income								
Profit for the year		—	—	—	210,266	210,266	(7,198)	203,068
Other comprehensive income								
Available-for-sale financial assets	19	—	—	1,716,878	—	1,716,878	—	1,716,878
Currency translation differences		—	—	(122,652)	—	(122,652)	—	(122,652)
Total other comprehensive income, net of tax		—	—	1,594,226	—	1,594,226	—	1,594,226
Total comprehensive income		—	—	1,594,226	210,266	1,804,492	(7,198)	1,797,294
Dividends relating to 2012 final and 2013 interim	26, 32	—	(120,140)	589	—	(119,551)	—	(119,551)
Shares vested under Restricted Share Award Scheme		—	—	1,635	—	1,635	—	1,635
Total contributions by and distributions to owners of the Company, recognised directly in equity		—	(120,140)	2,224	—	(117,916)	—	(117,916)
Appropriation to statutory reserves		—	—	1,791	(1,791)	—	—	—
Total transactions with owners, recognised directly in equity		—	(120,140)	4,015	(1,791)	(117,916)	—	(117,916)
Balance at 31 December 2013		53,589	1,863,919	1,468,200	5,223,490	8,609,198	14,626	8,623,824

The notes on pages 64 to 128 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2013

	Note	Year ended 31 December 2013 RMB'000	2012 RMB'000
Cash flows from operating activities			
Cash generated from operations	33	**224,014**	256,950
Interest received		**85,761**	86,555
Income tax paid		**(39,074)**	(70,567)
Net cash generated from operating activities		**270,701**	272,938
Cash flows from investing activities			
Purchase of property, plant and equipment		**(8,448)**	(8,184)
Purchase of intangible assets		**(3,037)**	(3,327)
Proceeds from disposal of property, plant and equipment	33	**1,926**	1,476
Decrease in term deposits with initial terms of over three months and long term bank deposits		**1,470,707**	681,132
Increase in other financial assets		**(1,148,984)**	(1,192,882)
Dividends received from the investment in available-for-sale financial assets		**34,000**	19,385
Increase in available-for-sale financial assets		**(559,390)**	—
Proceeds from disposal of available-for-sale financial assets		**1,151**	—
Net cash used in investing activities		**(212,075)**	(502,400)
Cash flows from financing activities			
Repurchase of shares	26	**—**	(84,376)
Dividends paid	32	**(119,551)**	(67,727)
Net cash used in financing activities		**(119,551)**	(152,103)
Net decrease in cash and cash equivalents		**(60,925)**	(381,565)
Cash and cash equivalents at beginning of the year		**341,286**	722,882
Exchange gains/(losses) on cash and cash equivalents		**491**	(31)
Cash and cash equivalents at end of the year	25	**280,852**	341,286

The notes on pages 64 to 128 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

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 18 March 2014.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

2.1.1 Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2013:

- Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policies and disclosures (Continued)

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

- Amendment to IFRS 7, 'Financial instruments: Disclosures', on asset and liability offsetting. The amendments require new disclosure requirements which focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset.

- 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.

- IFRS 11, 'Joint arrangements' focuses on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. A joint operator accounts for its share of the assets, liabilities, revenue and expenses. Joint ventures arise where the investors have rights to the net assets of the arrangement; joint ventures are accounted for under the equity method. Proportional consolidation of joint arrangements is no longer permitted.

- IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities 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, which are largely aligned between IFRSs and US GAAP, 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.

- IAS 27 (revised 2011), 'Separate financial statements', includes the provisions on separate financial statement that are left after the control provisions of IAS 27 have been included in the new IFRS 10.

- Amendments to IAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policies and disclosures (Continued)

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing this consolidated financial statement. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

- Amendment to IFRS 2, 'Share-based payment', clarifies the definition of a 'vesting condition' and separately defines 'performance condition' and 'service condition'. The amendment to IFRS 2 is prospectively applied to share-based payment transactions for which the grant date is on or after 1 July 2014.

- Amendment to IFRS 8, 'Operating segments', require disclosure of the judgments made by management in aggregating operating segments and a reconciliation of segment assets to the entity's assets when segment assets are reported. An entity shall apply the amendments to IFRS 8 for annual periods beginning on or after 1 July 2014.

- 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. The Group is yet to assess IFRS 9's full impact. The Group will also consider the impact of the remaining phases of IFRS 9 when completed by the Board.

- Amendment to IFRS 13, 'Fair value measurement', clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including non-financial contracts) within the scope of IAS 39 or IFRS 9. An entity shall apply the amendment to IFRS 13 for annual periods beginning on or after 1 July 2014 and prospectively from the beginning of the first annual period in which IFRS 13 is applied.

- Amendment to IAS 24, 'Related Party Disclosures', the reporting entity is not required to disclose the compensation paid by the management entity (as a related party) to the management entity's employee or directors, but it is required to disclose the amounts charged to the reporting entity by the management entity for services provided. An entity shall apply the amendment to IAS 24 for annual periods beginning on or after 1 July 2014.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policies and disclosures (Continued)

(b) New standards and interpretations not yet adopted (Continued)

- IAS 32, 'Financial instruments: Presentation' on asset and liability offsetting. These amendments are to the application guidance in IAS 32, 'Financial instruments: Presentation', and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.

- IAS 36, 'Impairment of assets' on recoverable amount disclosures. This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

- IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognised. The Group is not currently subjected to significant levies so the impact on the Group is not material.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

2.2 Subsidiaries

2.2.1 Consolidation

(a) Subsidiaries

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries (Continued)

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, for a prolonged period, exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Jointly arrangements

The Group has applied IFRS 11 to all joint arrangements as of 1 January 2012. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Foreign currency translation (Continued)

(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'.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised 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 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. Currency translation differences arising are recognised in other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and 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 to their residual values over their estimated useful lives, as follows:

—	Buildings	20–35 years
—	Office furniture and equipment	2–15 years
—	Vehicles	5 years
—	Leasehold improvements	2–15 years or overlease term, whichever is shorter

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 gains, net', in the income statement.

2.7 Leasehold land use right

Leasehold 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 use rights is calculated on a straight-line basis over the period of the leases.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Intangible assets

(a) *Trademarks*

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.

(b) *Computer software*

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 2 to 5 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 not 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: 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) *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', 'other financial assets' and 'cash and bank balances' in the balance sheet (Note 2.14 and 2.15).

(b) *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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial assets (Continued)

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 amortised 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 realise the asset and settle the liability simultaneously.

2.12 Impairment of financial assets

(a) Assets carried at amortised cost

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

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 reorganisation, 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Impairment of financial assets (Continued)

(a) *Assets carried at amortised cost* (Continued)

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. 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. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

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 amortised 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, and deposits held at call with banks 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 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 realised 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.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, 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. Generally the Group is unable to control the reversal of the temporary difference for associates. Only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Employee benefits

(a) *Pension obligations*

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

Past-service costs are recognised immediately in income.

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*

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(c) *Termination benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when the Group can no longer withdraw the offer of those benefits. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(d) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 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. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 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 shares 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.

2.21 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.

2.22 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Revenue recognition (Continued)

(a) *Sales of goods — wholesale*

The Group manufactures and sells a range of sport-related apparel, footwear and accessories to its distributors in China and Japan. 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 China and Japan. Sales of goods are recognised when the Group sells a product to customers. Retail sales are usually in cash or by credit card.

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 acceptance by the customers. Transactions are settled by cash or 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) *Royalty income*

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Interest income

Interest income is recognised using the effective interest rate 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.

2.24 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.

2.25 Leases

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

2.26 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 currency 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 denominated in RMB 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 2013, if RMB had strengthened/weakened by 5% against the USD/HKD with all other variables held constant, post-tax profit for the year would have changed mainly as a result of foreign exchange losses/gains on translation of USD and HKD denominated cash and bank balances.

	2013 **RMB'000**	2012 RMB'000
Year ended 31 December:		
Profit for the year (decrease)/increase		
— Strengthened 5%	**(7,110)**	(7,089)
— Weakened 5%	**7,110**	7,089

(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.

(iii) Price risk

The Group is exposed to equity securities price risk because of the investments held by the Group and classified on the consolidated balance sheet as available-for-sale financial assets. The Group is not exposed to commodity price risk.

As at 31 December 2013, the fair value of the investment in Mecox Lane Limited ("Mecox Lane") (Note 19(g)), a company whose shares are listed on NASDAQ in the United States of America ("USA"), increased of RMB5,633,000 (2012: significantly decreased RMB22,221,000). Accordingly, the Group recognised a fair value change of RMB5,633,000 in other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk

The Group has no significant concentration of credit risk. The carrying amounts of cash and bank balances, other financial assets, available-for-sale 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 2013 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 2013 and 2012. Management does not expect any losses from non-performance of these banks.

		As at 31 December	
		2013	2012
	Rating (i)	**RMB'000**	RMB'000
Industrial and Commercial Bank of China	A-1	**544,095**	908,067
China Merchants Bank	A-2	**150,786**	538,146
China Minsheng Banking Corp., Ltd.	(ii)	**51,922**	356,988
Bank of Communications	A-2	**30,211**	343,240
HSBC Bank	A-1+	**67,651**	152,779
Shanghai Pudong Development Bank	(ii)	**1,820**	97,489
Others	(ii)	**250,312**	316,287
		1,096,797	2,712,996

(i) The source of the credit rating is from Standard & Poor as at 31 December 2013.

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

The Group's other financial assets as at 31 December 2013 of RMB3,551,091,000 (2012: RMB2,261,137,000) comprise unlisted treasury products issued by commercial banks in the PRC (Note 24). Management does not expect any losses from non-performance of these banks.

The Group's available-for-sale financial assets with credit risk as at 31 December 2013 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk

The Group has significant cash and bank balances and deposits in treasury products issued by banks 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	**The Company**
	RMB'000	RMB'000
At 31 December 2013		
Trade payables (Note 29)	**148,035**	**—**
Amounts due to subsidiaries (Note 13)	**—**	**124,404**
Accruals and other payables (Note 30)	**61,430**	**2,018**
	209,465	**126,422**
At 31 December 2012		
Trade payables (Note 29)	124,032	—
Amounts due to subsidiaries (Note 13)	—	121,160
Accruals and other payables (Note 30)	92,982	243
	217,014	121,403

All the balances are due within one year.

3.2 Capital 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 2013, the Group did not have any borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

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 financial assets and liabilities that are measured at fair value at 31 December 2013 and 2012:

At 31 December 2013	**Level 1 RMB'000**	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Assets				
Available-for-sale financial assets				
— Equity securities	**22,496**	**—**	**3,201,109**	**3,223,605**

At 31 December 2012	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale financial assets				
— Equity securities	20,011	—	1,006,576	1,026,587

There were no transfers between level 1 and 2 during the year.

(a) Financial instruments in level 1

The fair value of financial instruments traded in active markets is determined 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) held by the Group as available-for-sale financial assets.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

(b) Financial instruments in level 3

Instruments included in level 3 are the investments in unlisted entity securities held by the Group as available-for-sale financial assets including the 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).

The following table presents the changes in level 3 instruments for the year end 31 December 2013 and 2012:

	2013 RMB'000	2012 RMB'000
Available-for-sale financial assets in level 3		
At 1 January	1,006,576	931,090
Exchange differences	(48,985)	(1,708)
Additions	559,390	—
Change in fair value	1,711,245	137,194
Losses recognised in profit or loss	(27,118)	(60,000)
At 31 December	3,201,109	1,006,576
Total losses for the period including in profit or loss for assets held at the end of the reporting period	(27,118)	(60,000)
Total gains recognised in other comprehensive income for the period for assets held at the end of the reporting period	1,662,260	135,486

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

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 of the underlying business and other valuation techniques. 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 estimated cash flows 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 valuation results 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 market condition and sales. 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 in Japan 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.

(f) Impairment of investments in subsidiaries

Where there are indicators for impairment, the carrying value of the parent entity's investment in the subsidiaries in the parent's separate financial statements should also be reviewed for impairment. The recoverable amount has been determined based on the higher of fair value less costs to sell and value-in-use calculations. These calculations require the use of estimates (Note 13).

According to the value-in-use calculations, an impairment charge of RMB3,332,440,000 arose during the course of the 2012 year, resulting in the carrying amount of the investment in subsidiaries being written down to its recoverable amount. No further impairment arose during the course of the 2013 year.

4.2 Critical judgments in applying the entity's accounting policies

(a) 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 judgment. In making this judgment, 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 of the investments, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

As at 31 December 2013 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 RMB27,118,000 (2012: RMB82,221,000) in its financial statements for the year ended 31 December 2013 (Note 19).

(b) Inventory provision

Management makes provision for inventories based on historical experience and estimation of future market condition and sales. This requires significant judgment. As at 31 December 2013, in view of that the actual clearance sale of the out-season inventories during the year ended 31 December 2013 was better than the forecast, the Group reversed inventory provision of RMB30,665,000 (2012: RMB55,226,000).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

5 SEGMENT INFORMATION (Continued)

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 — includes distribution and retail of sport apparel under Kappa and other brands and international business which includes the provision of Kappa Brand products for other Kappa licencees in other countries. The investments in available-for-sale financial assets are also included since the underlying operations of the investee companies are in China.

- Japan — includes distribution and retail of sport apparel under Kappa, Phenix and other brands.

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

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

	China RMB'000	Japan RMB'000	Unallocated RMB'000	Total RMB'000
Year ended 31 December 2013				
Total revenue before inter-segment elimination	925,234	516,721	—	1,441,955
Inter-segment revenue	(21,393)	(6,870)	—	(28,263)
Revenue from external customers	903,841	509,851	—	1,413,692
Cost of goods sold	(405,252)	(327,932)	—	(733,184)
Reversal of impairment losses of inventories	28,209	2,456	—	30,665
Segment gross profit	526,798	184,375	—	711,173
Segment operating profit/(loss)	148,355	(16,490)	(47,940)	83,925
Finance income	189,426	4	5,670	195,100
Finance cost	(7,589)	(8,650)	11,938	(4,301)
Share of profits of jointly controlled entities	—	287	—	287
Profit/(loss) before income tax	330,192	(24,849)	(30,332)	275,011
Income tax expense	(71,003)	(940)	—	(71,943)
Profit/(loss) for the year	259,189	(25,789)	(30,332)	203,068
Material items of income and expense				
Depreciation and amortisation	21,585	7,405	—	28,990
Provision for impairment losses of available-for-sale financial assets	27,118	—	—	27,118
Provision for/(reversal of) impairment losses of trade and other receivables	102,964	(491)	—	102,473
Advertising and marketing expenses	28,883	14,698	—	43,581
Sales operating expenses	71,259	40,288	—	111,547

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

5 SEGMENT INFORMATION (Continued)

	China RMB'000	Japan RMB'000	Unallocated RMB'000	Total RMB'000
Year ended 31 December 2012				
Total revenue before inter-segment elimination	1,176,897	618,985	—	1,795,882
Inter-segment revenue	(12,035)	(12,030)	—	(24,065)
Revenue from external customers	1,164,862	606,955	—	1,771,817
Cost of goods sold	(570,047)	(360,132)	—	(930,179)
Reversal of/(provision for) impairment losses of inventories	59,318	(4,092)	—	55,226
Segment gross profit	654,133	242,731	—	896,864
Segment operating profit/(loss)	158,365	18,859	(88,662)	88,562
Finance income	164,716	6	13,127	177,849
Finance cost	(2,318)	5,723	1,909	5,314
Share of losses of jointly controlled entities	—	(771)	—	(771)
Profit before income tax	320,763	23,817	(73,626)	270,954
Income tax expense	(75,888)	(1,262)	—	(77,150)
Profit for the year	244,875	22,555	(73,626)	193,804
Material items of income and expense				
Depreciation and amortisation	26,622	10,028	—	36,650
Provision for impairment losses of available-for-sale financial assets	82,221	—	—	82,221
Provision for/(reversal of) impairment losses of trade and other receivables	26,362	(2,232)	—	24,130
Advertising and marketing expenses	89,398	17,191	—	106,589
Sales operating expenses	95,675	47,348	—	143,023

The loss of RMB47,940,000 (2012: RMB88,662,000) reported under "unallocated segment operating profit" comprised the cost of design and product development of Kappa Brand products incurred by the technical centre of the Group established for product development for both China and Japan markets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

5 SEGMENT INFORMATION (Continued)

A further analysis of sales by brands and activities in China and Japan segments is set out below:

	2013 RMB'000	2012 RMB'000
China		
— Distribution of Kappa Brand products	700,640	1,057,825
— Retail of Kappa Brand products	160,500	70,863
— International business and others	42,701	36,174
	903,841	1,164,862
Japan		
— Distribution and retail of Kappa Brand products	164,989	209,796
— Distribution and retail of Phenix Brand products	344,862	397,159
	509,851	606,955
	1,413,692	1,771,817

During the year ended 31 December 2013, revenues of approximately RMB148,648,000 (2012: nil) are derived from a single external customer. These revenues are attributable to China segment.

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 2013				
Interests in jointly controlled entities	—	15,591	—	15,591
Available-for-sale financial assets	3,223,605	—	—	3,223,605
Deferred income tax assets	97,829	—	—	97,829
Other assets	4,611,376	369,055	767,947	5,748,378
Total assets before inter-segment elimination	7,932,810	384,646	767,947	9,085,403
Inter-segment elimination	(21,699)	(10,529)	(84,877)	(117,105)
Segment assets	7,911,111	374,117	683,070	8,968,298
Deferred income tax liabilities	30,136	3,438	—	33,574
Current income tax liabilities	29,620	1,151	—	30,771
Other liabilities	146,266	166,301	29,068	341,635
Total liabilities before inter-segment elimination	206,022	170,890	29,068	405,980
Inter-segment elimination	(11,210)	(21,228)	(29,068)	(61,506)
Segment liabilities	194,812	149,662	—	344,474

5 SEGMENT INFORMATION (Continued)

	China RMB'000	Japan RMB'000	Unallocated RMB'000	Total RMB'000
As at 31 December 2012				
Interests in jointly controlled entities	—	15,562	—	15,562
Available-for-sale financial assets	1,026,587	—	—	1,026,587
Deferred income tax assets	93,665	—	—	93,665
Other assets	5,383,951	439,279	484,313	6,307,543
Total assets before inter-segment elimination	6,504,203	454,841	484,313	7,443,357
Inter-segment elimination	(8,424)	(13,749)	(92,105)	(114,278)
Segment assets	6,495,779	441,092	392,208	7,329,079
Deferred income tax liabilities	20,436	3,726	—	24,162
Current income tax liabilities	1,751	1,399	—	3,150
Other liabilities	236,760	142,779	36,343	415,882
Total liabilities before inter-segment elimination	258,947	147,904	36,343	443,194
Inter-segment elimination	(14,371)	(7,847)	(36,343)	(58,561)
Segment liabilities	244,576	140,057	—	384,633

As at 31 December 2013, the total non-current assets other than financial instruments and deferred tax assets located in the PRC amounted to RMB351,022,000 (2012: RMB326,715,000) and the total of these non-current assets located in other countries and places amounted to RMB74,989,000 (2012: RMB74,368,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

6 EXPENSES BY NATURE

The expenses included in cost of goods sold, reversal of impairment losses of inventories, distribution expenses and administrative expenses are analysed as follows:

	2013 RMB'000	2012 RMB'000
Cost of inventories recognised as cost of goods sold (Note 21)	720,666	913,823
Depreciation of property, plant and equipment (Note 14)	15,230	18,526
Amortisation of lease prepayments and intangible assets (Note 15, 16)	13,760	18,709
Advertising and marketing expenses	43,581	106,589
Sales operating expenses	111,547	143,023
Employee salary and benefit expenses (Note 8)	153,015	187,772
Design and product development expenses	47,940	88,662
Legal and consulting expenses	3,682	7,293
Operating lease in respect of buildings	31,558	40,709
Logistic fees	70,669	90,301
Reversal of impairment losses of inventories (Note 21)	(30,665)	(55,226)
Provision for impairment losses of trade and other receivables (Note 22)	102,473	24,130
Travelling expenses	18,344	28,899
Auditors' remuneration	3,704	4,469
Others	49,828	54,194
Total of cost of goods sold, reversal of impairment losses of inventories, distribution expenses and administrative expenses	1,355,332	1,671,288

7 OTHER GAINS, NET

	2013 RMB'000	2012 RMB'000
Government subsidy income	10,514	45,794
Royalty income	10,458	6,073
Disposal of shares in jointly controlled entities (Note 17)	—	(438)
Investment income from available-for-sale financial assets	34,000	19,385
Disposal of available-for-sale financial assets	1,151	—
Others, net	(3,440)	(560)
	52,683	70,254

Government subsidy income represents grants from the local finance bureaus as encouragement to the Company's subsidiaries' investments and is mainly calculated with reference to taxes paid by the subsidiaries. The income is recognised when there is a reasonable assurance that the subsidy will be received.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

8 EMPLOYEE SALARY AND BENEFIT EXPENSES, INCLUDING DIRECTORS' EMOLUMENTS

	2013 RMB'000	2012 RMB'000
Wages and salaries	98,351	129,571
Pension costs (Note (a))	17,461	20,948
Performance Units Plans (Note (b))	(11,981)	(4,167)
Restricted Share Award Scheme (Note 27(b))	1,635	716
Termination benefits	5,534	14,785
Staff quarters and other benefits	42,015	25,919
	153,015	187,772

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 13% to 22% (2012: 20% to 22%) in the PRC and 8.56% (2012: 8.4%) 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 Plans 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 2013, the Group did not grant any performance units (2012: nil) and no (2012: 15,389,000) performance units remain valid as at 31 December 2013. As at 31 December 2013, approximately RMB11,981,000 (2012: RMB4,167,000) of the provision was written-back and credited to the consolidated income statement for the year ended 31 December 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

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

Notes: (Continued)

(c) Directors' emoluments

The remuneration of each 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 2013						
Mr. Chen Yihong (b)	**141**	**1,797**	**236**	**44**	**37**	**2,255**
Mr. Qin Dazhong	**141**	**1,517**	**203**	**(1,056)**	**37**	**842**
Mr. Xiang Bing	**160**	**—**	**—**	**—**	**—**	**160**
Mr. Xu Yudi	**160**	**—**	**—**	**—**	**—**	**160**
Mr. Jin Zhi Guo (c)	**64**	**—**	**—**	**—**	**—**	**64**
Mr. Gao Yu (c)	**97**	**—**	**—**	**—**	**—**	**97**
	763	**3,314**	**439**	**(1,012)**	**74**	**3,578**
Year ended 31 December 2012						
Mr. Chen Yihong (b)	143	1,730	236	39	33	2,181
Mr. Qin Dazhong	143	1,465	203	348	33	2,192
Mr. Xiang Bing	162	—	—	—	—	162
Mr. Xu Yudi	162	—	—	—	—	162
Mr. Jin Zhi Guo (c)	162	—	—	—	—	162
	772	3,195	439	387	66	4,859

Note:

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

(b) Mr. Chen Yihong is also the chief executive of the Group.

(c) Mr. Jin Zhiguo has resigned as an independent non-executive director and the member of the audit committee and nomination committee of the Company with effect from 24 May 2013. On the same date, Mr. Gao Yu was appointed as an independent non-executive director and a member of the audit committee and nomination 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 one (2012: two) director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2012: three) individuals during the year are as follows:

	2013 RMB'000	2012 RMB'000
Basic salaries, bonus, share options, Performance Unit Plan and other allowances and benefits in kind	6,451	7,431
Pension costs	113	66
	6,564	7,497

The emoluments fell within the following bands:

	Number of individuals 2013	2012
Emolument bands:		
RMB810,851 to RMB1,621,700 (HKD1,000,001 to HKD2,000,000)	1	1
RMB1,621,701 to RMB2,432,550 (HKD2,000,001 to HKD3,000,000)	3	1
RMB2,432,551 to RMB4,054,250 (HKD3,000,001 to HKD5,000,000)	—	1
	4	3

9 FINANCE INCOME, NET

	2013 RMB'000	2012 RMB'000
Finance income:		
— Interest income from bank deposits	54,130	100,228
— Income from other financial assets	140,970	77,621
	195,100	177,849
Finance cost:		
— Foreign exchange (losses)/gains, net	(1,020)	11,171
— Others	(3,281)	(5,857)
	(4,301)	5,314
Finance income, net	190,799	183,163

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

10 INCOME TAX EXPENSE

	2013 RMB'000	2012 RMB'000
Current income tax		
— PRC corporate income tax ("CIT")	65,466	63,575
— Taxation in Japan	1,229	1,458
Deferred income tax (Note 20)	5,248	12,117
	71,943	77,150

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 2013 (2012: nil).

According to the New corporate income tax Law ("New CIT Law"), distribution of profits earned by PRC companies since 1 January 2008 to foreign investors is subject to withholding tax of 5% or 10%, depending on the country of incorporation of the foreign investor, upon the distribution of profits to overseas-incorporated immediate holding companies. During the year ended 31 December 2012, the major operating subsidiary of the Group obtained approval from tax bureau on 5% withholding income tax rate. As at 31 December 2013, the Group had provided a deferred withholding tax liability amounted to RMB30,136,000 (2012: RMB20,436,000) 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 2013 applicable to the subsidiary is 30% (2012: 30%) of 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 2013 (2012: 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:

	2013 RMB'000	2012 RMB'000
Profit before income tax	**275,011**	270,954
Tax calculated at the statutory tax rate of 25% (2012: 25%) from PRC operating subsidiaries	**68,753**	67,739
Tax effects of:		
— Utilisation of previous unrecognised tax losses	**(4,805)**	(1,862)
— Tax losses for which no deferred income tax asset was recognised	**16,425**	24,544
— Preferential tax rates on the profits of certain subsidiaries	**(4,453)**	(5,896)
— Income not subject to tax	**(4,174)**	(1,827)
— Expenses not deductible for tax purpose	**2,384**	1,915
Withholding income tax on the profits of PRC subsidiaries to be distributed to foreign investors	**9,700**	(6,564)
Others	**(11,887)**	(899)
Income tax expense	**71,943**	77,150

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.

	2013	2012
Profit attributable to owners of the Company (RMB'000)	**210,266**	176,719
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme (thousands)	**5,508,643**	5,538,588
Basic earnings per share (RMB cents per share)	**3.82**	3.19

(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 2013, there was no potential diluted ordinary share (2012: Nil) and therefore no diluted earnings per share is presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

12 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to owners of the Company for the year ended 31 December 2013 is dealt with in the financial statements of the Company to the extent of approximately RMB20,105,000 (2012: loss of RMB3,285,911,000).

13 INTERESTS IN SUBSIDIARIES — COMPANY

(a) Investments in subsidiaries

	2013 RMB'000	2012 RMB'000
Interests in subsidiaries		
Unlisted investments, at cost	10,123,862	10,123,862
Contribution related to share based payments	28,457	28,457
Contribution related to the Restricted Share Award Scheme (Note 27(b))	87,138	87,138
	10,239,457	10,239,457
Less: provision for impairment	(3,332,440)	(3,332,440)
	6,907,017	6,907,017

Notes:

(i) The particulars of the principal subsidiaries of the Group are set in Note 37 to the consolidated financial statements.

(ii) Impairment tests for interests in subsidiaries

In the assessment of the provision for impairment of subsidiaries, the interests in subsidiaries engaged in the distribution and retail of sport apparel in China amounting to RMB10,097,316,000 were viewed as one cash-generating unit ("China CGU"). The recoverable amounts of the CGU have been determined based on value-in-use calculations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

13 INTERESTS IN SUBSIDIARIES — COMPANY (Continued)

(b) Loans to and from subsidiaries

	2013 RMB'000	2012 RMB'000
Amounts due from subsidiaries		
Loans to subsidiaries		
— non-current portion	1,750,972	1,800,975
Loans to subsidiaries		
— current portion	46,612	46,054
Dividends receivable	30,578	30,578
	77,190	76,632
Amounts due to subsidiaries		
Loans from subsidiaries	120,226	120,636
Others	4,178	524
	124,404	121,160

Notes:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

13 INTERESTS IN SUBSIDIARIES — COMPANY (Continued)

(c) Material non-controlling interests

The total non-controlling interests for the period is RMB14,626,000, of which RMB20,697,000 is for Phenix Co., Ltd. The non-controlling interest in respect of Beijing Wing in Phenix Sports Goods Co., Ltd. is not material.

Summarised financial information on subsidiaries with material non-controlling interests

Set out below are the summarised financial information for each subsidiary that has non-controlling interests that are material to the Group.

Summarised balance sheet

	Phenix Co., Ltd.	
	2013	2012
	RMB'000	RMB'000
Current		
Assets	**308,931**	356,078
Liabilities	**(164,870)**	(140,935)
Total current net assets	**144,061**	215,143
Non-current		
Assets	**65,462**	88,177
Liabilities	**(217,221)**	(274,729)
Total non-current net liabilities	**(151,759)**	(186,552)
Net (liabilities)/assets	**(7,698)**	28,591

Summarised income statement

	Phenix Co., Ltd.	
	2013	2012
	RMB'000	RMB'000
Revenue	**516,721**	618,985
(Loss)/profit before income tax	**(36,992)**	217,151
Income tax expense	**(1,014)**	(1,335)
Post-tax (loss)/profit	**(38,006)**	215,816
Total comprehensive (loss)/income	**(38,006)**	215,816
Total comprehensive (loss)/income allocated to Non-Controlling Interests	**(3,421)**	19,423

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

13 INTERESTS IN SUBSIDIARIES — COMPANY (Continued)

(c) Material non-controlling interests (Continued)

Summarised financial information on subsidiaries with material non-controlling interests (Continued)

Summarised cash flows

	Phenix Co., Ltd.	
	2013	2012
	RMB'000	RMB'000
Cash flows from operating activities		
Cash generated from operations	**69,150**	313,927
Interest paid	**(2,885)**	(3,525)
Income tax paid	**(1,477)**	(583)
Net cash generated from operating activities	**64,788**	309,819
Net cash generated from/(used) in investing activities	**143**	(52,126)
Net cash used in financing activities	**(57,293)**	(238,258)
Net increase in cash and cash equivalents	**7,638**	19,435
Cash and cash equivalents at beginning of year	**104,665**	90,035
Exchange losses on cash and cash equivalents	**(19,768)**	(4,805)
Cash and cash equivalents at end of year	**92,535**	104,665

The information above is the amount before inter-company eliminations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

14 PROPERTY, PLANT AND EQUIPMENT — GROUP

	Freehold land	Buildings	Office furniture and equipment	Vehicles	Leasehold improvements	Construction –in-progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2012							
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
Year ended 31 December 2012							
Opening net book amount	5,639	68,492	25,383	3,673	13,335	92	116,614
Additions	—	30	4,999	—	1,637	1,518	8,184
Disposals							
— Cost	—	—	(2,254)	(1,646)	—	(733)	(4,633)
— Depreciation	—	—	1,517	1,167	—	—	2,684
Depreciation (Note 6)	—	(2,974)	(10,630)	(1,237)	(3,685)	—	(18,526)
Exchange difference	(383)	(295)	(1,177)	—	(1,217)	(50)	(3,122)
Closing net book amount	5,256	65,253	17,838	1,957	10,070	827	101,201
At 31 December 2012							
Cost	5,108	87,120	55,870	8,345	19,768	877	177,088
Accumulated depreciation	—	(22,269)	(37,879)	(6,388)	(10,229)	—	(76,765)
Accumulated impairment	(129)	—	(890)	—	—	—	(1,019)
Exchange difference	277	402	737	—	531	(50)	1,897
Net book amount	5,256	65,253	17,838	1,957	10,070	827	101,201
Year ended 31 December 2013							
Opening net book amount	**5,256**	**65,253**	**17,838**	**1,957**	**10,070**	**827**	**101,201**
Additions	**—**	**56**	**5,320**	**2**	**2,344**	**726**	**8,448**
Disposals							
— Cost	**—**	**(536)**	**(3,806)**	**(864)**	**(1,112)**	**(1,466)**	**(7,784)**
— Depreciation	**—**	**350**	**2,388**	**821**	**1,008**	**—**	**4,567**
Depreciation (Note 6)	**—**	**(3,376)**	**(8,512)**	**(666)**	**(2,676)**	**—**	**(15,230)**
Exchange difference	**(727)**	**(479)**	**(1,943)**	**—**	**(2,059)**	**(87)**	**(5,295)**
Impairment charges	**—**	**—**	**60**	**—**	**—**	**—**	**60**
Closing net book amount	**4,529**	**61,268**	**11,345**	**1,250**	**7,575**	**—**	**85,967**
At 31 December 2013							
Cost	**5,108**	**86,640**	**57,384**	**7,483**	**21,000**	**137**	**177,752**
Accumulated depreciation	**—**	**(25,295)**	**(44,003)**	**(6,233)**	**(11,897)**	**—**	**(87,428)**
Accumulated impairment	**(129)**	**—**	**(830)**	**—**	**—**	**—**	**(959)**
Exchange difference	**(450)**	**(77)**	**(1,206)**	**—**	**(1,528)**	**(137)**	**(3,398)**
Net book amount	**4,529**	**61,268**	**11,345**	**1,250**	**7,575**	**—**	**85,967**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

14 PROPERTY, PLANT AND EQUIPMENT — GROUP (Continued)

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

	2013 RMB'000	2012 RMB'000
Distribution and selling expenses	4,980	6,536
Administrative expenses	7,774	9,236
Manufacturing overheads included under cost of goods sold	2,476	2,754
	15,230	18,526

There is no pledge of property, plant and equipment of the Group as at 31 December 2013 and 2012.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

15 LEASE PREPAYMENTS — GROUP

	Lease prepayments for land use rights RMB'000	Lease prepayments for stores RMB'000	Total RMB'000
At 1 January 2012			
Cost	14,262	172,787	187,049
Accumulated amortisation	(1,681)	(172,580)	(174,261)
Net book amount	12,581	207	12,788
Year ended 31 December 2012			
Opening net book amount	12,581	207	12,788
Disposals			
— Cost	—	(172,787)	(172,787)
— Amortisation	—	172,787	172,787
Amortisation (Note 6)	(288)	(207)	(495)
Closing net book amount	12,293	—	12,293
At 31 December 2012			
Cost	14,262	172,787	187,049
Accumulated amortisation	(1,969)	(172,787)	(174,756)
Net book amount	12,293	—	12,293
Year ended 31 December 2013			
Opening net book amount	**12,293**	**—**	**12,293**
Amortisation (Note 6)	**(285)**	**—**	**(285)**
Closing net book amount	**12,008**	**—**	**12,008**
At 31 December 2013			
Cost	**14,262**	**172,787**	**187,049**
Accumulated amortisation	**(2,254)**	**(172,787)**	**(175,041)**
Net book amount	**12,008**	**—**	**12,008**

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 2013, the remaining lease period of the land use right is 42 years.

Lease prepayments for stores mainly represent prepayment of rental for lease of flagship stores which are onward leased to distributors of the Group. During the year ended 31 December 2012, the Group has terminated all the flagship stores' leases.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

16 INTANGIBLE ASSETS — GROUP

	KAPPA trademarks RMB'000	Phenix trademark and others RMB'000	Computer software RMB'000	Total RMB'000
At 1 January 2012				
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
Year ended 31 December 2012				
Opening net book amount	261,041	7,817	20,253	289,111
Additions	—	—	3,327	3,327
Amortisation charge (Note 6)	(7,660)	(215)	(9,961)	(17,836)
Exchange difference	(2,174)	—	(401)	(2,575)
Closing net book amount	251,207	7,602	13,218	272,027
At 31 December 2012				
Cost	397,569	8,605	59,619	465,793
Accumulated amortisation	(148,264)	(1,003)	(47,025)	(196,292)
Exchange difference	1,902	—	624	2,526
Net book amount	251,207	7,602	13,218	272,027
Year ended 31 December 2013				
Opening net book amount	**251,207**	**7,602**	**13,218**	**272,027**
Additions	**—**	**—**	**3,037**	**3,037**
Amortisation charge (Note 6)	**(7,566)**	**(215)**	**(5,694)**	**(13,475)**
Exchange difference	**(3,992)**	**—**	**(456)**	**(4,448)**
Closing net book amount	**239,649**	**7,387**	**10,105**	**257,141**
At 31 December 2013				
Cost	**397,569**	**8,605**	**62,656**	**468,830**
Accumulated amortisation	**(155,830)**	**(1,218)**	**(52,719)**	**(209,767)**
Exchange difference	**(2,090)**	**—**	**168**	**(1,922)**
Net book amount	**239,649**	**7,387**	**10,105**	**257,141**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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 and selling expenses 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

	2013 **RMB'000**	2012 RMB'000
At 1 January	**15,562**	18,909
Disposal of equity interest in a jointly controlled entity	**—**	(438)
Share of profits/(losses)	**287**	(771)
Exchange differences	**(258)**	(2,138)
At 31 December, share of net assets	**15,591**	15,562

Nature of investment in joint ventures in year 2013 and 2012

Company name	**Country of incorporation**	**Particulars of issued/registered capital**	**Interest held**	**Principal activities**	**Measurement method**
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	Equity

In 2012, the Group terminated its investment in Shanghai Fengda Garment Co., Ltd. (上海鳳達服裝有限公司) upon expiry of the joint venture arrangement, and resulted in a loss of RMB438,000.

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.

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17 INTERESTS IN JOINTLY CONTROLLED ENTITIES — GROUP (Continued)

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	
	2013	2012
	RMB'000	RMB'000
Total assets	**20,616**	19,593
Total liabilities	**(5,024)**	(4,031)

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Revenue	**14,945**	20,644
Share of gains/(losses) after income tax for the year	**287**	(771)

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18 FINANCIAL INSTRUMENTS BY CATEGORY — GROUP AND COMPANY

(a) Group

	Available-for-sale RMB'000	Loans and receivables RMB'000	Total RMB'000
Assets as per balance sheet			
As at 31 December 2013			
Available-for-sale financial assets (Note 19)	**3,233,605**	**—**	**3,233,605**
Other financial assets (Note 24)	**—**	**3,551,091**	**3,551,091**
Trade and other receivables excluding prepayments (Note 22 and 23)	**—**	**378,229**	**378,229**
Cash and bank balances (Note 25)	**—**	**1,096,797**	**1,096,797**
	3,233,605	**5,026,117**	**8,259,722**
As at 31 December 2012			
Available-for-sale financial assets (Note 19)	1,026,587	—	1,026,587
Other financial assets (Note 24)	—	2,261,137	2,261,137
Trade and other receivables excluding prepayments (Note 22 and 23)	—	534,194	534,194
Cash and bank balances (Note 25)	—	2,712,996	2,712,996
	1,026,587	5,508,327	6,534,914

	Other financial liabilities at amortised cost	
	2013	2012
	RMB'000	RMB'000
Liabilities as per balance sheet		
Trade and other payables (Note 29 and 30)	**209,465**	217,014

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(b) Company

	Loans and receivables	
	2013	2012
	RMB'000	RMB'000
Assets		
Amounts due from subsidiaries (Note 13)	**1,828,162**	1,877,607
Trade and other receivables (Note 22 and 23)	**18,570**	10,093
Other financial assets (Note 24)	**437,813**	419,281
Cash and bank balances (Note 25)	**245,257**	392,208
	2,529,802	2,699,189

	Other financial liabilities at amortised cost	
	2013	2012
	RMB'000	RMB'000
Liabilities		
Amounts due to subsidiaries (Note 13)	**124,404**	121,160
Accruals and other payables (Note 30)	**2,018**	243
	126,422	121,403

19 AVAILABLE-FOR-SALE FINANCIAL ASSETS — GROUP

	2013	2012
	RMB'000	RMB'000
At 1 January	**1,026,587**	973,398
Currency translation differences	**(49,632)**	(1,784)
Additions	**559,390**	—
Disposals	**(2,500)**	—
Change in fair value	**1,716,878**	137,194
Impairment losses	**(27,118)**	(82,221)
At 31 December	**3,223,605**	1,026,587

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

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

	2013 RMB'000	2012 RMB'000
Unlisted equity securities in the PRC		
— MSYH Group (Note (a))	70,000	70,000
— Yunfeng E-commerce Funds (Note (b))	2,427,785	765,576
— Yunfeng Fund II (Note (c))	6,071	—
— CITIC Mezzanine Fund I (Note (d))	276,253	150,000
— Rongyu Fund (Note (e))	200,000	—
— Tebon Fund (Note (f))	200,000	—
— Other investment	21,000	21,000
Listed equity securities in the US		
— Mecox Lane (Note (g))	22,496	20,011
	3,223,605	1,026,587
Market value of listed securities	22,496	20,011

Available-for-sale financial assets are denominated in the following currencies:

	2013 RMB'000	2012 RMB'000
US dollar	2,456,352	785,587
Renminbi	767,253	241,000
	3,223,605	1,026,587

Notes:

(a) This represents the Group's holding of 22.05% equity interests in Mai Sheng Yue He Sporting Goods Co., Limited which owns various companies engaging in the distribution and retail of sport-related products in various provinces in the PRC ("MSYH Group"). The fair value of the investment in MSYH Group as at the balance sheet date is determined with reference to a valuation model based on estimated discounted cash flows.

(b) In September 2011, the Group subscribed for limited partnership agreements with Yunfeng E-commerce funds ("Yunfeng E-commerce 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 at historical exchange rate), which had been fully paid as at 31 December 2012. The Yunfeng E-commerce 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 2013, the investment was stated at fair value, and an unrealised fair value increment of RMB1,711,245,000 (2012: RMB137,194,000) was charged to other comprehensive income.

(c) In May 2013, the Group subscribed for limited partnership interests with a total capital commitment of USD20,000,000 in Yunfeng Fund II. The Yunfeng fund II is a limited partnership established for the purpose of making equity investments in the PRC. As at 31 December 2013, the Group has paid USD1,540,000 (equivalent to RMB9,390,000 at historical exchange rate), being 8% of the capital commitment.

As at 31 December 2013, the investment was stated at fair value of RMB6,071,000. The decline in fair values of the investment was considered other-than-temporary. Accordingly, the Group recognised a loss of RMB3,370,000 in respect of provision for impairment of this investment.

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

Notes: (Continued)

(d) In September 2011, 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. In November 2011 and June 2013, the Group had paid RMB150,000,000 respectively.

As at 31 December 2013, the investment was stated at fair value of RMB276,253,000. The decline in fair values of the investment was considered other-than-temporary. Accordingly, the Group recognised a loss of RMB23,748,000 in respect of provision for impairment of this investment.

(e) In May 2013, the Group subscribed for limited partnership interests with a total capital commitment of RMB200,000,000 in Rongyu Fund. The Rongyu Fund is a limited partnership established for the purpose of making equity investments in the PRC. As at 31 December 2013, the Group has fully paid the capital commitment and the investment was stated at fair value.

(f) In October 2013, the Group subscribed for limited partnership interests with a total capital commitment of RMB200,000,000 in Tebon Innovation Fund ("Tebon Fund"). The Tebon Fund is a limited partnership established for the purpose of making equity investments in the PRC. As at 31 December 2013, the Group has fully paid the capital commitment and the investment was stated at fair value.

(g) In March 2011, the Group purchased 40,519,226 ordinary shares of Mecox Lane Limited ("Mecox Lane"), representing approximately 10% of the issued shares of Mecox Lane, at a price of USD0.8571 per share, totaling USD34,729,000 (equivalent to approximately RMB228,295,000). Mecox Lane is a company listed on NASDAQ in the United States of America and engaged in sales of apparel and accessories on online platforms in the PRC. 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-year's period starting from 25 March 2011.

During the year ended 31 December 2013, the Group disposed 5,138,420 shares of Mecox Lane, and had recognised disposal gains of approximately RMB1,151,000.

As at 31 December 2013, the rest of the investment in Mecox Lane was stated at fair value of RMB22,496,000 which was determined with reference to the quoted price of the listed shares of Mecox Lane. The increase in fair value of RMB5,633,000 was charged to other comprehensive income (2012: decline of RMB22,221,000 charged to impairment loss).

20 DEFERRED INCOME TAX — GROUP

	2013 RMB'000	2012 RMB'000
Deferred income tax assets		
— To be recovered after more than 12 months	9,381	—
— To be recovered within 12 months	88,448	93,665
	97,829	93,665
Deferred income tax liabilities		
— To be recovered after more than 12 months	(33,501)	(24,089)
— To be recovered within 12 months	(73)	(73)
	(33,574)	(24,162)

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

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20 DEFERRED INCOME TAX — GROUP (Continued)

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

Deferred income 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 2012	35,674	54,895	10,000	11,973	112,542
(Charged)/credited to the income statement (Note 10)	(18,168)	(15,442)	6,590	8,143	(18,877)
At 31 December 2012	17,506	39,453	16,590	20,116	93,665
(Charged)/credited to the income statement (Note 10)	(10,629)	(10,114)	25,732	(825)	4,164
At 31 December 2013	**6,877**	**29,339**	**42,322**	**19,291**	**97,829**

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 2012	(3,005)	(27,000)	(917)	(30,922)
Credited to the income statement (Note 10)	73	6,564	123	6,760
At 31 December 2012	(2,932)	(20,436)	(794)	(24,162)
Credited/(charged) to the income statement (Note 10)	73	(9,700)	215	(9,412)
At 31 December 2013	**(2,859)**	**(30,136)**	**(579)**	**(33,574)**

As at 31 December 2013, deferred income tax assets of RMB102,448,000 (2012: RMB133,661,000) have not been recognised in respect of the tax losses amounting to RMB409,792,000 (2012: RMB483,125,000) which can be carried forward against future taxable income. The tax losses mainly resulted from accumulated operating losses of the subsidiaries of the Group.

As at 31 December 2013, deferred income tax liabilities of RMB9,740,000 (2012: RMB10,538,000) have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries amounting to RMB38,959,000 (2012: RMB42,153,000). Such amounts are intended to be permanently reinvested.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

21 INVENTORIES — GROUP

	2013 RMB'000	2012 RMB'000
Finished goods		
— Carried at cost	105,835	106,244
— Carrie at net realisable value	55,766	160,225
Raw materials and others		
— Carried at cost	19,932	19,308
— Carried at net realisable value	1,225	1,548
	182,758	287,325

The cost of inventories recognised as cost of goods sold amounted to approximately RMB720,666,000 (2012: RMB913,823,000) (Note 6) for the year ended 31 December 2013.

As at 31 December 2013, in view of that the actual clearance sales of the out-season inventories during the year ended 31 December 2013 was better than the forecast, the Group reversed inventory provision of RMB30,665,000 (2012: RMB55,226,000).

22 TRADE RECEIVABLES — GROUP AND COMPANY

	Group		Company	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Trade receivables				
— Third parties	353,455	364,092	—	—
— Related parties (Note 35(b))	163,250	131,720	13,198	—
	516,705	495,812	13,198	—
Less: provision for impairment	(183,664)	(81,688)	—	—
Trade receivables, net	333,041	414,124	13,198	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

22 TRADE RECEIVABLES — GROUP AND COMPANY (Continued)

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 2013 and 2012 was as follows:

	Group		Company	
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Current	223,509	201,497	13,198	—
Within 30 days	37,274	75,717	—	—
31 to 120 days	90,579	98,717	—	—
Over 120 days	165,343	119,881	—	—
	516,705	495,812	13,198	—

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

As at 31 December 2013, trade receivables of RMB293,196,000 (2012: RMB294,315,000) were past due, of which RMB183,664,000 (2012: RMB81,688,000) 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 in provision for impairment of trade receivables are as follows:

	Group		Company	
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	81,688	58,029	—	—
Provision for impairment losses of receivables	102,473	24,130	—	—
Exchange difference	(497)	(471)	—	—
At 31 December	183,664	81,688	—	—

23 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES — GROUP AND COMPANY

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current portion:				
Advance payments to suppliers	**7,544**	8,943	**—**	—
Interest receivables	**9,956**	41,564	**464**	2,339
Deposits for operating leases	**16,430**	12,280	**—**	—
Other receivables	**23,236**	25,489	**4,908**	7,754
	57,166	88,276	**5,372**	10,093
Non-current portion:				
Loans granted to the MSYH Group (Note 35(b))	**18,723**	19,445	**—**	—
Deposits for operating leases	**36,581**	24,441	**—**	—
	55,304	43,886	**—**	—

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 AND COMPANY

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Treasury products issued by commercial banks	**3,551,091**	2,261,137	**437,813**	419,281

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 4.8 % to 6.0 % (2012: 3.7% to 6.0%) per annum, denominated in RMB and with maturity periods within one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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25 CASH AND BANK BALANCES — GROUP AND COMPANY

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Restricted bank deposits	**52,376**	137,434	**—**	—
Term deposits with initial terms over three months and within one year	**763,569**	2,234,276	**231,726**	352,877
Cash and cash equivalents	**280,852**	341,286	**13,531**	39,331
	1,096,797	2,712,996	**245,257**	392,208

The restricted bank deposits as at 31 December 2013 comprised deposits held in bank accounts for issue of letters of credit for certain subsidiaries of the Group. As at 31 December 2013, the average interest rate on the restricted bank deposits was 2.03% (2012: 2.46%) per annum.

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

As at 31 December 2013 and 2012, the cash and bank balances were denominated in the following currencies:

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**558,930**	2,021,968	**94,350**	90,061
USD	**139,508**	238,617	**127,086**	211,443
HKD	**313,590**	373,276	**23,821**	90,704
JPY	**84,083**	78,916	**—**	—
Others	**686**	219	**—**	—
	1,096,797	2,712,996	**245,257**	392,208

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.

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26 SHARE CAPITAL AND SHARE PREMIUM ACCOUNT — GROUP AND COMPANY

	Authorised capital	
	Number of ordinary shares of par value	Nominal value of ordinary shares
	HKD$0.01	HKD'000
At 31 December 2013 and 2012	10,000,000,000	100,000

	Issued and fully paid				
	Number of issued ordinary shares of par value	Nominal value of issued ordinary shares	Equivalent nominal value of issued ordinary shares in RMB	Share premium account	Total
	HKD$0.01	HKD'000	RMB'000	RMB'000	RMB'000
At 1 January 2012	5,636,401,000	56,365	54,562	2,135,560	2,190,122
Shares repurchased and cancelled (Note (a))	(100,000,000)	(1,000)	(973)	(83,403)	(84,376)
Dividends paid (Note 32)	—	—	—	(68,098)	(68,098)
At 31 December 2012	5,536,401,000	55,365	53,589	1,984,059	2,037,648
At 1 January 2013	**5,536,401,000**	**55,365**	**53,589**	**1,984,059**	**2,037,648**
Dividends paid (Note 32)	**—**	**—**	**—**	**(120,140)**	**(120,140)**
At 31 December 2013	**5,536,401,000**	**55,365**	**53,589**	**1,863,919**	**1,971,508**
Represented by:					
Proposed dividend (Note 32)				82,492	
Share premium reserve				1,781,427	
				1,863,919	

(a) During the year ended 31 December 2012, the Company repurchased a total of 100,000,000 its own shares listed on the Main Board of The Stock Exchange of Hong Kong Limited. The aggregate consideration paid was HKD104,209,000 (equivalent to RMB84,376,000). 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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

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.

No share options had been granted by the Company during the years ended 31 December 2012 and 2013 and there were no outstanding share options granted as at 31 December 2013.

(b) Restricted Share Award Scheme

The Company adopted the Restricted Share Award Scheme (Note 2.20(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 shares 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 in the consolidated income statement of the Group.

During the year ended 31 December 2013, 1,700,000 shares, out of the 30,000,000 shares purchased from the open market in 2010 as described above, with the fair value of RMB1,635,000 (2012: 938,000 shares with the fair value of RMB716,000) were granted to two members of senior management under Restricted Share Award Scheme.

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28 RESERVES — GROUP AND COMPANY

	Group							
	Capital reserves RMB'000	Share-based compensation reserve RMB'000	Statutory reserves RMB'000	Exchange reserve RMB'000	Fair value reserve RMB'000	Shares held for Restricted Share Award Scheme RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2012	298,744	1,342	17,783	(466,241)	—	(87,138)	4,840,560	4,605,050
Profit for the year	—	—	—	—	—	—	176,719	176,719
Change in fair value of available-for-sale financial assets (Note 19)	—	—	—	—	137,194	—	—	137,194
Foreign currency translation reserve (Note (b))	—	—	—	(35,076)	—	—	—	(35,076)
Dividends relating to the shares held for Restricted share Award Scheme (Note 27(b))	371	—	—	—	—	—	—	371
Appropriation to statutory reserve (Note (c))	—	—	2,264	—	—	—	(2,264)	—
Shares vested under Restricted Share Award Scheme	(2,725)	716	—	—	—	2,725	—	716
At 31 December 2012	296,390	2,058	20,047	(501,317)	137,194	(84,413)	5,015,015	4,884,974
At 1 January 2013	**296,390**	**2,058**	**20,047**	**(501,317)**	**137,194**	**(84,413)**	**5,015,015**	**4,884,974**
Profit for the year	—	—	—	—	—	—	**210,266**	**210,266**
Change in fair value of available-for-sale financial assets (Note 19)	—	—	—	—	**1,716,878**	—	—	**1,716,878**
Foreign currency translation reserve (Note (b))	—	—	—	**(122,652)**	—	—	—	**(122,652)**
Dividends relating to the shares held for Restricted share Award Scheme (Note 27(b))	**589**	—	—	—	—	—	—	**589**
Appropriation to statutory reserves (Note (c))	—	—	**1,791**	—	—	—	**(1,791)**	—
Shares vested under Restricted Share Award Scheme	**(4,938)**	**1,635**	—	—	—	**4,938**	—	**1,635**
At 31 December 2013	**292,041**	**3,693**	**21,838**	**(623,969)**	**1,854,072**	**(79,475)**	**5,223,490**	**6,691,690**

	Company				
	Capital reserves RMB'000	Share-based compensation reserve RMB'000	Exchange reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2012	10,052,372	1,342	(611,893)	1,297,442	10,739,263
Loss for the year (Note 12)	—	—	—	(3,285,911)	(3,285,911)
Foreign currency translation reserve (Note (b))	—	—	(6,197)	—	(6,197)
At 31 December 2012	10,052,372	1,342	(618,090)	(1,988,469)	7,447,155
At 1 January 2013	**10,052,372**	**1,342**	**(618,090)**	**(1,988,469)**	**7,447,155**
Profit for the year (Note 12)	—	—	—	**20,105**	**20,105**
Foreign currency translation reserve (Note (b))	—	—	**(74,371)**	—	**(74,371)**
At 31 December 2013	**10,052,372**	**1,342**	**(692,461)**	**(1,968,364)**	**7,392,889**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

28 RESERVES — GROUP AND COMPANY (Continued)

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 reorganisations 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 2013 and 2012 was as follows:

	2013	2012
	RMB'000	RMB'000
Current	**119,107**	115,878
Within 30 days	**5,231**	1,543
31 to 120 days	**15,739**	21
Over 120 days	**7,958**	6,590
	148,035	124,032

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**	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Advance receipts from customers	**15,820**	54,852	**—**	—
Salary and welfare payable	**21,953**	50,429	**—**	—
Other taxes and levies payable	**15,055**	12,255	**—**	—
Accruals and other payables	**61,430**	92,982	**2,018**	243
	114,258	210,518	**2,018**	243

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

31 PROVISIONS — GROUP

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

The movements in provisions for the year were as follows:

	2013 RMB'000	2012 RMB'000
At 1 January	22,771	27,184
Utilisation	(35,674)	(67,890)
Provision	30,739	63,477
At 31 December	17,836	22,771

32 DIVIDENDS

	2013 RMB'000	2012 RMB'000
Interim dividend paid of RMB0.50 cent (2012: 0.53 cent) per share	27,682	29,343
Interim special dividend paid of RMB0.67 cent (2012: 0.70 cent) per share	37,094	38,755
Proposed final dividend of RMB0.64 cent (2012: 0.43 cent) per share	35,433	23,807
Proposed final special dividend of RMB0.85 cent (2012: 0.57 cent) per share	47,059	31,557
	147,268	123,462

The dividends paid in 2013 amounted to RMB120,140,000 or RMB2.17 cents per share (2012: RMB68,098,000 or RMB1.23 cents per share), comprising 2012 final dividends of RMB55,364,000 and 2013 interim dividends of RMB64,776,000 (2012: 2012 interim dividends of RMB68,098,000). The dividends of RMB589,000 (2012: RMB371,000) were paid to the shares held for Restricted Share Award Scheme (Note 27(b)).

Pursuant to a resolution passed on 18 March 2014, the board of directors of the Company proposed a final dividend and final special dividend of RMB0.64 cent and RMB0.85 cent per ordinary share of the Company, amounting to RMB35,433,000 and RMB47,059,000 for the year ended 31 December 2013 from the Company's share premium account, respectively. The final dividend and final special dividend are to be proposed for approval by the shareholders of the Company at the annual general meeting to be held on 14 May 2014.

The aggregate amounts of the dividends paid during 2013 and 2012 have been disclosed in the consolidated income statement in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

33 CASH GENERATED FROM OPERATIONS

	2013 RMB'000	2012 RMB'000
Profit before income tax for the year	**275,011**	270,954
Adjustments for:		
— Depreciation of property, plant and equipment (Note 14)	**15,230**	18,526
— Loss on disposal of property, plant and equipment	**1,291**	473
— Amortisation of lease prepayments (Note 15)	**285**	495
— Amortisation of intangible assets (Note 16)	**13,475**	17,836
— Reversal of impairment losses of inventories (Note 6)	**(30,665)**	(55,226)
— Provision for impairment losses of trade and other receivables (Note 6)	**102,473**	24,130
— Provision for available-for-sale financial assets (Note 19)	**27,118**	82,221
— Share of results of jointly controlled entities (Note 17)	**(287)**	771
— Interest income from bank deposits (Note 9)	**(54,130)**	(100,228)
— Income from other financial assets (Note 9)	**(140,970)**	(77,621)
— Foreign exchange losses/(gains), net (Note 9)	**1,020**	(11,171)
— Investment income from available-for-sale financial assets (Note 7)	**(34,000)**	(19,385)
— Disposal of investment in available-for-sale financial assets	**(1,151)**	—
	174,700	151,775
Changes in working capital:		
— Decrease in inventories	**135,232**	171,557
— (Increase)/decrease in trade receivables, prepayments, deposits and other receivables	**(30,831)**	124,923
— Decrease in trade payables, provisions, accruals and other payables	**(140,145)**	(190,449)
— Decrease/(increase) in restricted bank balances	**85,058**	(856)
Cash generated from operations	**224,014**	256,950

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

	2013 RMB'000	2012 RMB'000
Net book amount (Note 14)	**3,217**	1,949
Loss on disposal of property, plant and equipment	**(1,291)**	(473)
Proceeds from disposal of property, plant and equipment	**1,926**	1,476

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

34 COMMITMENTS

(a) Operating lease commitments — Group as lessee

The Group leases certain properties for retail stores, 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:

	2013 RMB'000	2012 RMB'000
No later than 1 year	**38,546**	33,439
Later than 1 year and no later than 5 years	**16,235**	25,962
Over 5 years	**134**	—
	54,915	59,401

(b) Capital commitments

	2013 RMB'000	2012 RMB'000
Contracted but not provided for		
— For investment in Yunfeng Fund II (Note 19(c))	**112,474**	—
— For investment in CITIC Mezzanine Fund I (Note 19(d))	**—**	150,000
	112,474	150,000

(c) 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:

	2013 RMB'000	2012 RMB'000
No later than 1 year	**13,926**	7,629
Later than 1 year and no later than 5 years	**10,969**	5,177
	24,895	12,806

During the year ended 31 December 2013, the Group terminated the Rome sponsorship agreement. As a result, the outstanding commitment as at 31 December 2013 decreased.

The Company did not have significant commitments as at 31 December 2013 and 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

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 or his close family members are considered to be related parties of the Company as well.

During the years ended and as at 31 December 2013 and 2012, the Group had the following transactions and balances with related parties:

(a) Transactions with related parties

	2013 RMB'000	2012 RMB'000
Sales of goods:		
— MSYH Group (Note 19(a))	401,112	460,822
Purchase of goods:		
— Jointly controlled entities of the Group	23,772	44,323

(b) Balances with related parties

	2013 RMB'000	2012 RMB'000
Trade receivables (Note 22):		
— MSYH Group	163,250	131,720
Other receivables (Note 23):		
— MSYH Group	18,723	19,445
Trade payables		
— Jointly controlled entities of the Group	186	274

(c) Key management compensation

	2013 RMB'000	2012 RMB'000
Salaries, bonus and other welfares	12,203	12,642
Pension — defined contribution plans	167	139
	12,370	12,781

35 RELATED PARTY TRANSACTIONS (Continued)

(c) Key management compensation (Continued)

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

36 EVENTS AFTER THE BALANCE SHEET DATE

The Group entered into a definitive share sales agreement dated January 29, 2014 with Cnshangquan E-Commerce Co., Ltd., pursuant to which the Group has agreed to sell the rest 35,380,806 ordinary shares of the Mecox Lane, for a total cash consideration of approximately US$4.8 million.

The share sale transactions are expected to close in the second quarter of 2014, subject to the satisfaction of customary closing conditions specified in the share sales agreement, including certain PRC government approvals.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

37 PARTICULARS OF PRINCIPAL SUBSIDIARIES

As at 31 December 2013, 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	Proportion of ordinary shares directly held by parent (%)	Proportion of ordinary shares held by the Group (%)	Proportion of ordinary shares held by non-controlling interests (%)	Principal activities and place of operation
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 holding, 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
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., Ltd.	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., Ltd.	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., Ltd.	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., Ltd.	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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37 PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Company name	Place of incorporation	Particulars of issued/ registered capital	Proportion of ordinary shares directly held by parent (%)	Proportion of ordinary shares held by the Group (%)	Proportion of ordinary shares held by non-controlling interests (%)	Principal activities and place of operation
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
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%	9%	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., Ltd.	Beijing, PRC	RMB5,000,000	—	80%	20%	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

37 PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Company name	Place of incorporation	Particulars of issued/ registered capital	Proportion of ordinary shares directly held by parent (%)	Proportion of ordinary shares held by the Group (%)	Proportion of ordinary shares held by non-controlling interests (%)	Principal activities and place of operation
大達克瑞斯體育用品有限公司 Dalian Crius Sporting Goods Co. Ltd.	Dalian, PRC	RMB3,000,000	—	100%	—	Retail sales of sports-related products, apparel and accessories, imports and exports, PRC
深圳克瑞斯特體育用品有限公司 Shenzhen Criust Sporting Goods Co. Ltd.	Shenzhen, PRC	RMB3,000,000	—	100%	—	Retail sales of sports-related products, apparel and accessories, imports and exports, PRC
鄭州克瑞斯體育用品有限公司 Zhengzhou Crius Sporting Goods Co. Ltd.	Zhengzhou, PRC	RMB3,000,000	—	100%	—	Retail sales of sports-related products, apparel and accessories, imports and exports, PRC
武漢克瑞斯體育用品有限公司 Wuhan Crius Sporting Goods Co. Ltd.	Wuhan, PRC	RMB3,000,000	—	100%	—	Retail sales of sports-related products, apparel and accessories, imports and exports, PRC
長沙克瑞斯體育用品有限公司 Changsha Crius Sporting Goods Co. Ltd.	Changsha, PRC	RMB3,000,000	—	100%	—	Retail sales of sports-related products, apparel and accessories, imports and exports, PRC

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