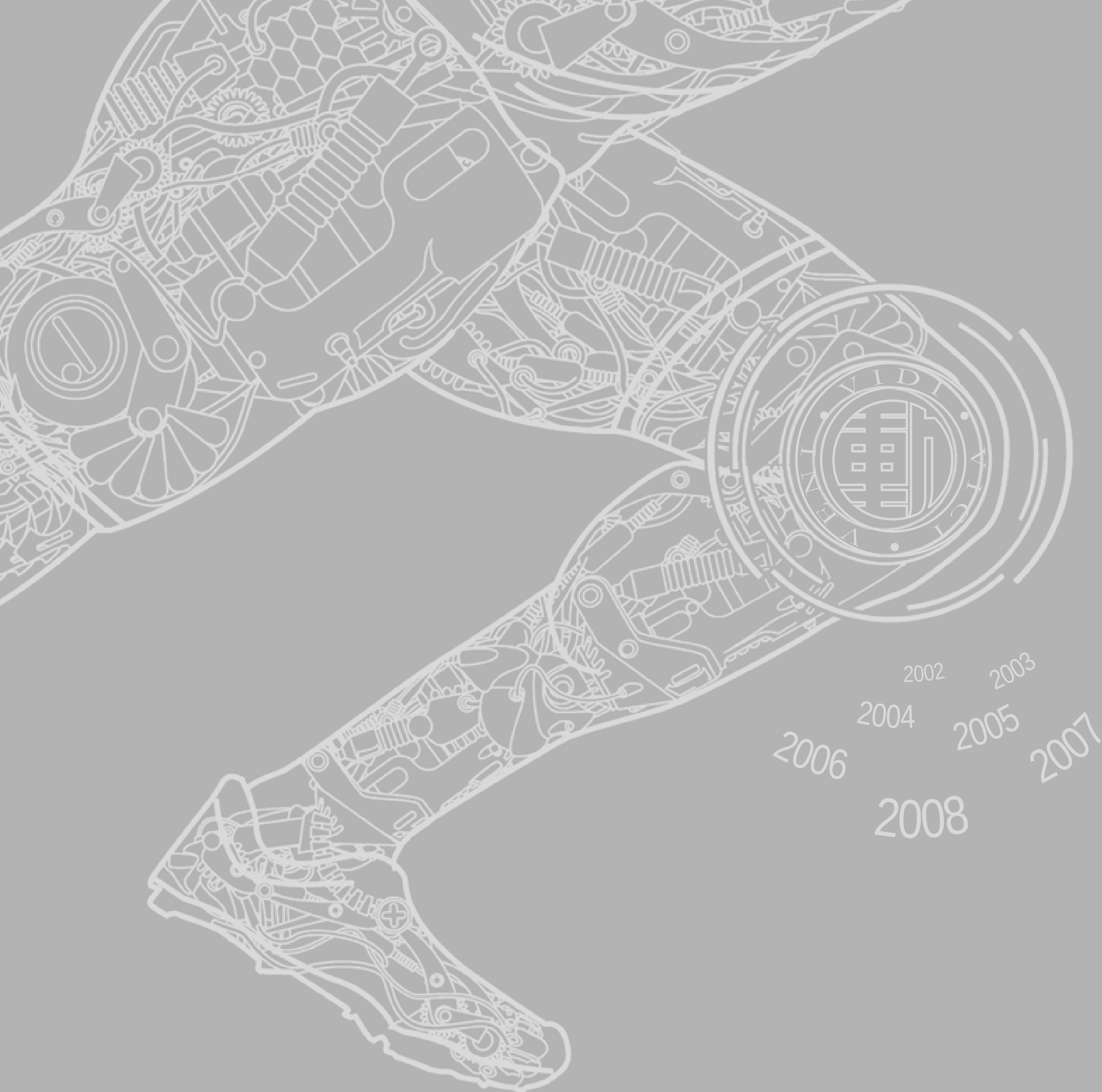


DONGXIANG

China Dongxiang (Group) Co., Ltd.

中國動向（集團）有限公司

(Incorporated in the Cayman Islands with limited liability)

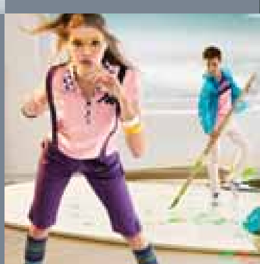
Stock Code : 3818

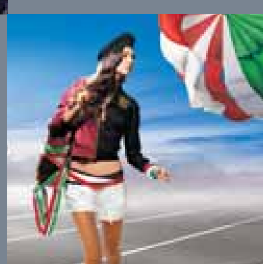
Annual Report 2008

DONGXIANG

China Dongxiang (Group) Co., Ltd.

中國動向(集團)有限公司





Contents

DONGXIANG

Corporate Information

THE BOARD

- Executive Directors — Mr. Chen Yihong, Mr. Qin Dazhong
- Non-Executive Director — Mr. Gao Yu
- Independent Non-Executive Directors — Mr. Mak Kin Kwong, Dr. Xiang Bing, Mr. Xu Yudi

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
Website	www.dxsport.com
Company secretary	Mr. WONG Chi Keung, *FCCA, CPA*
Qualified accountant	Mr. WONG Chi Keung, *FCCA, CPA*
Authorised representatives	Mr. WONG Chi Keung, *FCCA, CPA* Mr. GAO Yu
Principal share registrar and transfer office	Butterfield Fulcrum Group (Cayman) Limited Butterfield House 68 Fort Street P.O. Box 705 Grand Cayman KY1-1107 Cayman Islands
Hong Kong branch share registrar and transfer office	Computershare Hong Kong Investor Services Limited Shops 1712–1716 17/F Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Legal advisers	Norton Rose Hong Kong Conyers Dill & Pearman Haiwen & Partners
Compliance adviser	Merrill Lynch Far East Limited
Auditor	PricewaterhouseCoopers Certified Public Accountants
Investor relations consultant	Porda International (Finance) PR Group

Milestone

2008

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

2007

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

2006

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

2005

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

2004

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

2002

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

1990s

- Mr. Chen Yihong joined Li Ning Sporting Goods Company Limited ("Li Ning") and became one of the key executives
- Mr. Qin Dazhong joined Li Ning in 1997

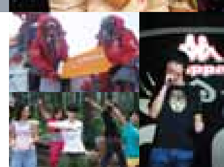
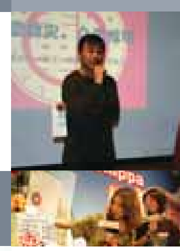
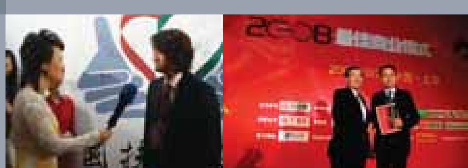
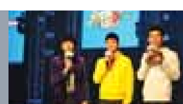
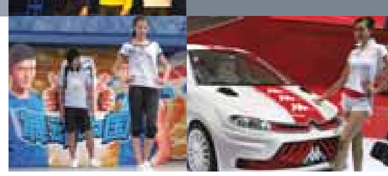
Major Events in 2008

	Corporate	Brand Marketing
January		• Sponsored Huang Xiaoming's first concert in Beijing
April		• Sponsored CCTV's production of music video of the Olympic community song "Believe in Love" and Olympics public welfare series promotion video • Title sponsored Li Jian's "完美堅持" concert
May	• Chairman Mr. Chen Yihong, participated in Olympic torch relay in Shanghai	• Sponsored Tibet mountaineering team to participate the Olympic torch relay on Mount Everest • Contracted with a well-known Taiwan artist "Shin" and commenced joint promotional activities, including composing theme song for Kappa, producing commercials and title sponsoring fan club activities
July		
August	• The 2007 annual report received Honors Award at the 2008 International Annual Report Awards ("ARC") Competition, in the category of "Cover Photo/Design: Sports Equipment & Goods"	• Sponsored the 2008 Olympics participating teams, including Hong Kong table-tennis team and the PRC 49er sailing team
September		• Announced Kappa's innovative environmental-friendly bag and held media activity for promoting the "Don't want to let go" album by Eason Chan
October	• Awarded the honour of the "Pioneer of China Livelihood 2008" by China Foundation for Poverty Alleviation • Honoured as "the Best Business Model of China 2008" at the "2008 Best Business Model China Forum"	
December		• Held Kappa "Now Sports" new year concert with Shin, JJ Lin, Tian Liang and Lulu Li as guest artists
Year Round		• Co-branding with Pepsi to launch a special version of Pepsi Cola package for Kappa • Co-branding with Dongfeng Peugeot Citroen to launch a special C2 car with Kappa elements at nationwide car shows • Sponsored a number of sports events, including China Open and Buick China Golf Club League

Community Services

- Donated cash and products totalling RMB15 million to Sichuan Earthquake Disaster Area

- Title sponsored the "I want to go to school" campaign

	Corporate	Brand Marketing	Community Services
January			
April			
May	 		
July			
August			
September			
October			
December			
Year Round			

Operating Philosophy

Standing on the fastest growing economy in the world	China
Absorbing various cultures and spirits in the world	Brand
Relying on decades of local market practice	Experience
Satisfying the maximum needs of consumers	Value

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors (the "Board") of China Dongxiang (Group) Co., Ltd. (the "Company"), I am pleased to present the annual results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2008.

During the year, the Group recorded a total sales of RMB3,322.2 million, representing an increase of 94.2% year-on-year. Profit attributable to equity holders increased by 86.4% to RMB1,367.7 million (2007: RMB733.6 million) compared to the corresponding period in 2007. Basic earnings per share was RMB24.12 cents (2007: RMB15.89 cents).

According to our dividend policy, we propose to distribute 30.0% of profit attributable to equity holders for the year ended 31 December 2008 as dividends in appreciation for our shareholders' ongoing support. At the same time, given the outstanding financial performance and strong cash position of the Group, the Board has decided to distribute an additional 30.0% of the profit attributable to equity holders for the year ended 31 December 2008 to share with them our splendid achievements. As a result, the total dividend payout ratio for the year ended 31 December 2008 will be 60.0%. The one-off gain of RMB146.0 million from acquisition of Phenix was a non-cash item, therefore, it has been excluded from the profit attributable to equity holders in our calculations of dividend payout ratio.

YESTERDAY... We performed miracles in China's sportswear industry by virtue of innovation

Over the past five years, China's economy along with its domestic sportswear industry has experienced dynamic, and astounding growth with exceptionally high efficiency; with GDP increased by an average of 10.8% per annum. China's sportswear sector also emerged as an outstanding industry. Renowned for its youthful image, the Group was able to carve out its own niche amidst a ferociously competitive environment through innovative development of its branding, channels, markets as well as internal management.

We realised a compound annual growth rate ("CAGR") of 96.7% and 111.3% in sales and net profit respectively from 2006 to 2008. On 10 October 2007, the Company successfully listed on Hong Kong Stock Exchange and went on to perform miracles within China's sportswear industry.

TODAY... Pragmatism is the key as we face a highly unpredictable market and foster our strengths for future growth.

2008 was a year of challenges for the PRC economy with the rampages of snowstorms and earthquakes as well as the financial tsunami and economic crisis. In response the Group sought to weather the abrupt market upheavals in a pragmatic manner, cautiously examine its spending and investments while carefully managing the Group's assets. With sound strategies in place, the Group has outperformed its industry peers in both accounts receivable turnover and inventory turnover, the turnover days for China segment were maintained at a level of 23 days and 42 days, respectively, as of 31 December 2008. In addition, we have kept ourselves away from investments in any non-principal protected financial products which helped preserve our asset values to the largest extent.

Prudent as we were, however, we did not remain inactive. Based on our comprehensive analysis of development opportunities and growth potential available in today's sportswear industry at home and abroad, we adopted a target oriented merger and acquisition strategy that aims to "enhance proprietary research & development ("R&D"), technology and operating capabilities as a whole" and not focus only on business expansion. In line with such a strategy, we acquired Phenix, a Japanese company with 52 years of history, and prepared to introduce a number of premium brands to the China market, including — Phenix, X-NIX and Inhabitant. More importantly, we are poised to integrate and leverage the excellent capabilities in product planning, design, technology implementation and production control of our Japanese team to act as our core competencies in order to foster greater competitive advantages in the years ahead.

TOMORROW… With full confidence we will tap the enormous opportunities that exist in the sportswear industry

The 29th Olympic Games was a grand international sporting event and also a perfect platform for China to showcase its burgeoning economy that has provided prosperity in every sector of the most populous country in the world. Today China is set to emerge as the world's largest sportswear market in line with rising domestic purchasing power and increased consumer spending. Given this scenario, the Group will seize every opportunity amidst these promising market circumstances to embrace an even brighter future.

During the year ended 31 December 2008, the Group has opened 863 (net) retail outlets through its distributors, bringing the total number of Kappa brand retail outlets in China segment to 2,808. Despite this expansion, it could be realised that the Group still has ample room to grow compared with other sportswear brands, especially international brand names. Leveraging our superior capabilities in brand management, innovative R&D, strong financial position and healthy asset management, we will utilise our core competencies to create a solid foundation for the Group, which will help sustain the momentum of rapid growth.

Finally, on behalf of the Board, I would like to express my heartfelt appreciation to our shareholders and business partners for their ongoing support and trust. In addition, I wish to extend my gratitude to our distinguished management team and our staff.

CHEN Yihong
Chairman
Hong Kong, 25 March 2009

Four-Year Financial Highlights

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Year ended 31 December			
		2008	2007	2006	2005
Turnover		3,322,237	1,711,023	858,921	147,712
Operating profit		1,331,651	724,721	385,608	40,517
Profit before income tax		1,616,065	771,263	372,076	39,936
Profit attributable to equity holders		1,367,722	733,568	306,459	37,806
Non-current assets		542,976	407,613	344,545	61,355
Current assets		6,750,483	5,815,342	506,096	119,074
Current liabilities		569,919	315,218	237,832	111,775
Net current assets		6,180,564	5,500,124	268,264	7,299
Total assets		7,293,459	6,222,955	850,641	180,429
Total assets less current liabilities		6,723,540	5,907,737	612,809	68,654
Equity holders' equity		6,719,363	5,901,831	307,504	43,873
Gross profit margin (%)		58.5	58.5	62.4	45.1
Net profit margin (%)		41.2	42.9	35.7	25.6
Earnings per share	2				
— basic (RMB cents)		24.12	15.89	7.10	0.88
— diluted (RMB cents)		24.11	15.82	7.07	0.87
Total assets per share (RMB cents)	3	128.60	134.78	19.70	4.18
Debt to equity holders' equity ratio	4	0.09	0.05	1.77	3.11

Note:

1. The major subsidiary of the Group, Beijing Dongxiang, which conducted the Group's core Kappa Brand business was not wholly acquired by the Group until 31 August 2005. Accordingly, the 2004 financial figures of the Group did not include the Kappa Brand business and it is not meaningful to disclose for comparison purpose.

2. The comparative figures for the year ended 31 December 2006 and 2005 are calculated based on the assumption that 4,319,000,000 shares, and shares in relation to the pre-IPO share options upon exercise have been in issue since 1 January 2005.

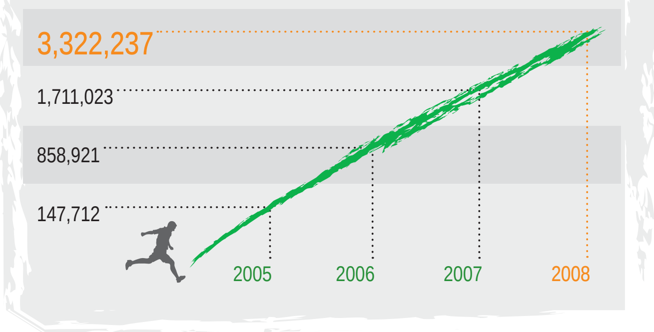
3. The number of ordinary shares used in the calculation for the year ended 31 December 2008 and 2007 are 5,671,551,000 shares and 4,617,162,000 shares, which are the weighted average number of shares for the year. The comparative figures for the year ended 31 December 2006 and 2005 are calculated based on the assumption that 4,319,000,000 shares had been in issue since 1 January 2005.

4. The debt to equity holders' equity ratio is based on total liabilities divided by equity holders' equity as at 31 December 2008, 2007, 2006 and 2005.

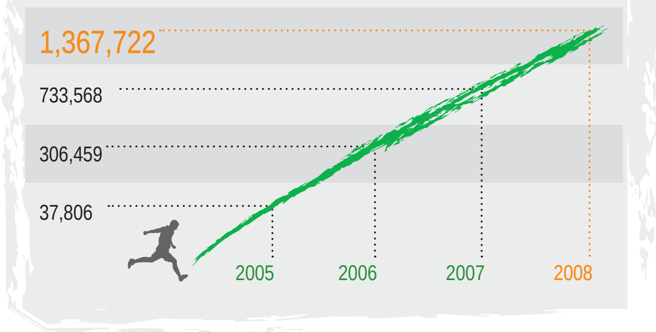
Four-Year Financial Highlights

(All amounts in Renminbi thousands unless otherwise stated)

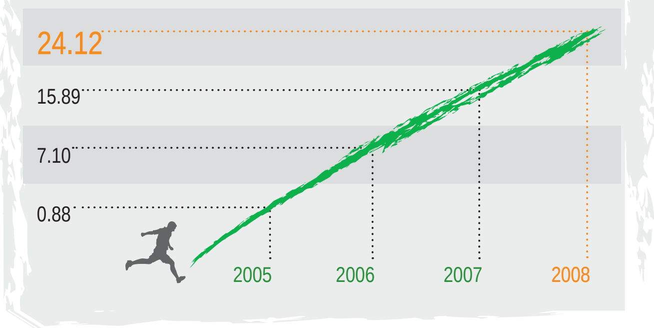
Turnover



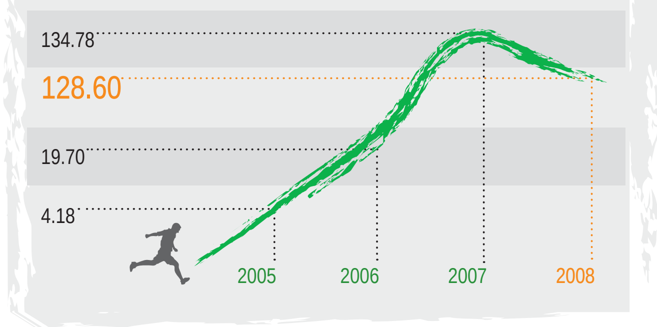
Profit attributable to equity holders



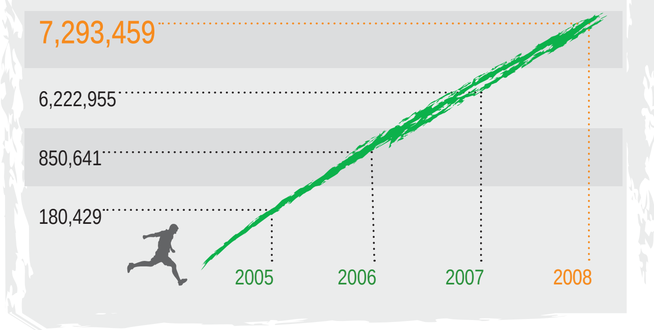
Earnings per share — basic (RMB cents)



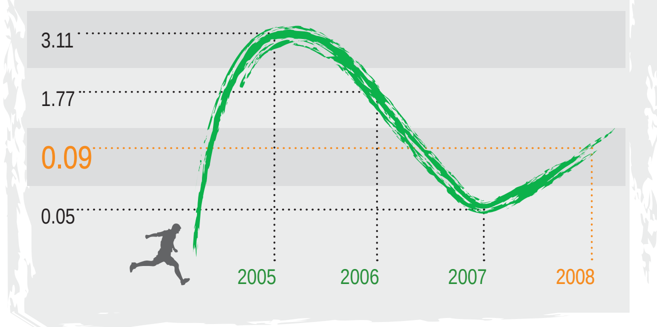
Total assets per share (RMB cents)



Total assets



Debt to equity holders' equity ratio



Development Strategy

To become China's most excellent distributor of famous sportswear brands

Introducing and integrating the best global resources, including human resource, financing resource and brand resource;

Increasing the ability of revolving operation by improving supply chain management and upgrading information system;

Establishing international R&D centers to satisfy the need of future development of the Group;

Developing a multi-brand strategy, while strengthening the market position of Kappa.

Management Discussion and Analysis

OVERVIEW

Following the Company's global initial public offering (the "Global Offering") and successful listing on the Main Board of the Hong Kong Stock Exchange on 10 October 2007, Year 2008 was another remarkable year for the Group. As driven by continuous strong economic growth in mainland of the People's Republic of China (the "PRC") as well as widespread acceptance of Kappa Brand products by the PRC's fast-growing high spending consumers, the Group achieved an 94.2% surge in sales from RMB1,711.0 million for the year ended 31 December 2007 to RMB3,322.2 million for the year ended 31 December 2008. Profit attributable to equity holders reached a record high of RMB1,367.7 million for the year ended 31 December 2008, representing a 86.4% growth compared to RMB733.6 million for the year ended 31 December 2007. In 2008 and 2007, the Group recorded an one-off gain of RMB146.0 million from acquisition of Phenix and an one-off interest income of RMB44.7 million from over-subscription monies to the Global Offering respectively. Should the one-off gain or income be excluded, our core operations still enjoyed a high growth in profit attributable to equity holders of 77.4%.

On 1 May 2008, we completed the acquisition of 91% shareholdings of Phenix, a Japanese company whose core operations focus on the design, development and sales of sports apparel. The major self-owned brands of Phenix include "Phenix" for global ski and outdoor sportswear markets, and "Kappa" for football, golf and athletic sportswear markets in Japan. We believe that the acquisition was a crucial milestone for the Group to further strengthen its research and development capabilities and deploy its multi-brand strategy.

FINANCIAL REVIEW

Key Financial Performance

		Group			China Segment (Note 1)			Japan Segment (Note 2)
		Year ended 31 December			Year ended 31 December			Year ended 31 December
	Note	2008 RMB'000	2007 RMB'000	Change	2008 RMB'000	2007 RMB'000	Change	2008 RMB'000
Key items of consolidated income statement								
Sales		3,322,237	1,711,023	94.2%	2,908,008	1,711,023	70.0%	414,229
Gross profit		1,943,762	1,000,573	94.3%	1,774,979	1,000,573	77.4%	168,783
Operating profit		1,331,651	724,721	83.7%	1,317,090	724,721	81.7%	14,561
Profit attributable to equity holders	3	1,367,722	733,568	86.4%	1,214,071	733,568	65.5%	153,651
		RMB cents	RMB cents					
Basic earnings per share	3	24.12	15.89	51.8%				
Diluted earnings per share	3	24.11	15.82	52.4%				
Profitability ratios								
Gross profit margin		58.5%	58.5%	0.0% pts	61.0%	58.5%	2.5% pts	40.7%
Operating profit margin		40.1%	42.4%	–2.3% pts	45.3%	42.4%	2.9% pts	3.5%
Effective tax rate	3	15.4%	4.9%	10.5% pts	17.0%	4.9%	12.1% pts	0.1%
Net profit margin	3	41.2%	42.9%	–1.7% pts	41.7%	42.9%	–1.2% pts	37.1%
Key operating expenses ratios (as a percentage of sales)								
Advertising and marketing expenses		7.7%	6.5%	1.2% pts	7.8%	6.5%	1.3% pts	7.1%
Employee salary and benefit expenses		4.9%	3.5%	1.4% pts	3.8%	3.5%	0.3% pts	12.4%
Design and products development expenses		1.9%	1.8%	0.1% pts	1.7%	1.8%	–0.1% pts	3.3%
		In days	In days	Change In days	In days	In days	Change In days	In days
Working capital efficiency ratios								
Average trade receivables turnover days	4, 7	29	24	5	23	24	–1	75
Average trade payables turnover days	5, 7	62	75	–13	62	75	–13	103
Average inventory turnover days	6, 7	49	49	0	42	49	–7	125
Asset ratios								
Current ratio	8	11.8 times	18.4 times		16.0 times	18.4 times		1.9 times

Management Discussion and Analysis

Notes:

1. The China segment is engaged in the distribution of sport-related products under Kappa and Rukka Brands in the PRC and Macau. It is also engaged in international sourcing business which includes the provision of Kappa Brand products for other Kappa licensees in other countries. For the sake of simplicity, the finance income,net and exchange gain/(loss) of the Company, being the unallocated part, are included in the China segment as well. In 2007, China segment was the only segment of the Group.

2. The Japan segment is engaged in sales of sport-related products under Kappa, Phenix and other brands in Japan. Prior to the acquisition of Phenix on 1 May 2008, the Japan segment did not exist in the Group.

3. Excluding the one-off gain of RMB146.0 million from the acquisition of Phenix and one-off interest income of RMB44.7 million from over-subscription monies to the Global Offering in 2008 and 2007 respectively, the key items of the consolidated income statement would be as follows:

	Year ended 31 December		
	2008	2007	Change
	RMB'000	RMB'000	
Key items of consolidated income statement			
Profits attributable to equity holders	1,221,772	688,826	77.4%
	RMB cents	RMB cents	
Basic earnings per share	21.54	14.92	44.4%
Diluted earnings per share	21.54	14.86	45.0%
Profitability ratios			
Effective tax rate	16.9%	5.2%	11.7% pts
Net profit margin	36.8%	40.3%	–3.5% pts

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

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

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

7. For Japan segment, the calculations of working capital efficiency ratios were based on the opening balances as at 1 May 2008 (date of acquisition of Phenix) and closing balances as at 31 December 2008. The number of days in the relevant period was 245 days from 1 May to 31 December 2008.

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

SALES

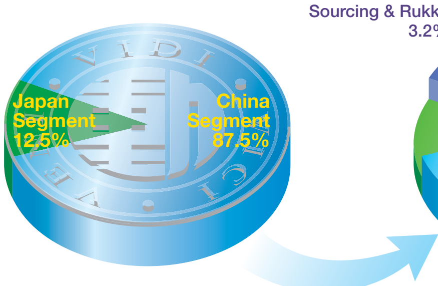
Sales analyzed by geographical segments, business segments and product categories

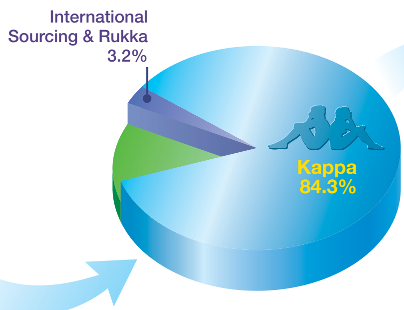
	Year ended 31 December						
	2008			2007			
	RMB'000	% of product/ brand mix	% of total Group sales	RMB'000	% of product/ brand mix	% of total Group sales	Change
CHINA SEGMENT							
Kappa Brand							
Apparel	2,011,014	71.8%	60.5%	1,181,253	71.8%	69.0%	70.2%
Footwear	671,335	23.9%	20.2%	389,638	23.7%	22.8%	72.3%
Accessories	120,275	4.3%	3.6%	74,346	4.5%	4.3%	61.8%
Kappa Brand total	2,802,624	100.0%	84.3%	1,645,237	100.0%	96.1%	70.3%
International sourcing	94,955		2.9%	60,124		3.6%	57.9%
Rukka Brand	10,429		0.3%	5,662		0.3%	84.2%
CHINA SEGMENT TOTAL	2,908,008		87.5%	1,711,023		100.0%	70.0%
JAPAN SEGMENT							
Phenix Brand	312,139	75.4%	9.4%	—	—	—	—
Kappa Brand	99,031	23.9%	3.0%	—	—	—	—
Others	3,059	0.7%	0.1%	—	—	—	—
JAPAN SEGMENT TOTAL	414,229	100.0%	12.5%	—	—	—	—
THE GROUP TOTAL	3,322,237		100.0%	1,711,023		100.0%	94.2%

1 Sales analysis by geographical — The Group

2 Sales analysis by business — China Segment

3 Sales analysis by product categories — Kappa Brand (China Segment)





Management Discussion and Analysis

CHINA SEGMENT

Kappa Brand

The Kappa Brand business, the major business of the Group, accounted for 84.3% (2007: 96.1%) of the total Group sales for the year ended 31 December 2008. The strong growth in sales of Kappa Brand products by RMB1,157.4 million (or 70.3%) compared to the year ended 31 December 2007 was mainly attributable to the on-going successful positioning and marketing of the brand. The Kappa Brand has been successfully positioned at the forefront of sportswear fashion in China market. It conveys an active, fashionable and youthful image that appeals to a fast-growing customer base. The Kappa Brand products have a widespread acceptance from the targeted customer group in China. Driven by strong demand, the number of Kappa Brand retail outlets directly or indirectly operated by the Group's distributors increased substantially from 1,945 as of 31 December 2007 to 2,808 as of 31 December 2008; a net increase of 863 (or 44.4%).

Apparel was the major product of Kappa Brand in China and its sales represented 71.8% (2007: 71.8%) of the brand's total sales. The proportions of footwear and accessories were 23.9% (2007: 23.7%) and 4.3% (2007: 4.5%) respectively. The product mix remained fairly steady in both years.

International Sourcing

The Group acted as a sourcing centre for BasicNet S.p.A. ("BasicNet"), owner of the Kappa Brand worldwide except for the PRC, Macau and Japan. The Group organized the design and development, as well as production and manufacturing of products in the PRC for Kappa licensees of BasicNet. These products were then shipped to the licensees for sale in their designated regions. For the year ended 31 December 2008, sales of the international sourcing business accounted for 2.9% (2007: 3.6%) of the Group's total sales and it enjoyed a growth of 57.9% compared to the year ended 31 December 2007.

Although sales and profit contribution from the international sourcing business were insignificant, it gave the Group exposure to international market trends, overseas new opportunities as well advanced business practices. Since the acquisition of Phenix, its export business has been providing the similar international exposure to the Group, therefore, the Group has decided to reallocate the staff resources of international sourcing business to other business segments and the international sourcing business will be largely scaled down in 2009.

Rukka Brand

The Group was the exclusive distributor and licensee for Rukka Brand products in China. Rukka Brand is a Finnish sportswear brand specialising in high-quality function-focused products. The Group has been operating sales of Rukka Brand products through the retail outlets of consignees since late 2006. However, following the acquisition of Phenix, the Group terminated its Rukka Brand business in 2008 because its products are similar to the ski and outdoor sportswear lines of Phenix Brand. The Group is planning to introduce Phenix Brand products to China market in 2009. The termination of Rukka Brand business would streamline and focus the Group's efforts in launching its self-owned skiwear and outdoor product brands. The sales of Rukka Brand products for the year ended 31 December 2008 was only RMB10,429,000 (or 0.3% of total Group sales), an insignificant amount for the Group.

Japan Segment

On 1 May 2008, the Group completed the acquisition of 91% shareholdings of Phenix, a company primarily engaged in the design, development, marketing and sales of its owned branded products in Japan. These brands include two major brands: "Phenix" in the ski and outdoor sportswear markets and "Kappa" in the football, athletic and golf wear markets. Other small brands include "X-NIX" in the snowboard sportswear market and "Inhabitant" in the casual wear market. The sales in Japan segment for the year ended 31 December 2008 represented eight months sales of Phenix from 1 May to 31 December 2008.

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

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

	Year ended 31 December					
	2008		2007		Change	
	Average selling prices RMB	Total units sold In '000	Average selling prices RMB	Total units sold In '000	Average selling prices	Total units sold
Apparel	161	12,476	156	7,564	3.2%	64.9%
Footwear	184	3,655	179	2,173	2.8%	68.2%

Notes:

1. Unit average selling prices represent the sales for the year divided by the total units sold for the year.

2. Accessories have a wide range of products that vary significantly in terms of unit average selling prices. We believe that the unit average selling price analysis of this product category is not meaningful.

The increases in unit average selling prices of apparel and footwear products by 3.2% and 2.8% respectively from year ended 31 December 2007 to 31 December 2008 were mainly due to general increase in selling prices of autumn and winter products. In particular, for apparel products, we have launched more high-end "Rugby" series in our autumn collection and the proportion of higher price jacket products has been increased in our winter collection.

Total apparel and footwear product units sold increased by 64.9% and 68.2% respectively for the year ended 31 December 2008 compared with the year ended 31 December 2007. The strong demand for the Kappa Brand products has driven the high growth in sales volume.

Management Discussion and Analysis

Cost of Goods Sold and Gross Profit

For the year ended 31 December 2008, the cost of goods sold of the Group amounted to RMB1,378,475,000 (2007: RMB710,450,000), represented an increase of RMB668,025,000 (or 94.0%). This trend was in line with the overall increase in sales. The gross profit of the Group amounted to RMB1,943,762,000 (2007: RMB1,000,573,000), represented an increase of RMB943,189,000 (or 94.3%). The overall gross profit margin of the Group for the year ended 31 December 2008 was 58.5%, remained the same as the overall gross margin for the year ended 31 December 2007. The gross profit margin analyzed by geographical and business segments are detailed as follows:

	Year ended 31 December		
	2008	2007	
	Gross profit margin	Gross profit margin	Change
China segment			
Kappa Brand	62.7%	59.9%	2.8% pts
International sourcing and Rukka Brand	17.8%	22.5%	–4.7% pts
China segment overall	61.0%	58.5%	2.5% pts
Japan segment	40.7%	N/A	N/A
Group overall	58.5%	58.5%	0.0% pts

The gross profit margin of Kappa Brand in China segment increased by 2.8% from 59.9% for the year ended 31 December 2007 to 62.7% for the year ended 31 December 2008. The increase in gross profit margin was mainly due to the general increase in unit average selling prices of our apparel products, the major class of our products which accounted for 71.8% of Kappa Brand's total sales in China segment, in 2008 whilst costs have been reduced due to tighter cost control has been exercised. As a result, the gross profit margin for apparel products rose by 3.8% from 62.4% for the year ended 31 December 2007 to 66.2% for the year ended 31 December 2008. For footwear and accessories products, the gross profit margins remained fairly stable in 2007 and 2008. The gross profit margin of Kappa Brand products in China segment analysed by product category are as follows:

	Year ended 31 December		
	2008	2007	
	Gross profit margin	Gross profit margin	Change
Apparel	66.2%	62.4%	3.8% pts
Footwear	52.3%	52.1%	0.2% pts
Accessories	61.3%	61.8%	–0.5% pts
Overall	62.7%	59.9%	2.8% pts

The international sourcing and Rukka Brand businesses have lower gross profit margins compared with Kappa Brand business. The combined gross margin of these two small business segments for the year ended 31 December 2008 was 17.8%, a decrease of 4.7% compared to 22.5% for the year ended 31 December 2007. The purchases for the international sourcing business were mainly denominated in Renminbi and sales were mainly denominated in US Dollar. As a result of the rapid appreciation of the Renminbi against the US Dollar in 2008, the gross profit margin of our international sourcing business was diminished.

The gross profit margin in Japan segment for the year ended 31 December 2008 was 40.7%. It was relatively lower than the gross profit margin 62.7% of Kappa Brand products in China segment due to keen competition and higher production cost in Japan. In order to lower the production cost and enhance the gross profit margin of Japan segment, the Group will integrate the production function of Japan segment with the Group's extensive production network in the PRC. The integration has been commenced on a trial basis in late 2008 with a satisfactory result. A thorough production integration will be done in 2009.

Other Gains, Net

Other gains for the year ended 31 December 2008 and 2007 mainly representing subsidy income from the government amounted to RMB66,690,000 and RMB17,734,000 respectively.

Distribution Costs and Administrative Expenses

Distribution costs and administrative expenses mainly comprised advertising and marketing expenses, employee salaries and benefit expenses, design and product development expenses, legal and consulting fees as well as logistic fees. For the year ended 31 December 2008, total distribution costs and administrative expenses amounted to RMB684,998,000 (2007: RMB295,996,000), accounted for 20.6% of the Group's total sales. This represented an increase of 3.3% against 17.3% for the year ended 31 December 2007. The increase is mainly due to the increase in advertising and marketing expenses as a percentage of sales by 1.2% from 6.5% for the year ended 31 December 2007 to 7.7% for the same period in 2008. During 2008, the Group had strategically increased spending on promotional activities surrounding the Beijing Olympics Games and opening of flagship stores. Moreover, the Group's employee salaries and benefit expenses as a percentage of the Group's sales also increased from 3.5% in 2007 to 4.9% in 2008. This was mainly attributable to the inclusion of Japan segment's salaries and benefit expenses in 2008 which accounted for 12.4% of Japan segment's sales. For the China segment, the salaries and benefit expenses only accounted for 3.8% of the sales of China segment in 2008.

Operating Profit

For the year ended 31 December 2008, operating profit of the Group was RMB1,331,651,000, an increase of RMB606,930,000 (or 83.7%) compared with RMB724,721,000 for the year ended 31 December 2007. The operating profit margin was 40.1% for the year ended 31 December 2008 compared with 42.4% for the year ended 31 December 2007. The decrease in the operating profit margin by 2.3% from 42.4% to 40.1% was mainly attributable to the increase in total distribution costs and administrative expenses as a percentage of the Group's sales by 3.3% from 17.3% for the year ended 31 December 2007 to 20.6% for the year ended 31 December 2008 while gross margin remained fairly stable during these two years.

Gain from Negative Goodwill on Acquisition

This represented a negative goodwill of RMB145,950,000 arose from the acquisition of Phenix during the year ended 31 December 2008 and recognized as an one-off gain in the consolidated income statement.

Finance Income, Net

For the year ended 31 December 2008, finance income mainly comprised interest income of RMB137,802,000 and foreign exchange gains of RMB3,944,000.

The interest income mainly comprises interest income from unutilised Global Offering proceeds and cash generated from operating activities deposited into licenced banks and financial institutions in Hong Kong and the PRC.

In 2007, finance income included RMB44,742,000 one-off interest income from over-subscription monies to the Global Offering.

Taxation

For the year ended 31 December 2008, income tax expense of the Group amounted to RMB248,343,000 (2007: RMB37,695,000). The effective tax rate was 15.4% (2007: 4.9%). If the one-off gain from the acquisition of Phenix and the one-off interest income from over-subscription monies to the Global Offering in 2008 and 2007 were excluded, the effective tax rate for the year ended 31 December 2008 would amount to 16.9% (2007: 5.2%). The low effective tax rate in 2007 was mainly due to a major operating subsidiary of the Company, which enjoyed a PRC income tax exemption in its first profit making year ended 31 December 2007.

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

The major operating subsidiaries of the Company in the Shanghai Pudong New Area are entitled to preferential income tax rate of 18% in 2008.

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 2008 was RMB1,367,722,000, representing an increase of 86.4% from RMB733,568,000 for the year ended 31 December 2007. Net profit margin for the year ended 31 December 2008 was 41.2%, representing a decrease of 1.7% against 42.9% for the year ended 31 December 2007. If the one-off gain from the acquisition of Phenix amounting to RMB145,950,000 and one-off interest income of RMB44,742,000 from over-subscription monies to the Global Offering were excluded in 2008 and 2007 respectively, the net profit and net profit margin for the year ended 31 December 2008 would come to RMB1,221,772,000 (2007: RMB688,826,000) and 36.8% (2007: 40.3%) respectively. The decrease of net profit margin by 3.5% from 40.3% to 36.8% was mainly attributable to the increase in total distribution costs and administrative expenses as a percentage of the Group's sales by 3.3% and the increase in the effective tax rate from 5.2% to 16.9%. The downward effect was partially mitigated by the increase in interest income from unutilised Global Offering proceeds placed in bank deposits.

Earnings per Share

The basic and diluted earnings per share were RMB24.12 cents and RMB24.11 cents respectively for the year ended 31 December 2008, a rise of 51.8% and 52.4% against the basic and diluted earnings per share of 15.89 cents and 15.82 cents respectively for the year ended 31 December 2007.

If the one-off gain from the acquisition of Phenix and one-off interest income from over-subscription monies to the Global Offering were excluded in 2008 and 2007 respectively, the basic and diluted earnings per share would come to RMB21.54 cents (2007: RMB14.92 cents) and RMB21.54 cents (2007: RMB14.86 cents) respectively for the year ended 31 December 2008, a growth of 44.4% and 45.0% against the basic and diluted earnings per share respectively for the year ended 31 December 2007.

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

The comparative basic earnings per share for the year ended 31 December 2007 was calculated based on the assumption that the total of 4,319 million shares issued prior to the Global Offering of the Company had been in issue since 1 January 2007. The number of shares was lower than the approximately 5,677 million shares in issue since the Global Offering of the Company in October 2007 and an over-allotment option in relation to the Global Offering had been exercised. This explained why the profit attributable to equity holders of the Company increased by 77.4% (excluding the one-off gain or one-off interest income) for the year ended 31 December 2008 against the year ended 31 December 2007 but the basic earnings per share only increased by 44.4%.

Final Dividend and Final Special Dividend

The Board of the Company recommends the distribution of a final dividend and final special dividend of RMB3.76 cents and RMB5.59 cents respectively per ordinary share (totaling RMB9.35 cents per ordinary share) for the year ended 31 December 2008, amounting to RMB213,034,000 and RMB316,718,000 respectively (totaling RMB529,752,000).

The Company has paid an interim and interim special dividend for the six months ended 30 June 2008 totaling RMB3.59 cents per ordinary share with a total amount of RMB203,402,000. Therefore, the total interim, interim special, final and final special dividends for the year ended 31 December 2008 will be amounted to RMB733,154,000, approximately 60.0% of the Group's net profits (excluding the one-off gain resulting from the acquisition of Phenix) available for distribution for the year. The Company's normal dividend policy is distribution of 30.0% of the Group's net profits available for distribution for the period. After consideration of the Group's outstanding financial performance in 2008 and strong cash position, we would like to distribute an additional 30.0% in order to reward our shareholders.

The final dividend and final special dividend will be paid in Hong Kong Dollars based on the rate of HK$1.00 = RMB0.8813 being the official exchange rate of Renminbi against Hong Kong Dollars as quoted by the People's Bank of China at 24 March 2009. The dividend will be paid on or around 21 May 2009 to shareholders whose names appear on the register of members of the Company on 14 May 2009.

Management Discussion and Analysis

BUSINESS REVIEW

Effective Marketing Strategy

In 2008, the Group continued to adopt a distinct and coherent marketing and promotion strategy for its brands. This included securing strategic sponsorships and implementing a promotion strategy through selected media and other advertising channels that the Group considered to be the most effective way to convey the image of its products. The Group enhanced its visibility and promoted the brands through sponsorships of sport teams, sport events, entertainment figures and publicity events.

The key marketing and promotion events conducted in the PRC and Japan market in 2008 are summarized as below:

PRC Market

Sports

- Sponsorship of the top tennis competition — China Open;
- Sponsorship of the Hong Kong Table-tennis Team and the PRC's 49er Sailing Team, both of which participated in the 2008 Olympic Games;
- Sponsorship of the Tibet mountaineer team for the torch activities of the 2008 Olympics Games on Mt. Everest;
- Co-sponsorship of AS Roma, the top Italian soccer team; A new series of AS Roma products was launched in early 2008;
- Sponsorship of three soccer teams in the China Football Association Super league;
- Sponsorship of Chinese National Curling Team for participating in the World Curling Championship in Canada;
- Sponsorship of golf programmes at Travel Channel; and
- Sponsorship of Electronic Sports World Cup.

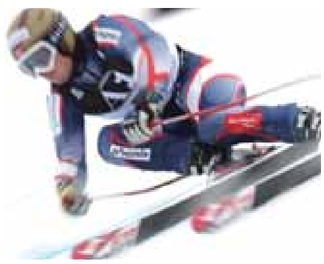
Fashion

- Co-branding with Pepsi. A special version Pepsi Cola package solely designed for Kappa was launched;
- Sponsored the Dreamboat Team, a sports team comprising celebrities in the PRC, to attend the UEFA Euro 2008, which received massive publicity;
- Kappa and Dongfeng Peugeot Citroen co-branding event. A special C2 car with elements of Kappa was released at the 2008 Beijing International Automotive Exhibition;
- Filmed series of advertising clips for the Beijing Olympics together with CCTV's movie channel and famous movie actors;

- Signed famous artist SHIN to develop a series of marketing activities;
- Kappa "NOW Sports" 2009 New Year Concert, a number of Chinese pop stars thrilled the audience with music and sports fashion; and
- Sponsorship of movies <Silver Medalist> and <Kung Fu Hip Hop>.

Charity

- Continuing participation in the "I want to go to school" campaign organised by the China National Radio and the China Youth Development Foundation;



- Cash and product donations to the victims of the Sichuan earthquake through the Red Cross in China; and
- Donations to elementary school in Tibet through China Soong Ching Ling Foundation.

In addition, the Group primarily focused on print media and placed advertisements in leading sports and fashion magazines. The Group also utilized indoor and outdoor advertisements, internet, electronic billboards and word of mouth to publicize the Group's brands and products.

Japan Market

Phenix Brand

- The official equipment provider for the Norwegian Alpine Ski Team;
- Sponsorship of Japan National Ski Team.

Kappa Japan

- Sponsor for three J-1 soccer teams in Japan, namely Consadole Sapporo, Tokyo Verdy, and JEF United.

Innovative design and development capabilities

The Group adapted to ever-changing market trends by offering products with active, fashionable and youthful designs. These were realised through the Group's in-house design teams, which are highly knowledgeable about fashion trends and consumer preferences in the market. The Group's talented, innovative and passionate product designers were mainly based at the Group's design and development centre in Beijing and at the Phenix main office in Japan. As of 31 December 2008, the Group had design teams of 60 people, including PRC nationals, Japanese, Korean and Italians.

The acquisition of Phenix greatly enhanced the design and development capabilities of the Group. Phenix has a technical centre near Tokyo, which has 59 talented and knowledgeable specialists who are skillful in the sophisticated process of conversion of product designs into high quality product samples.

Management Discussion and Analysis

The Group's in-house design and merchandising team's capabilities were further strengthened by external cooperation with overseas institutions such as the University of Arts London ("UAL") and WGSN. Since 2007 the Group was the apparel sector cooperation partner of UAL in the PRC which has been supporting and assisting the Group's creative and commercial activities through the provision of consultancy services, student projects and training programmes. WGSN is a leading global service provider which provides online research, trend analysis and news to the fashion, design and style industries. The Group believes that co-operation with UAL and WGSN has broadened the vision of our designers, inspiring them with new and innovative ideas. It has also helped them anticipate and stay at the forefront of fashion trends, enabling them to introduce international design elements into the merchandise mix.

Extensive distribution and retail network

In China segment, the Group has adopted a "primary distributor" policy to sell the Group's products to a limited number of distributors. Under this policy, the Group typically appoints only one primary distributor in one defined geographical area of a market. This policy effectively motivates distributors and enhances their loyalty. As of 31 December 2008, the Group had 43 distributors who directly or indirectly operated 2,808 retail outlets selling Kappa Brand products in China segment. This represented a net increase of 863 retail outlets (or 44.4%) compared with the 1,945 retail outlets as of 31 December 2007. The distribution of retail outlets covered all major provincial capital cities and many other large urban areas and towns in China. The Group feels that the renovation and display of retail outlets to be a crucial factor in building brand image. With this in mind, the Group co-operated with its distributors to renovate 404 retail outlets during the year ended 31 December 2008. This included expansion of retail outlet areas and conversion of retail outlets into third generation stores. Fourth generation stores will be launched soon.

Since the second half of 2007, the Group has been launching its flagship stores plan by co-operating with its distributors to open flagship stores in prime shopping locations of first-tier cities in China segment. As of 31 December 2008, 10 flagship stores were opened in Beijing, Guangzhou, Tianjin, Hangzhou, Suzhou, Harbin and Changsha.

The following table details the change in the number of Kappa Brand retail outlets operated directly and indirectly by the distributors of the Group for the year ended 31 December 2008:

	As at 31 December 2008 (No. of retail outlets)	As at 31 December 2007 (No. of retail outlets)	Net increase (No. of retail outlets)	Net increase
Total	2,808	1,945	863	44.4%

The following diagram illustrates the geographic distribution of the retail outlets of Kappa Brand as at 31 December 2008:

Anhui	108	Liaoning	174
Beijing	106	Inner Mogolia	31
Fujian	118	Ningxia	6
Gansu	13	Qinghai	2
Guangdong	204	Shandong	147
Guangxi	42	Shanxi	68
Guizhou	47	Shaanxi	47
Hainan	14	Shanghai	96
Hebei	129	Sichuan	161
Henan	78	Tianjin	59
Heilongjiang	128	Tibet	2
Hubei	149	Xinjiang	24
Hunan	96	Yunnan	63
Jilin	95	Zhejiang	239
Jiangsu	218	Chongqing	79
Jiangxi	61	Macau	4

The distribution channels of Phenix in Japan include major sport shops, specialty sport shops, distributors, department stores, the Internet as well as its own outlets and direct stores. As of 31 December 2008, the points of sales for "Phenix" and "Kappa" numbered approximately 956 and 2,588 respectively. In September 2008, the first Japan Kappa flagship store was opened at Tokyo and it is part of the Group's plan to rebuild the brand image of Kappa in Japan.

Comprehensive supply chain management

In the PRC market, the Group has applied a comprehensive supply chain management approach with respect to procurement, supplies, manufacturing and distribution of products. The Group adopted an asset-light business model and outsourced production processes to a number of PRC manufacturers that have many years of apparel, footwear or accessories production experience. As of 31 December 2008, the Group selectively engaged and actively supervised approximately 80 manufacturers in processing and manufacturing products in China segment.

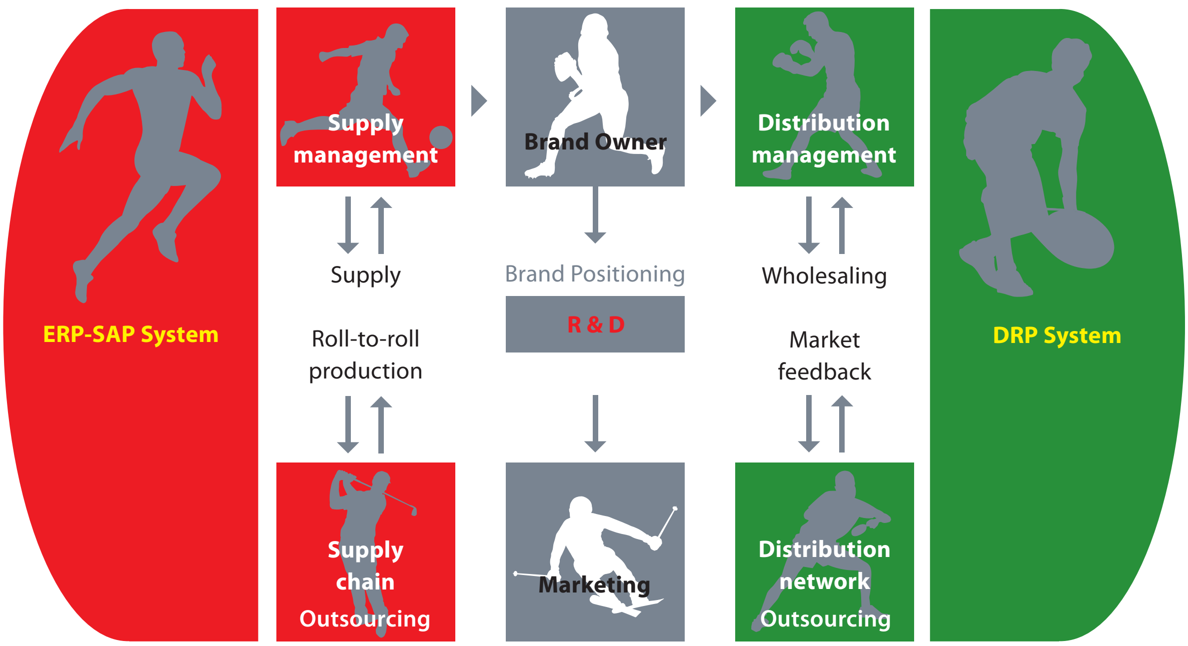
The Group has implemented a highly integrated ERP-SAP system. By using a platform to which the Group's manufacturers have direct access, the ERP-SAP system enables manufacturers to continually update the Group on the latest production status.

Finished goods from manufacturers were shipped to the Group's distribution centres before being dispatched to distributors. The Group operates a distribution centre in Fengtai District in Beijing with a floor area of approximately 12,169 sq.m. In May 2007, the Group also set up another distribution centre in Kunshan, Jiangsu Province with a floor area of approximately 5,772 sq.m. Since July 2008, a third distribution centre in Guangzhou has been in operation with a floor area of approximately 3,680 sq.m. The Group's manufacturers were mainly located in the southern and south eastern regions of China with these same areas also representing high growth markets with a strong demand for the Group's products. The new distribution centres greatly enhance the Group's response capabilities and shorten the overall time of distribution.

For sales of the Group's Kappa Brand products in the PRC, the Group hosts the sales fair for distributors four times each year to cover the spring, summer, fall and winter collections respectively.

Apart from their own inventories, the Group also closely monitors the inventories of its distributors. We also have in place a retail sales analysis system and a distribution resources planning ("DRP") system that has enabled us to swiftly collect and monitor retail sales and inventory levels of our distributors. The ERP-SAP system is also linked to the DRP system to enhance the exchange of information among various departments and strengthen the Group's supply chain and distribution network management.

Phenix primarily engages Japanese sourcing and production agencies for procurement of raw materials in Japan and the PRC as well as arranging production in the PRC. They also oversee two joint ventures in Shanghai mainly for the production of ski and outdoor sportswear products. Phenix outsources its logistics function to a third party company in Japan. Since the acquisition of Phenix, the Group has commenced the process to integrate Phenix's production function into the Group's extensive production network in the PRC in order to enjoy the reduction in production cost for Phenix.



FINANCIAL POSITION

Working capital efficiency ratios

China Segment

The average trade receivables turnover days for the year ended 31 December 2008 and 2007 were 23 days and 24 days respectively. The relatively low turnover days in both periods was mainly attributable to the Group's tight credit control policy and fast sales of its distributors' inventories allowing a shorter period to repay their trade balances.

The average trade payables turnover days for the year ended 31 December 2008 and 2007 were 62 days and 75 days respectively. This was in line of the Group's major policy to repay trade debts with its suppliers and manufacturers within 60 to 90 days.

The average inventory turnover days for the year ended 31 December 2008 and 2007 were 42 days and 49 days respectively. The enhancement of turnover days is mainly due to the Group's effective supply chain management and fully operational new distribution centres in Kunshan and Guangzhou.

Japan Segment

These represented the working capital efficiency ratios of Japan segment for the eight months ended from 1 May (date of acquisition) to 31 December 2008. The average trade receivables turnover days, average trade payables turnover days and average inventory turnover days were 75 days, 103 days and 125 days respectively. The turnover days of Japan segment relatively longer than the turnover days of China segment. The frequency of Phenix's sales fairs was lesser than China segment and therefore required a longer production and settlement period.

Liquidity and financial resources

As at 31 December 2008, cash and cash equivalents of the Group amounted to RMB5,942,048,000, an increase of RMB630,988,000 compared with a balance of RMB5,311,060,000 as of 31 December 2007. This increase mainly represents net cash generated from operating activities of RMB929,356,000 and proceeds of RMB204,903,000 from disposal of financial assets, less effect of exchange rate changes on cash and cash equivalents of RMB160,794,000, repurchase of shares of RMB33,937,000 and dividends paid of RMB265,283,000.

As at 31 December 2008, the Group's net asset value was RMB6,719,363,000 (31 December 2007: RMB5,901,831,000). The Group's current assets exceeded current liabilities by RMB6,180,564,000 (31 December 2007: RMB5,500,124,000). The Group also had a very strong liquidity position. The current ratio as of 31 December 2008 was 11.8 times (31 December 2007: 18.4 times). As of 31 December 2008, the Group had no outstanding bank loans or other borrowings.

Pledge of assets

As at 31 December 2008, the Group had bank deposits of RMB32,719,000 (31 December 2007: RMB29,521,000) to secure advertising costs payable to a third party business partner and approximately RMB38,375,000 were held in banks as guarantee deposit for the issue of letters of credit.

Capital commitments and contingencies

As at 31 December 2008, the Group had capital commitment for investments in joint ventures with its distributors amounting to RMB132,710,000.

Foreign Exchange Risk

The functional currency of the Company is United States Dollars ("US Dollars") owing to the fact that its international sourcing business is transacted in US Dollars. During the Global Offering in October 2007, the Company received its proceeds in Hong Kong Dollars. The proceeds were either deposited in bank accounts denominated in Hong Kong 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 Dollar against the Company's Hong Kong Dollars bank deposits, were recognized as exchange gains or losses in the Company's income statement. The exchange gains or losses were not significant because HK Dollars are pegged to US Dollars. The Company's financial statements expressed in US Dollars were translated into Renminbi for the Group's reporting and consolidation purposes. The foreign exchange difference from the translation of financial statements will not be 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, Apart from the Global Offering proceeds in Hong Kong Dollars or US Dollars, the exchange rate risk of the Group was not significant. The Group will closely monitor the unutilized Global Offering proceeds and will use appropriate hedging solutions if necessary.

Significant investments and acquisitions

For the year ended 31 December 2008, apart from the acquisition of Phenix, the Group has made no significant investments or any material acquisition or disposal of subsidiaries. The Group will endeavor to search for the opportunities for acquisition of the ownership or long-term operating right of one or more international brands in the PRC or regional market in order to deploy its multi-brand strategy.

Application of net Global Offering proceeds

The net proceeds after deduction of related expenses from Global Offerings in October 2007 were approximately HK$5,176.9 million (equivalent to RMB5,013.9 million). As of 31 December 2008, the net proceeds were utilized as follows:

	Total net proceeds HK$ million	Utilized HK$ million	Unutilized HK$ million
Develop existing brands and expand brand portfolio	2,743.8	84.3	2,659.5
Expand and improve distribution network	1,294.2	114.5	1,179.7
Enhance design and development capabilities	258.8	60.8	198.0
Establish new operating headquarter	258.8	—	258.8
Payment of special dividend declared prior to the Global Offering	238.3	238.3	—
Working capital and other general purposes	383.0	200.0	183.0
Total	5,176.9	697.9	4,479.0

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

HUMAN RESOURCES

As of 31 December 2008, the Group had approximately 429 employees throughout the PRC region (As of 31 December 2007: 353 employees). There were also approximately 238 employees in Japan as a result of the acquisition of Phenix. Due to the high growth of business, the Group has to recruit more talented employees in all departments in order to cope with this rapid expansion.

The Group deployed a performance based remuneration scheme to its employees under which quarterly KPI and annual bonuses were awarded to high performance employees on top of their basic salary.

SUBSEQUENT EVENTS

On 1 January 2009, the Group acquired 30% equity interests in each of six joint ventures in the PRC. The joint ventures were set up by the six major distributors of the Group in Hangzhou, Shanxi, Shenyang, Tianjin, Nanjing and Ningbo. The six joint ventures are mainly engaged in distribution and retailing of sport-related apparel, footwear and accessories of various brands including Kappa of the Group in the PRC. The total cash considerations for the acquisition is RMB152,100,000 and will be injected into the six joint ventures as additional capital injection. As at 31 December 2008, RMB19,390,000 were paid and the remaining considerations will be paid in 2009. The Group will rely on the experience of the distributors (also as the controlling shareholders) to continuously manage and operate the distribution business of the joint ventures. The Group will act as minority shareholders to exercise influence over the direction and development of the joint ventures. The Group considers that the joint ventures will further strengthen the Group's retail network in China.

OUTLOOK

Year 2009 will be a challenging year for all countries across the globe, including China with an economy driven by three forces: exports, internal consumption and investments.

China's exports are closely tied to the US and European economies, so the consensus is that mainland shipments to overseas markets will certainly slow down in 2009. Given this scenario, the Chinese government has no other option but to focus on the remaining two forces — internal consumption and investments, in order to maintain a 8% GDP growth in 2009, which is a crucial factor for maintaining national social stability. The uncertain consequences resulted from the US financial crisis and Chinese government's commitment to stimulate internal consumption pose both threats and opportunities for the domestic sportswear industry. With this in mind, The Group will adopt an optimistic yet prudent operational approach throughout the year. The Group has comprehensive contingency plans to deal with different circumstances of retail market development in China. The main purpose is to ensure a secure and healthy business growth in 2009. On the other hand, the Group considers that 2009 is a good year to focus on internal enhancement which could help lead it to outperform its peers once the economic conditions rebound. The Group aims to integrate design, research and development as well as the production functions of Phenix into its China operations. The success of this integration will form a solid foundation for the Group's future development.

The Group will continue to pursuit business development towards four directions: brand building, retail network expansion, internal operations enhancement and multi-brand strategy.

Brand building

The Group considers product design and development as the main drivers leading the market and creating demand and will continue to enhance its capabilities in this area. The acquisition of Phenix was an important milestone for the Group. Phenix has strong design and development capabilities especially its technical centre is able to develop highly sophisticated apparel. The integration of Phenix's design and development functions will enhance the Group's existing capabilities in this area and provide a strong product design and technology development platform for the Group's long term development of Kappa Brand and other brands in the PRC market. This will strengthen the competitive advantage of the Group overall. In addition, the Group will further cooperate with well-recognised international design and development institutes. Our co-operation with UAL has already proven to create a strong synergy.

The Group will also continue to sponsor a number of selective fashion and sport activities which fit closely with the image of the Kappa Brand. In February 2009, the Group formed a strategic alliance with Huayi Brothers Media Group, one of the most successful film makers and entertainment media groups in China. The Group will co-operate with Huayi Brothers Media Group in a wide range of marketing and promotion activities. Moreover, the Group was recently appointed as the official partner for the provision of sportswear for the Norwegian National team from 2009 to 2012. The Group will provide Norwegian National team Kappa and Phenix sportswear at the opening and award presentation ceremonies of the 2010 Winter Olympics and 2012 Summer Olympics Games.

On the other hand, we believe that the flagship store plan is a very effective mean to build the brand and we will continue to work with our distributors to open flagship stores in the prime shopping locations of first-tier cities in the PRC.

Retail network expansion

Compared with other top international sportswear brands in the PRC, the number of Kappa Brand retail outlets is still low and the retail network is under-penetrated. We believe that there is huge potential for the Kappa Brand to expand its retail network in order to meet the strong demand for its products. The Group will, therefore, continue to co-operate with its distributors to open new stores in provincial capitals and first-tier cities as well as the high potential second and third-tier cities. In January 2009, the Group formed six joint ventures with each of its six key distributors in Hangzhou, Shanxi, Shenyang, Tianjin, Nanjing and Ningbo respectively. The Group will act as minority shareholders to exercise influence over the direction and development of the joint ventures. The Group considers that the joint ventures will further strengthen the Group's retail network in China.

Flagship store in Wangfujing, Beijing


Retail Outlet in Fumou, Ningbo

Internal operations enhancement

The Group invests and places considerable emphasis on management information systems to improve its efficiency in product design and development, supply chain management, quality and inventory control, as well as logistics and sales. Since June 2007, the Group has replaced its management system and financial information system with a highly integrated ERP-SAP system. We will further invest and enhance the system over the next three years to more deeply integrate our operations with the Group's manufacturers, distributors and their retail network. The Group's joint ventures with key distributors will help speed up the integration.

Since July 2008, the Group's third distribution centre in Guangzhou has begun operations. The third distribution centre will further enhance the Group's response time and shorten the time of distribution in the southern region of China.

Subsequent to the Global Offering in October 2007, the Group has been conducting a series of restructuring plans to prepare for the future development. In 2008, as a first step, the Group adjusted its basic organisational structure to streamline major business segments and administrative functions in order to align them with its future development strategies. In 2009, the Group will focus on integration of the design, research and development as well as production functions of Phenix with the China operation. Once the integration completed, it will provide a strong common platform for the Group to deploy its multi-brand strategy.

On the other hand, We will also continue to provide comprehensive training programmes to our employees for enhancement of their professional and management skills and will also continuously recruit the best people in the industry to prepare for future growth and expansion.

The Group has a plan to establish a new operational headquarter in Beijing to cater for our future growth and we are currently actively searching for a suitable location.

Multi-brand strategy

The acquisition of Phenix provides an excellent opportunity for the Group to launch Phenix's high quality ski, outdoor and golf sportswear in the PRC market. The Group is planning to launch in China Phenix's "Kappa Golf" brand and "Phenix" brand products in 2009. In addition, the Group is also planning to launch the sub-brand of Kappa Brand, Robe Di Kappa ("RDK") in the PRC market as well.

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 it has provided a very solid foundation for us to deploy our multi-brand strategy. By utilising management's abundant experience in the sportswear industry and our strong financial resources, we will endeavor to find and explore opportunities for acquisition of the ownership or long-term operating rights for one or more international brands in the PRC and/or regional markets. We believe that the multi-brand strategy will enhance the value of our shares and bring benefits to our shareholders and investors.

Investor Relations Report

OVERVIEW

Spearheaded by our chief executive officer and chief financial officer, as well as fully backed by our senior management and the Board, the Company has devoted dedicated efforts to maintain pro-active investor relations and corporate communication. Disclosure of all relevant information, including financial performance as well as business and operational strategies is made on a timely, accurate, fair and transparent basis. As a result, our investors and shareholders gain continual access to the Company's latest developments.

Achievements of the Company's Investor Relations Department ("IR Department") for the year 2008 are listed below.

INVESTOR RELATIONS ACTIVITIES REVIEW

1. Results Announcement and Roadshow

Right after the announcements of the Company 2007 annual results in April 2008 and the 2008 interim results in September 2008 were posted, the Company held investor presentations and press conferences to share with investors and the media the latest business performance and future development strategies. Following that, our senior management team initiated a series of global roadshows to meet with investors worldwide.

2007 Annual Results Announcement Press Conference

These two global roadshows allowed our senior management to meet with international investors and research analysts in Hong Kong, Singapore, London, New York, Boston, San Francisco and Los Angeles. Approximately 100 one-on-one and a number of group meetings and luncheons were conducted to deliver a clear message about our strategies, financial performance, development plans and future prospects.

2. Investment Conference

In 2008, we attended eight investment conferences comprising over 90 one-on-one and group meetings as well as various investment forums hosted by various investment institutions in the United States, Singapore, Europe and the PRC. These conferences provided a platform for us to keep institutional investors informed of our latest initiatives and further expanded our exposure to capital markets.

3. Continuous Communication with Shareholders, Investors and Analysts

The IR department strictly adheres to our corporate policies and relevant regulations which mandate that we treat all shareholders, investors and research analysts in a fair and transparent manner. All information is disseminated promptly, non-selectively and accurately to ensure information relevance and reliability so that each investor can be properly informed about all investment decisions. In 2008, we have hosted over 160 one-on-one meetings and conference calls with institutional investors and research analysts. These effectively enhance the mutual communication links between the Company and the investment community. Moreover, we also responded promptly to daily inquires from shareholders, institutional investors and analysts via telephone, email and fax. In 2008, we met or communicated with about 550 investors and analysts from all over the world. And 20 analysts released reports over the Company in the year.

4. Media relations

We are committed to building strong and close relationships with the media through press releases, press conferences and management interviews so that our operating strategies and financial performance results can be delivered to our shareholders and the public communities timely and efficiently. Our strong media coverage has indeed bolstered our overall brand recognition and corporate image.

On-site store visits for investors and research analysts

5. Store Visit and Sales Fair

In order to provide a deeper understanding of the Company's business operations to investors, our IR department arranged numerous on-site store visits for investors and research analysts to let them gather information first-hand and conduct product and outlet reviews. In 2008 we have arranged 40 on-site store visits.

We have also invited investors, research analysts and the media to attend our sales fairs, during which they gained a better understanding of our latest product offerings and their subsequent distribution on the market. In November 2008, we invited more than 30 investors, research analysts and eight media institutions to attend our 2009 Second Quarter Sales Fair.

6. Company Website

Since its listing, the Company has published activities of the IR Department on our website (www.dxsport.com). The IR Department is responsible for continuously updating the website so that shareholders and potential investors can gain equal access to the latest information such as new corporate developments, filings and reports, latest share price, corporate governance, stock information, analyst coverage and the Company's major brands information etc. We also update the IR section with access to major corporate announcements, dividend information, and an investor's calendar among other crucial data.

OUTLOOK

Going forward, guided by the Company's senior management team, the IR Department will pro-actively develop and maintain a close relationship with investors, analysts and the media to enhance the Company's access to capital markets and at the same time act responsibly for all investors by ensuring timely dissemination of fair, accurate and transparent information to the public and various investment communities.

We always welcome comments and suggestions about the Company's development from investors and shareholders. Please send them via email or by post to our IR Department. The contact information is listed below under the IR contact section.

Investor Relations Report

OTHER IMPORTANT INFORMATION

1. Share information

Listing: Main Board of the Hong Kong Stock Exchange, 10 October 2007
Stock code: 3818
Number of ordinary shares issued as of 31 December 2008: 5,665,801,000

2. Important dates

Announcement of 2008 annual results: 25 March 2009
Annual General Meeting ("AGM"): 14 May 2009

3. Proposed 2008 final dividend and final special dividend

Proposed final dividend: RMB3.76 cents per ordinary share
Proposed final special dividend: RMB5.59 cents per ordinary share
Payment date: on or after 21 May 2009

4. IR Contact

IR Department
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

5. Website

http://www.dxsport.com

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)	50	Chairman and Executive Director
Mr. Qin Dazhong (秦大中)	40	Chief Executive Officer and Executive Director
Mr. Gao Yu (高煜)	35	Non-Executive Director
Mr. Mak Kin Kwong (麥建光)	47	Independent Non-Executive Director
Dr. Xiang Bing (項兵)	46	Independent Non-Executive Director
Mr. Xu Yudi (徐玉棣)	57	Independent Non-Executive Director

Executive Directors

Mr. Chen Yihong (陳義紅), aged 50, is our founder, chairman and executive Director. Mr. Chen is primarily responsible for our overall corporate strategies, planning and business development. Mr. Chen has extensive experience in the sporting goods industry in China. From 1991 to 2005, Mr. Chen was the vice-general manager, general manager and chief executive officer of Beijing Li Ning Sports Goods Co., Ltd. (北京李寧體育用品有限公司) and the executive director of Li Ning Company Limited, a company listed on Hong Kong Stock Exchange. He was also appointed as the vice-chairman of the National Volleyball Association (中國排球協會) in 2002. Mr. Chen obtained an executive master's of business administration degree from Lincoln University in the United States in 2003.

Mr. Qin Dazhong (秦大中), aged 40, is our chief executive officer and executive Director. Mr. Qin is primarily responsible for our Company's overall strategic planning and the management of our Company's business. Mr. Qin joined Beijing Dongxiang as general manager since October 2002 and has over 11 years of experience in the operation of sportswear companies. From 1997 to 2002, he held various positions at Beijing Li Ning Sports Goods Co., Ltd. (北京李寧體育用品有限公司) where he was responsible for its corporate planning, international business and financial control. Prior to joining the sportswear industry, he worked for the National Audit Office of the PRC (中國國家審計署). He has a Bachelor's degree in economics from Zhongshan University (中山大學) and an executive master's in business administration degree from Guanghua School of Management of Peking University (北京大學光華管理學院) in 2002.

Non-Executive Director

Mr. Gao Yu (高煜) , aged 35, is our non-executive Director. Mr. Gao joined our Company in May 2006. He is currently the executive director of the Private Equity Division of Morgan Stanley Asia Limited, and he primarily focuses on private equity investment activities in China. He is also a non-executive director of Belle International Holdings Limited, a company listed on the main board of Hong Kong Stock Exchange. Prior to joining Morgan Stanley Asia Limited, he worked in Citigroup's Investment Banking Division in Asia for about five years. Mr. Gao had also worked in Donaldson, Lufkin & Jenrette's Capital Markets Group in New York. Mr. Gao graduated from Stanford University with a Master's degree in engineering-economic systems and operations research as well as from Tsinghua University (清華大學) in Beijing with dual Bachelors' degrees in engineering and economics.

Independent Non-Executive Directors

Mr. Mak Kin Kwong (麥建光), aged 47, is our independent non-executive Director. Mr. Mak is the managing director of Venfund Investment, a Shenzhen based mid-market M&A investment banking firm specializing in cross-border mergers and acquisitions, corporate restructuring, capital raising and international financial advisory services for Chinese privately-owned clients, which he co-founded in late 2001. Prior to 2001, he was a partner of Arthur Andersen Worldwide and the managing partner of Arthur Andersen Southern China. Mr. Mak serves as an independent non-executive director and the audit committee chairman of Trina Solar Limited (天合光能有限公司), China GrenTech Corp. Ltd. (國人通信股份有限公司) and Dragon Pharmaceutical Inc. (凱龍藥業股份有限公

司), all of which are companies listed in the U.S., Gemdale Industries Ltd (金地集團股份有限公司), which is listed on the Shenzhen Stock Exchange, and Huabao International Holdings Ltd (華寶國際控股有限公司), Pou Sheng International Holdings Limited (寶勝國際(控股)有限公司), all of which are listed on the Hong Kong Stock Exchange. Mr. Mak is also a non-executive director of Bright World Precision Machinery Ltd. (沃得精機股份有限公司), a company listed in the Republic of Singapore. Mr. Mak is a graduate of the Hong Kong Polytechnic University and a fellow member of the Association of Chartered Certified Accountants, United Kingdom, and the Hong Kong Institute of Certified Public Accountants.

Between 2002 and 2007, Mr. Mak was an independent non-executive director and the audit committee chairman of Shenzhen Victor Onward Textile Industrial Co., Ltd. (深圳中冠紡織印染股份有限公司), a company listed on the Shenzhen Stock Exchange.

Between 2007 and 2008, Mr. Mak was a non-executive director of Vinda International Holdings Limited (維達國際控股有限公司), a company listed on the Hong Kong Stock Exchange.

Dr. Xiang Bing (項兵), aged 46, is our independent non-executive Director. Dr. Xiang obtained a Doctoral degree in accounting from the University of Alberta in Canada. He has over 11 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 and committee member of the audit committee and remuneration committee of Dan Form Holdings Company Limited, HC International, Inc., Enerchina Holdings Limited and Sinolink Worldwide Holdings Limited. He is also an independent non-executive director and committee member of remuneration committee of Little Sheep Group Limited. All of the above-mentioned companies are listed on the Hong Kong Stock Exchange.

Dr. Xiang currently serves as independent non-executive director and committee member of audit committee, remuneration committee and nomination committee of LDK Solar Co., Ltd. Dr. Xiang also serves as independent non-executive director and committee member of audit committee of E-House (China) Holdings Limited. All of the above-mentioned companies are listed on the New York Stock Exchange. Dr.

Front Row (from the left) Mr. Chen Yihong and Mr. Qin Dazhong
Back Row (from the left) Mr. Gao Yu, Dr. Xiang Bing, Mr. Mak Kin Kwong and Mr. Xu Yudi

Xiang also serves as independent non-executive director and committee member of audit committee and remuneration committee of Perfect World Co., Ltd., a company listed on Nasdaq.

Between 2006 and 2008, Dr Xiang was an independent non-executive director and a committee member of the audit committee of Jutal Offshore Oil Services Limited, a company listed on the Hong Kong Stock Exchange.

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

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

Mr. Xu Yudi (徐玉棣), aged 57 is our independent non-executive Director. Mr. Xu obtained qualifications as a certified public accountant and senior auditor in China. He is a committee member of the Chinese Institute of Certified Public Accountants. Mr. Xu is currently the chairman of Citic International Cooperation Co., Ltd. (中信國際合作公司), a director of Citic Group (中國中信集團公司) and the vice-chairman of Citic Constructions Co. Ltd. (中信建設有限責任公司). During 1995 to 2005, Mr. Xu was the general manager of Citic International Cooperation Co., Ltd. and for the period between 2002 and 2004, he was the vice general manager of Citic Constructions Co. Ltd. Prior to that, he was the vice general manager and general accountant of China Leasing Company Limited (中國租賃公司). Mr. Xu graduated from the Tianjin Commercial School (天津財貿學校) and obtained his Master of Economics degree in accounting from the Institute for Fiscal Science Research under the State Ministry of Finance (財政部財政科學研究院). He was also an intern at the Office of the Auditor General of Canada.

SENIOR MANAGEMENT

Mr. Wong Chi Keung (王志強), FCCA, CPA, aged 42, is our chief financial officer, company secretary and the qualified accountant of our Company. Mr. Wong has over 16 years of experience in accounting, auditing and finance. He joined our Company in May 2007. Prior to joining us, Mr. Wong was appointed to various senior positions including the chief financial officer of a sino-foreign joint venture in Beijing, the senior finance manager of China Netcom Group Corporation (Hong Kong) Limited, which was a company listed on Hong Kong Stock Exchange, and the audit manager of an international accounting firm. Mr. Wong obtained a Bachelors degree in business administration from Chinese University of Hong Kong and a Masters degree in business administration from the Australian Graduate School of Management. He is also a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants.

Mr. Ren Yi (任軼), aged 35, is the general manager of Kappa business, and is primarily responsible for overseeing the sale, production, and marketing of Kappa products of our Company. Mr. Ren joined our Company in 2006 and has over 14 years of experience in the sporting goods industry. Prior to joining us, Mr. Ren worked for Beijing Li Ning Sports Goods Co., Ltd. (北京李寧體育用品有限公司) from 1994 to 2006. Mr. Ren obtained executive master's degree in business administration from the Guanghua School of Management of Peking University (北京大學光華管理學院).

Mr. Sun Jianjun (孫建軍) aged 42, 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, responsible for marketing and was then promoted to deputy head of 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 18 years of experience in relevant industry. He joined the Group in April 2008 and is head of Phenix Co., Ltd.

Social Responsibilities

As an integral and responsible member of society, one of the Company's core operational philosophies is to actively contribute to the welfare of the country and the community. To this end, we have extended our enthusiastic support and participation in a host of different major charity projects.

In 2008, our major charity activities and events included:

SICHUAN CHINA EARTHQUAKE CARING

In May 2008, after the devastating earthquake in Wenchuan, Sichuan, the PRC, the Company immediately donated RMB7 million as well as apparel valued at RMB8 million to the Wenchuan disaster area via the Red Cross Society of China. The cash and other resources together totaled RMB15 million, and reflected the Company's care and desire to take prompt practical actions to help improve the lives of the victims of this terrible tragedy.

2008 "I WANT TO GO TO SCHOOL, KAPPA ORANGE HOPE IS ACTING NOW." CHARITY ACTIVITY

Following the completion of the "*2006 and 2007 I Want To Go To School — Affinity Forward*" event co-organised by Music Radio as well as other large-scale social charity activities, in 2008, leveraging the Company's brand Kappa, we collaborated with Music Radio for a third times to care for children living near the Sichuan earthquake disaster area. Along with this, to help them fulfill their dreams, we delivered Kappa's life vision and introduced healthy lifestyles to youngsters in distress, and through persistence and an enthusiastic spirit we encouraged them to dream and live with a sense of courage and purpose.

Our Staff Actively Participated in a Fund-Raising Campaign for Wenchuan Earthquake Disaster Area on 19 May 2008

Celebrities Invited by "Date with Lu Yu" Visited Sichuan Earthquake Disaster Area

Social Responsibilities

Through our various charitable activities, the Company aims to instill positive hopes and beliefs to disadvantaged minority children in China who need a helping hand. This is especially true for those in the Sichuan earthquake disaster area who are living in severe distress. We want to encourage them to live with a sense of courage and hope. Moreover, in addition to providing them with financial and material support, we also want to attract, via the power of the media and famous artists, the attention of local citizens to aid those children in distress who cannot go to school. By helping these kids resume their education we can restore the joy and harmony in their lives again.

OTHER CHARITY ACTIVITIES

The Company's brand — Kappa also sponsored the *Dream Boat Star* of their Swiss Charity Trip. Ticket proceeds earned from friendly matches between the Dream Boat Star and various Chinese soccer teams in Switzerland were donated entirely to Wenchuan, Sichuan, for post earthquake reconstruction projects. In April 2008, we donated apparel valued at RMB0.5 million to students in Tibet via the China Soong Ching Ling Foundation. Our staff also actively donated more than RMB420,000 to the earthquake disaster area via the Red Cross Society of China. In May 2008, as a result of joint-charity activities surrounding Dream Boat Star and "Date with Lu Yu", we contributed a host of resources valued at more than RMB1.5 million to the disaster relief effort. In June 2008, we supported the "*China Model Affinity Act — Thousand Models Charity T-shirt Bazaar*" organised by China Fashion Association (CFA) by supplying our Company's clothing items.

In recognition of the Company's outstanding charitable efforts, we were honoured with the "Pioneer of China Livelihood 2008" award in October 2008 from the China Foundation for Poverty Alleviation.

VENI VIDI VICI

Dream Boat Star Participated in a Charity Soccer Match in Fuzhou for Sichuan Earthquake Disaster Area

Presentation Ceremony of the "Pioneer of China Livelihood 2008" Award by the China Foundation for Poverty Alleviation

Launching Ceremony of 2008 "I Want to Go to School, Kappa Orange Hope is Acting Now"

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

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

The Board of Directors

The overall management of the Company's business is vested in the Board. Pursuant to the Articles of Association and the Terms of Reference of the Executive Committee adopted by the Board, the Board has delegated the day-to-day management of the Company's business to the Executive Committee (see details in pages 46 to 47 below), and focuses its attention on matters affecting the Company's overall strategic policies, finances and shareholders. These include financial statements, dividend policy, significant changes in accounting policy, annual operating budget, strategies for future growth, major financing arrangements, major investments and risk management strategies.

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

Executive Directors:
Mr. Chen Yihong
Mr. Qin Dazhong

Non-Executive Director:
Mr. Gao Yu

Independent Non-Executive Directors:
Mr. Mak Kin Kwong
Dr. Xiang Bing
Mr. Xu Yudi

Biographies of the Directors are set out on page 39. None of the Directors of the Board has any relationship (including financial, business, family or other material or relevant relationships) with the other Directors. 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 Company. 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 Company.

In accordance with Article 87 of the Company's articles of association, Mr. Mak Kin Kwong and Dr. Xiang Bing shall retire from the office by rotation and, being eligible, shall offer themselves for re-election at the forthcoming AGM.

Mr. Gao Yu and Mr. Xu Yudi who were re-elected as non-executive Directors on 15 May 2008 shall hold office until they are required to retire in accordance with the Company's articles of association.

To ensure a balance of power and authority, the role of the chairman and the chief executive officer is segregated. There is a clear distinction between the chairman's responsibility for the management of the Board and the chief executive officer's responsibility for the management of the day-to-day operations of the Group's business.

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.

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

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

In 2008, the Board held 6 meetings. The attendance of the Directors at Board meetings and principal Board Committee meetings held in 2008 is set out in the table below.

	Attendance of "Board meetings" in 2008	Attendance of "Audit committee meetings" in 2008	Attendance of "Remuneration committee meetings" in 2008
Executive Directors			
Chen Yihong	6/6	N/A	1/1
Qin Dazhong	6/6	N/A	N/A
Non-Independent Non-Executive Director			
Gao Yu	5/6	N/A	N/A
Independent Non-Executive Directors			
Mak Kin Kwong	6/6	4/4	N/A
Xiang Bing	6/6	4/4	1/1
Xu Yudi	6/6	4/4	1/1

Corporate Governance Report

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.

Board committees

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

Audit Committee

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

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

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

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 make 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.

Executive Committee

Members: Mr. Qin Dazhong (chairman), Mr. Chen Yihong, Mr. Wong Chi Keung and Mr. Ren Yi. Unlike other Committees whose members are Directors only, the members of the Executive Committee comprise of two senior management, that is, Mr. Wong Chi Keung, chief financial officer and company secretary, and Mr. Ren Yi, the general manager of Kappa business.

The Board is responsible for the overall management and performance of the Company 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 resource allocation. Detailed functions of the Executive Committee as delegated by the Board mainly include:

1. 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;

2. to monitor and oversee the implementation of the budget as approved by the Board;

3. to monitor and oversee the financial and operational performance of the Company and its subsidiaries;

4. to ascertain the business plan and company strategies as approved by the Board and develop specific implementation plan; and

5. 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.

Internal control and risk management

The Board of the Company is responsible for maintaining the reliability and effectiveness of the Group's system of internal control covering all controls, including financial, operational and compliance controls and risk management. The Board and the Audit Committee have reviewed the effectiveness of the Group's system of internal control on all major operations by reviewing the internal control reports prepared by the Internal Audit Department ("the IA") and management letters submitted by external auditor. Also, The Board and the Audit Committee met with the internal auditor, the external auditor and management to discuss findings from their works and resolution. The Board and the Audit Committee considered that the system of internal control was existence and effectiveness for the year ended 31 December 2008.

Corporate Governance Report

The IA reported to the Audit Committee and aimed at providing reasonable assurance to the Board and the Audit Committee by ensuring the existence and effectiveness of Group's internal control. The IA adopted the globally recognized framework outlined by the Committee of Sponsoring Organizations of The National Commission of Fraudulent Financial Reporting (COSO) to establish the system of internal control and formulated an annual internal audit plan for the next year on the basis of risk assessment on December of each year. Duties of the IA include regular reviews on the implementation and procedures of financial and operational activities and the system of internal control of the Group. The IA submitted the audit findings together with rectification and improvement plans to the Audit Committee and the management and maintained regular communication. It regularly tracked all audit findings and performed follow-up to ensure all matters are implemented in accordance with the rectification and improvement plans.

Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code")

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code governing securities transactions of the Directors and, having made specific enquiry, confirms that the Directors of the Board have complied with the Model Code for the year ended 31 December 2008. Senior managements who, because of their office in the Company, are likely to be in possession of unpublished price sensitive information, have also been requested to comply with the provisions of the Model Code.

External auditor

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

The auditor's remuneration for the year ended 31 December 2008 is set out in Note 24 to the consolidated financial statements.

Communication with Shareholders

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

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

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

To further enhance our relationship with the Shareholders and investors and to ensure that our investors have a better understanding of the Company, we have established an IR Department to handle regular contact with our investors. An Investor Relations Report is produced hereto on pages 36 to 38 to provide a more comprehensive overview of the work done by the IR Department in 2008.

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 2008.

PRINCIPAL ACTIVITIES

The Group are principally engaged in brand development, design and sales of sport-related apparel, footwear and accessories in Mainland of PRC and Macau. The Group commenced operations in Japan subsequent to the completion of the acquisition of a subsidiary in Japan on 30 April 2008.

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

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

In April 2008, the Company, Orix Corporation ("Orix") (a company incorporated under the laws of Japan and whose shares listed on the stock exchanges in Tokyo, Osaka and New York) and OPI2002 Toushi Jigyou Kumiai ("OPI") (a partnership established under the laws of Japan) entered into several agreements whereby the Company, through a wholly owned subsidiary, agreed to acquire from Orix and OPI the entire equity interest in Phenix, and to receive the assignment of the outstanding balance of a loan of Japanese Yen ("JPY") 5,937,000,000 provided by Orix to Phenix. Phenix is a limited liability company established under the laws of Japan and principally engaged in brand development, design and sales of sport-related products under the brand names of Kappa, Phenix and other brands in Japan. On 30 April 2008, the Company, through a wholly owned subsidiary, and Orix further agreed to subscribe new shares in Phenix. Upon completion of the acquisition and the subscription of new shares, on 1 May 2008, Phenix became a 91% indirectly owned subsidiary of the Company (the "Acquisition").

GROUP PROFIT

The Group's profit for the year ended 31 December 2008 is set out in the consolidated income statement on page 64.

DIVIDENDS

An interim dividend of RMB153,543,000 and an interim special dividend of RMB49,859,000 in respect of the 6 months ended 30 June 2008 were declared to Shareholders on 10 September 2008 and paid in October 2008.

The Directors recommend a final dividend of RMB3.76 cents and final special dividend of RMB5.59 cents per ordinary share of the Company, amounting to approximately RMB213,034,000 and RMB316,718,000 respectively, subject to approval by the Shareholders of the Company at the AGM to be held on 14 May 2009 and are payable in Hong Kong Dollars based on the official exchange rate of Renminbi against Hong Kong Dollars as quoted by the People's Bank of China on 24 March 2009.

PROPERTY, PLANT AND EQUIPMENT

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

BANK LOANS AND OTHER BORROWINGS

There was no bank loans and other borrowings of the Company and the Group as at 31 December 2008.

Report of the Directors

FOUR-YEAR SUMMARY

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

SHARE CAPITAL

Movements in the share capital of the Company during the year are set out in Note 17 to the consolidated financial statements.

RESERVES

Movements in reserves of the Group and the Company during the year are set out in Note 19 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2008 amounted to approximately RMB5,063,805,000, which is the total of the share premium account and retained earnings of the Company calculated in accordance with Companies Law of the Cayman Islands.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of Cayman Islands where the Company is incorporated.

CHARITABLE DONATIONS

Cash donation made by the Group during the year amounted to RMB7,500,000.

MATERIAL CONTRACT

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

DIRECTORS

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

Executive Directors:	
Mr. Chen Yihong	(re-elected on 15 May 2008)
Mr. Qin Dazhong	(re-elected on 15 May 2008)
Non-Executive Director:	
Mr. Gao Yu	(re-elected on 15 May 2008)
Independent Non-Executive Directors:	
Mr. Mak Kin Kwong	(appointed on 12 September 2007)
Dr. Xiang Bing	(appointed on 12 September 2007)
Mr. Xu Yudi	(re-elected on 15 May 2008)

In accordance with Article 87 of the Company's Articles of Association and the Code on Corporate Governance Practices of Listing Rules, Mr. Mak Kin Kwong and Dr. Xiang Bing will retire from office by rotation and are eligible 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 25 to the consolidated financial statements.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors of the Company is or was interested in any business apart from the Group's business, that competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business at any time during the year ended 31 December 2008 and up to and including the date of this report.

Report of the Directors

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management are set out on pages 39 to 41.

SHARE OPTION SCHEMES

(a) Pre-IPO Share Option Scheme

The Company had adopted a Pre-IPO Share Option Scheme ("Pre-IPO Share Option Scheme") on 12 September 2007 for the purpose of giving the employees an opportunity to share in the success of the Company and to motivate the employees to optimize their performance and efficiency, and also to retain the employees whose contributions are important to the long-term growth and profitability of the Company. Options to subscribe for 18,700,000 Shares were granted to three independent non-executive Directors and 50 employees on 17 September 2007. The exercise price per share is HK$2.786, being a discount of 30% to the price of each Share upon the listing of the Shares of the Company on 10 October 2007. HK$1.00 was payable by the grantee who accepted the grant of options. The options granted under the Pre-IPO Share Option Scheme vested 6 months after 10 October 2007, the listing date. No further options may be granted under the Pre-IPO Share Option Scheme upon the listing of Shares of the Company on 10 October 2007.

Movements in the number of share options outstanding under the Pre-IPO Share Options Scheme for the year ended 31 December 2008 are as follows:

			Number of share options				
	Date of grant	Average Exercise price per Share HK$	as at 01/01/2008	exercised during the year	cancelled during the year	as at 31/12/2008	Exercise period
Employees of the Group							
In aggregate	17 September 2007	2.786	18,100,000	1,300,000 (1)	16,800,000 (2)	0	10 April 2008 – 9 April 2010
Independent Non-Executive Directors							
Mak Kin Kwong	17 September 2007	2.786	200,000	—	—	200,000	10 April 2008 – 9 April 2010
Xiang Bing	17 September 2007	2.786	200,000	—	—	200,000	10 April 2008 – 9 April 2010
Xu Yudi	17 September 2007	2.786	200,000	—	—	200,000	10 April 2008 – 9 April 2010

Notes:

1. During the year ended 31 December 2008 options to acquire 1,300,000 shares of the Company were exercised at the exercise paid of HKD2.786 each. The weighted average fair value of the 18,700,000 pre-IPO share options granted in 2007 as determined using the Black-Scholes valuation model was HKD1.55 per option as at the date of grant.

2. In late 2008, options granted to employees to acquire 16,800,000 shares of the Company were surrendered by grantees.

No options granted were lapsed during year ended 31 December 2008.

(b) Share Option Scheme

The Company has adopted a Share Option Scheme ("Share Option Scheme") 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 has 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 HK$1.00 for each option granted upon acceptance of the grant. The exercise price of the options is determined by the Board in its sole and absolute discretion and being at least the highest of:

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

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

(iii) the nominal value of the shares.

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

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

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

Details of the share options issued or granted during the year 2008 by the Company are set out in Note 18 to the consolidated financial statements.

RETIREMENT SCHEMES

Particulars of the retirement schemes operated by the Group are set out in Note 2.16 to the consolidated financial statements.

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

For the year ended 31 December 2008, the Company repurchased a total of 12,649,000 shares of par value HK$0.01 each of the Company at an aggregate purchase price of approximately HK$38,392,994 on the Hong Kong Stock Exchange. Details of the share repurchases were as follows:

Months of repurchase	Number of Shares repurchased	Price per Share		Approximately purchase price of aggregate
		Lowest	Highest	
		HK$	HK$	HK$
June 2008	5,165,000	3.12	3.22	16,360,891
July 2008	7,484,000	2.86	3.03	22,032,103
Total	12,649,000			38,392,994

As at the date of this annual report, all 12,649,000 Shares repurchased by the Company for the year ended 31 December 2008 had been cancelled and the issued share capital of the Company was reduced by the par value thereof accordingly. The repurchases were effected by the Directors, pursuant to the mandate from Shareholders to enhance the net assets and/or earnings per share of the Company.

Saved as disclosed above, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of any listed securities of the Company for the year ended 31 December 2008.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2008, 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)	2,599,581,000 Shares	—	45.88%
	Deemed interest (2)	345,520,000 Shares	—	6.10%
Mr. Qin Dazhong	Interest of a controlled corporation (3)	246,864,000 Shares	—	4.36%
Mr. Mak Kin Kwong	Personal Interest	200,000 Shares (4)	—	0.0035%
Mr. Xu Yudi	Personal Interest	200,000 Shares (4)	—	0.0035%
Dr. Xiang Bing	Personal Interest	200,000 Shares (4)	—	0.0035%

Notes:

1. Mr. Chen Yihong, Harvest Luck Development Limited and Talent Rainbow Far East Limited are deemed to be interested in the Shares held by Poseidon Sports Limited ("Poseidon") by virtue of Harvest Luck Development Limited and Talent Rainbow Far East Limited being entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of Poseidon. Both Harvest Luck Development Limited and Talent Rainbow Far East Limited are in turn wholly-owned and controlled by Mr. Chen Yihong.

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

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

4. These shares are subject to options granted under the Pre-IPO Share Option Scheme adopted by the Company.

Save as disclosed above, as at 31 December 2008, 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.

Report of the Directors

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2008, other than the interests and short positions as disclosed above, the following persons have interests or short positions in the Shares, underlying Shares and debentures of the Company which fall to be disclosed to the Company under Divisions 2 & 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under Part XV (s.336) of the SFO, or otherwise known to the Directors:

		Number and class of securities		
Name of Shareholders	Nature of interest	Long position	Short position	Approximate percentage of shareholding (%)
Poseidon Sports Limited	Corporate interest	2,599,581,000 Shares	—	45.88%
Talent Rainbow Far East Limited (1)	Interest in a controlled corporation	2,599,581,000 Shares	—	45.88%
Harvest Luck Development Limited (1)	Interest in a controlled corporation	2,599,581,000 Shares	—	45.88%
Colour Billion Limited (2)	Corporate interest	345,520,000 Shares	—	6.10%
Ms. Liu Peiying (2)	Interest in a controlled corporation, deemed interest	2,945,101,000 Shares	—	51.98%

Notes:

(1) Mr. Chen Yihong, Harvest Luck Development Limited and Talent Rainbow Far East Limited are deemed to be interested in the Shares held by Poseidon Sports Limited by virtue of Harvest Luck Development Limited and Talent Rainbow Far East Limited being entitled to exercise or control the exercise of one-third or more of the voting power at generate meetings of Poseidon Sports Limited and are in turn wholly-owned and controlled by Mr. Chen Yihong. Mr. Chen Yihong, the husband of Ms. Liu Peiying, is also deemed to be interested in his wife's interests in the Company.

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

Save as disclosed above, as at 31 December 2008, 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 TRANSACTIONS

During the year ended 31 December 2008, the Group conducted certain transactions with connected parties which constituted "continuing connected transactions" under the Listing Rules. Details of those continuing connected transactions which are subject to the reporting requirements under Rules 14A.46 of the Listing Rules and are summarised below.

Pursuant to a framework agreement dated 18 September 2007, the Group appointed Dong Gan Jing Ji Company Limited ("Dong Gan Jing Ji") (an associate of Mr. Chen Yihong, the Company's substantial shareholder, chairman and executive Director and hence a connected person of the Group) as its non-exclusive distributor of Kappa brand products at retail outlets in Beijing, Shandong and Shaanxi in China and as a consignee in relation to sale of the Rukka brand products at one of its Beijing outlets. The framework agreement took effect from 10 October 2007 and has a term of three years. The sales of goods to Dong Gan Jing Ji for the year ended 31 December 2008 amounted to RMB304,626,000.

Pursuant to a framework lease agreement dated 21 July 2008, Shanghai Kappa Sporting Goods Co., Limited, an indirect wholly-owned subsidiary of the Company, leased the property at Wangfujing region in Beijing to Dong Gan Jing Ji from 1 July 2008 to 31 December 2008 to operate a flagship Kappa brand outlet. The rental value of the lease for the year ended 31 December 2008 amounted to RMB4,640,000.

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

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

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

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

In addition, in accordance with paragraph 14A.38 of the Listing Rules the Board of Directors engaged the auditor of the Company to perform certain factual finding procedures on the above continuing connected transactions on a sample basis in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed — Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has reported this factual findings for the selected samples based on the agreed procedures to the Board of Directors that the aforesaid continuing connected transactions:

(1) have been approved by the Board of directors of the Company;

(2) have been entered into in accordance with the pricing policies of the Company;

(3) have been entered into in accordance with the relevant agreements governing the transactions; and

(4) have not exceeded the relevant caps.

The related party transactions are set out in Note 35 to the consolidated financial statements. Apart from the connected transactions disclosed above, all the other related party transactions did not fall under the scope of "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.

Report of the Directors

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 2008, the purchases from the largest supplier and the aggregated purchases from the largest five suppliers amounted for 7.9% and 34.1% of the Group's total purchases, and the sales to the largest customer and the aggregated sales from the largest five customers amounted for 10.7% and 36.9% of the Group's total sales, respectively.

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

POST BALANCE SHEET DATE EVENTS

Details of the significant post balance sheet date events of the Group are set out in Note 36 to the consolidated financial statements.

CORPORATE GOVERNANCE

Throughout 2008, the Company has complied with all the code provisions and most of the recommended best practices of the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules. Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 44 to 48 of this report.

AUDITOR

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

On behalf of the Board
CHEN Yihong
Chairman

Hong Kong, 25 March 2009

Independent Auditor's Report

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

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

We have audited the consolidated financial statements of China Dongxiang (Group) Co., Ltd. (the "Company") and its subsidiaries (together the "Group") set out on pages 61 to 126, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, 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 notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements 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 financial statements.

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

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and of the Group as at 31 December 2008, and of the Group's financial performance 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, 25 March 2009

Consolidated Balance Sheet

(All amounts in Renminbi thousands unless otherwise stated)

	Note	As at 31 December 2008	2007
ASSETS			
Non-current assets			
Property, plant and equipment	6	121,283	94,474
Lease prepayments	7	42,063	30,080
Intangible assets	8	307,129	279,751
Investments in jointly controlled entities	10	25,926	—
Prepayment of considerations for investments in associates	36	19,390	—
Deferred income tax assets	11	3,547	3,308
Prepayments, deposits and other receivables — non-current portion	15	23,638	—
		542,976	407,613
Current assets			
Inventories	12	232,166	88,173
Financial assets	13	—	201,505
Trade receivables	14	367,880	138,319
Prepayments, deposits and other receivables	15	86,736	46,764
Cash and bank balances	16		
— Restricted bank balances		121,653	29,521
— Cash and cash equivalents		5,942,048	5,311,060
		6,750,483	5,815,342
Total assets		7,293,459	6,222,955

The notes on pages 67 to 126 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet (continued)

(All amounts in Renminbi thousands unless otherwise stated)

	Note	As at 31 December 2008	2007
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	17	54,805	54,904
Share premium account	17	4,910,138	5,000,710
Reserves	19	1,754,420	846,217
Total equity		6,719,363	5,901,831
LIABILITIES			
Non-current liabilities			
License fees payable		—	5,906
Deferred income tax liabilities	11	4,177	—
		4,177	5,906
Current liabilities			
Trade payables	20	292,068	177,619
Accruals and other payables	21	190,927	112,804
License fees payable — current portion		—	1,557
Provisions	22	49,364	—
Current income tax liabilities		37,560	23,238
		569,919	315,218
Total liabilities		574,096	321,124
Total equity and liabilities		7,293,459	6,222,955
Net current assets		6,180,564	5,500,124
Total assets less current liabilities		6,723,540	5,907,737

The notes on pages 67 to 126 are an integral part of these consolidated financial statements.

Balance Sheet

(All amounts in Renminbi thousands unless otherwise stated)

	Note	As at 31 December 2008	2007
ASSETS			
Non-current assets			
Investments in subsidiaries	9	10,103,395	10,082,680
Amounts due from subsidiaries	9	1,072,486	—
		11,175,881	10,082,680
Current assets			
Trade receivables	14	989	—
Prepayments, deposits and other receivables	15	16,354	13,422
Amounts due from subsidiaries	9	446,555	247,927
Cash and cash equivalents	16	3,425,419	4,710,223
		3,889,317	4,971,572
Total assets		15,065,198	15,054,252
EQUITY			
Share capital	17	54,805	54,904
Share premium account	17	4,910,138	5,000,710
Reserves	19	9,794,762	9,974,832
Total equity		14,759,705	15,030,446
LIABILITIES			
Current liabilities			
Amounts due to subsidiaries	9	299,312	—
Accruals and other payables	21	6,181	23,806
Total liabilities		305,493	23,806
Total equity and liabilities		15,065,198	15,054,252
Net current assets		3,583,824	4,947,766
Total assets less current liabilities		14,759,705	15,030,446

The notes on pages 67 to 126 are an integral part of these consolidated financial statements.

Consolidated Income Statement

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Year ended 31 December 2008	2007
Sales	5	3,322,237	1,711,023
Cost of goods sold	24	(1,378,475)	(710,450)
Gross profit		1,943,762	1,000,573
Other gains, net	23	72,887	20,144
Distribution costs	24	(506,962)	(210,101)
Administrative expenses	24	(178,036)	(85,895)
Operating profit		1,331,651	724,721
Negative goodwill on an acquisition	31	145,950	—
Finance income, net	26	139,876	46,542
Share of losses of jointly controlled entities	10	(1,412)	—
Profit before income tax		1,616,065	771,263
Income tax expense	27	(248,343)	(37,695)
Profit attributable to equity holders of the Company		1,367,722	733,568
Earnings per share for profit attributable to equity holders of the Company (expressed in RMB cents per share)			
— Basic	29	24.12	15.89
— Diluted	29	24.11	15.82
Dividends	30	733,154	441,881

The notes on pages 67 to 126 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

(All amounts in Renminbi thousands unless otherwise stated)

		Attributable to equity holders of the Company				
	Note	Share capital	Share premium account	Other reserves	Retained earnings	Total
Balance at 1 January 2007		—	—	(1,337)	308,841	307,504
Contribution from the Investors	19(a)	—	—	23,203	—	23,203
De-recognition of a financial liability	19(a)	—	—	295,514	—	295,514
Issue of new shares	17	13,249	5,000,710	—	—	5,013,959
Issue of shares pursuant to the Capitalisation Issue	17	41,655	—	(41,655)	—	—
Share-based compensation	19(b)	—	—	14,279	—	14,279
Foreign currency translation reserve	19(c)	—	—	(106,196)	—	(106,196)
Appropriation to statutory reserves	19(d)	—	—	10,000	(10,000)	—
Profit for the year		—	—	—	733,568	733,568
Dividends paid	30	—	—	—	(380,000)	(380,000)
At 31 December 2007		54,904	5,000,710	193,808	652,409	5,901,831
Representing:						
Share capital and reserves		54,904	4,938,829	193,808	652,409	5,839,950
Proposed final dividend	30	—	61,881	—	—	61,881
At 31 December 2007		54,904	5,000,710	193,808	652,409	5,901,831
Balance at 1 January 2008						
At 1 January 2008		54,904	5,000,710	193,808	652,409	5,901,831
Exercise of pre-IPO share options	17	11	5,136	(1,947)	—	3,200
Shares repurchased and cancelled	17	(110)	(33,827)	—	—	(33,937)
Share-based compensation	19(b)	—	—	13,735	—	13,735
Foreign currency translation reserve	19(c)	—	—	(267,905)	—	(267,905)
Appropriation to statutory reserves	19(d)	—	—	34	(34)	—
Profit for the year		—	—	—	1,367,722	1,367,722
Dividends paid	30	—	(61,881)	—	(203,402)	(265,283)
At 31 December 2008		54,805	4,910,138	(62,275)	1,816,695	6,719,363
Representing:						
Share capital and reserves		54,805	4,380,386	(62,275)	1,816,695	6,189,611
Proposed final dividend and final special dividend	30	—	529,752	—	—	529,752
At 31 December 2008		54,805	4,910,138	(62,275)	1,816,695	6,719,363

The notes on pages 67 to 126 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Year ended 31 December 2008	2007
Operating activities			
Cash generated from operations	32(a)	1,029,062	681,104
Interest received		135,447	84,977
Interest paid		—	(149)
Income tax paid		(235,153)	(56,258)
Net cash generated from operating activities		929,356	709,674
Investing activities			
Cash inflow on acquisition of a subsidiary	31	22,487	—
Purchase of property, plant and equipment		(14,066)	(55,834)
Purchase of intangible assets		(8,554)	(26,549)
Increase in restricted bank deposit		(50,559)	(9,521)
Proceeds from disposal of property, plant and equipment	32(b)	—	129
Sale of held-to-maturity financial assets		—	20,584
Sale/(purchase) of financial assets at fair value through profit and loss		204,903	(200,000)
Net cash generated from/(used in) investing activities		154,211	(271,191)
Financing activities			
Proceeds from issue of ordinary shares	17	—	5,013,862
Proceeds from exercise of pre-IPO share options		3,200	—
Capital injection from a minority share holder of a subsidiary	31	4,235	—
Repayments of bank borrowings		—	(5,190)
Borrowing from directors		—	6,200
Repayment of borrowings from directors		—	(6,927)
Repurchase of shares	17(a)	(33,937)	—
Contribution from the Investors	19(a)	—	23,203
Dividends paid	30	(265,283)	(380,000)
Net cash (used in)/generated from financing activities		(291,785)	4,651,148
Net increase in cash and cash equivalents		791,782	5,089,631
Cash and cash equivalents at beginning of the year		5,311,060	274,749
Effect of exchange rate changes on cash and cash equivalents		(160,794)	(53,320)
Cash and cash equivalents at end of the year	16	5,942,048	5,311,060

The notes on pages 67 to 126 are an integral part of these consolidated financial statements.

1 GENERAL INFORMATION OF THE GROUP AND REORGANIZATION

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") and Macau. The Group commenced operations in Japan subsequent to the completion of the acquisition of a subsidiary in Japan on 30 April 2008.

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.

Pursuant to a group reorganization (the ''Reorganization'') which was completed on 29 June 2007, the Company became the holding company of the companies comprising the Group as at the completion of the Reorganization.

The Company's shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited on 10 October 2007 ("Global Offering").

In April 2008, the Company, Orix Corporation ("Orix")(a company incorporated under the laws of Japan and whose shares listed on the stock exchanges in Tokyo, Osaka and New York) and OPI2002 Toushi Jigyou Kumiai ("OPI")(a partnership established under the laws of Japan) entered into several agreements whereby the Company, through a wholly owned subsidiary, agreed to acquire from Orix and OPI the entire equity interest in Phenix Co., Ltd. ("Phenix"), and to receive the assignment of the outstanding balance of a loan of Japanese Yen ("JPY") 5,937,000,000 provided by Orix to Phenix. Phenix is a limited liability company established under the laws of Japan and principally engaged in brand development, design and sales of sport-related products under the brand names of Kappa, Phenix and other brands in Japan. On 30 April 2008, the Company, through a wholly owned subsidiary, and Orix further agreed to subscribe new shares in Phenix. Upon completion of the acquisition and the subscription of new shares, on 1 May 2008, Phenix became a 91% indirectly owned subsidiary of the Company (the "Acquisition"). Further details are set out in Note 31.

These consolidated financial statements have been authorized for issue by the Board of Directors on 25 March 2009.

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) Amendments and interpretations effective in 2008

Relevant to the Group's operations:

- The IAS 39, 'Financial instruments: Recognition and measurement', amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to IFRS 7, 'Financial instruments: Disclosures', introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendment is effective prospectively from 1 July 2008. This amendment does not have an impact on the Group's financial statements as the Group has not reclassified any financial assets.

- IFRIC — Int 11, 'IFRS 2 — Group and treasury share transactions', provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the Group's financial statements.

Not relevant to the Group's operations:

- IFRIC — Int 12, 'Service Concession arrangements'.

- IFRIC — Int 14, 'IAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction', provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation does not have an impact on the Group's financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods, but the Group has not early adopted them.

Relevant to the Group's operations:

- IAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning of comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply IAS 1 (Revised) from 1 January 2009.

- IAS 27 (Revised), 'Consolidated and separate financial statements' (effective from 1 July 2009).The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognized in profit or loss. The Group will apply IAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010.

- IFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply IFRS 2 (Amendment) from 1 January 2009.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) *Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group* (continued)

- IFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

- IFRS 8, 'Operating segments', replaces IAS 14, 'Segment reporting', and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information' (effective from 1 January 2009). The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments presented. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker. The Group will apply IFRS 8 since 1 January 2009. It is not expected to have a material impact on the Group's financial statements as the present operating segments have been identified on the basis of internal reports reviewed by the decision maker.

- IFRIC — Int 16, 'Hedges of a net investment in a foreign operation' (effective from 1 October 2008). IFRIC — Int 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Group. The requirements of IAS 21, 'The effects of changes in foreign exchange rates', do apply to the hedged item. The Group will apply IFRIC — Int 16 from 1 January 2009. It is not expected to have a material impact on the Group's financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) *Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group* (continued)

- IASB's annual improvements project published in May 2008:

  - IAS 1 (Amendment), 'Presentation of financial statements' (effective from 1 January 2009). The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39, 'Financial instruments: Recognition and measurement' are examples of current assets and liabilities respectively. The Group will apply IAS 1 (Amendment) from 1 January 2009.

  - IAS 19 (Amendment), 'Employee benefits' (effective from 1 January 2009).

    — The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.

    — The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.

    — The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.

    — IAS 37, 'Provisions, contingent liabilities and contingent assets' requires contingent liabilities to be disclosed, not recognized. IAS 19 has been amended to be consistent.

    The Group will apply IAS 19 (Amendment) from 1 January 2009.

  - IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation' and IFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009). An investment in associate is treated as a single asset for the purposes of impairment testing and any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The Group will apply IAS 28 (Amendment) to impairment tests related to investment in associates and any related impairment losses from 1 January 2009.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) *Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group* (continued)

- IASB's annual improvements project published in May 2008: (continued)

    - IAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009). Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply IAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.

    - IAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009). A prepayment may only be recognized in the event that payment has been made in advance of obtaining right of access to goods or receipt of services.

    - There are a number of minor amendments to IFRS 7, 'Financial instruments: Disclosures', IAS 8, 'Accounting policies, changes in accounting estimates and errors', IAS 10, 'Events after the balance sheet date', IAS 18, 'Revenue' and IAS 34, 'Interim financial reporting' which are not addressed above. The Group is currently assessing the impact of these amendments on the Group's financial statements.

Not relevant to the Group's operations:

- IAS 32 (Amendment), 'Financial instruments: Presentation', and IAS 1 (Amendment), 'Presentation of financial statements' — 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009).

- IAS 39 (Amendment) 'Financial Instruments: Recognition and Measurement' — 'Eligible hedged items' (effective from 1 July 2009).

- IAS 23 (Revised), 'Borrowing costs' (effective from 1 January 2009). The amendment requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply IAS 23 (Revised) retrospectively from 1 January 2009 but is currently not applicable to the Group as there are no qualifying assets.

- IFRS 1 (Amendment), 'First time adoption of IFRS' and IAS 27 'Consolidated and separate financial statements' (effective from 1 January 2009).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) *Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group* (continued)

- IFRIC — Int 13, 'Customer loyalty programs' (effective from 1 July 2008). IFRIC — Int 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC — Int 13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programs.

- IFRIC — Int 15, 'Agreements for construction of real estates' (effective from 1 January 2009).

- IFRIC — Int 17 –'Distributions of non-cash assets to owners' (effective from 1 July 2009).

- IASB's annual improvements project published in May 2008:

  - IAS 16 (Amendment), 'Property, plant and equipment' (and consequential amendment to IAS 7, 'Statement of cash flows') (effective from 1 January 2009).

  - IAS 20 (Amendment), 'Accounting for government grants and disclosure of government assistance' (effective from 1 January 2009).

  - IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 'Financial instruments: Recognition and measurement'. This eliminates the inconsistency of terms between IAS 39 and IAS 23. The Group will apply the IAS 23 (Amendment) prospectively to the capitalization of borrowing costs on qualifying assets from 1 January 2009.

  - IAS 27 (Amendment), 'Consolidated and separate financial statements' (effective from 1 January 2009).

  - IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation' and IFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009).

  - IAS 29 (Amendment), 'Financial reporting in hyperinflationary economies' (effective from 1 January 2009).

  - IAS 31 (Amendment), 'Interests in joint ventures (and consequential amendments to IAS 32 and IFRS 7) (effective from 1 January 2009).

  - IAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) *Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group* (continued)

- IASB's annual improvements project published in May 2008: (continued)

  - IAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from 1 January 2009).

    — This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.

    — The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition.

  - IAS 40 (Amendment), 'Investment property' (and consequential amendments to IAS 16) (effective from 1 January 2009).

  - IAS 41 (Amendment), 'Agriculture' (effective from 1 January 2009).

  - IFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations' (and consequential amendment to IFRS 1, 'First-time adoption') (effective from 1 July 2009). The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control, and relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to IFRS 1 states that these amendments are applied prospectively from the date of transition to IFRS. The Group will apply IFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries from 1 January 2010.

  - The minor amendments to IAS 20 'Accounting for government grants and disclosure of government assistance', IAS 29, 'Financial reporting in hyperinflationary economies', IAS 40, 'Investment property' and IAS 41, 'Agriculture', which have not been addressed above.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December 2008.

(a) *Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

With the exception of business combinations involving entities under common control which are accounted for on the uniting of interests' basis, the purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Inter-company transactions, balances and unrealized gains on transactions between Group companies are eliminated on consolidation. Unrealized losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost which represents the fair value of the equity instruments issued by the Company. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(b) *Transactions with minority interests*

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from equity. Gains or losses on disposals to minority interests are also recorded in equity. For disposals to minority interests, differences between any proceeds received and the relevant share of minority interests are also recorded in equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

(c) Jointly controlled entities

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

(d) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost.

The Group's share of its associates' post-acquisition profits or losses is recognized in the consolidated income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

Dilution gains and losses arising in investments in associates are recognized in the consolidated income statements.

In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividend received and receivable.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Segment reporting

A business segment is a Group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(a) *Functional and presentation currency*

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

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. 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 recognized in the consolidated income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Foreign currency translation (continued)

(c) Group companies

The results and financial position of all the group 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 of the financial reporting period unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions; and

- All resulting exchange differences are recognized in exchange reserve as a separate component of equity.

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

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

2.5 Property, plant and equipment

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment (continued)

Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'Other income, net', in the income statement. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

2.6 Leasehold land and land use rights

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

2.7 Intangible assets

(a) Goodwill

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Intangible assets (continued)

(b) Trademarks

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

(c) Licence rights

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

(d) Computer software

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

2.8 Impairment of investments in subsidiaries, associates and non-financial assets

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

2.9 Financial assets and financial liabilities

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial assets and financial liabilities (continued)

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(b) Loans and receivables

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

Regular purchases and sales of financial assets are recognized on the trade date i.e. the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the consolidated income statement. Financial assets are derecognized 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. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortized cost using the effective interest method.

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

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group established fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Inventories

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

2.11 Trade receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement within 'administrative expenses'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'administrative expenses' in the income statement.

2.12 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks.

2.13 Share capital

Ordinary shares are classified as equity.

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

2.14 Trade payables

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

2.15 Current and deferred income tax

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Current and deferred income tax (continued)

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

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

2.16 Employee benefits

(a) Pension obligations

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

(b) Share-based compensation

The Group operates equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognizes the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium account when the options are exercised.

2.17 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Revenue recognition

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

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

(a) Sales of goods — wholesale

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

Depending on the terms agreed between Phenix and some of its distributors, certain distributors are entitled to return goods of pre-determined quantities or additional sales discounts within a specified period. Management estimates the quantities of goods return and additional sales discount based on historical experience and makes provision accordingly and revenue is recognized to the extent of goods delivered less estimated goods return and sales discount.

(b) Sales of goods — retail

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

(c) Sales of goods — consignment sales

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

(d) Interest income

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Leases

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

2.20 Dividend distribution

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and cash flow and fair value interest rate risk. The Group's risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group has not used derivative financial instruments to hedge the risk exposures.

(a) 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 US Dollars ("USD"). Foreign exchange risk also arises from certain bank deposits denominated in foreign currencies (Note 16), mainly Hong Kong Dollars ("HKD"), USD and JPY. The Group currently does not hedge its foreign exchange exposure. The functional currency of the Company is USD and as at 31 December 2008, most of the bank deposits of the Company are denominated in HKD. As exchange rate of HKD is closely linked to USD, the fluctuation in foreign exchange rate did not have significant impact on the financial statements of the Company for the year ended 31 December 2008.

As at 31 December 2008, if RMB had strengthened/weakened by 5% against the USD with all other variables held constant, profit for the year and equity of the Group would have been approximately RMB484,000 and RMB47,391,000 lower/higher mainly as a result of foreign exchange gains/losses on translation of USD denominated cash and bank balances respectively.

As at 31 December 2008, if RMB had strengthened/weakened by 5% against the HKD with all other variables held constant, profit for the year and equity of the Group would have been approximately RMB16,808,000 and RMB141,167,000 lower/higher mainly as a result of foreign exchange losses/gains on translation of HKD denominated cash and bank balances.

(All amounts in Renminbi thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of restricted bank balances, cash and cash equivalents, trade receivables and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets. As at 31 December 2008, 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 2008 and 2007. Management does not expect any losses from non-performance of these banks.

		As at 31 December	
	Rating (i)	2008	2007
Industrial and Commercial Bank of China	A–	4,194,682	5,174,367
China Merchants Bank	BBB-(ii)	768,672	—
HSBC Bank PLC	AA	273,229	20,985
Bank of China	A–	324,751	—
Shanghai Pudong Development Bank	(iii)	300,584	—
China Minsheng Bank Corp.,Ltd.	(iii)	100,933	—
Others	(iii)	100,850	145,229
		6,063,701	5,340,581

(i) The source of the credit rating is from Standard & Poor as at 31 December 2008.

(ii) The source of the credit rating is from Standard & Poor as at 2 February 2009.

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

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

(All amounts in Renminbi thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk

The liquidity risk of the Group is controlled by maintaining sufficient cash and cash equivalents, which are generated from the operating cash flow and financing cash flow.

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

The Group	Within 1 year	1 to 2 years	2 to 5 years	Total
At 31 December 2008				
Trade payables	292,068	—	—	292,068
Accruals and other payables	132,414	—	—	132,414
	424,482	—	—	424,482
At 31 December 2007				
License fees payable	1,951	1,653	5,037	8,641
Trade payables	177,619	—	—	177,619
Accruals and other payables	100,159	—	—	100,159
	279,729	1,653	5,037	286,419

The Company	Within 1 year	1 to 2 years	2 to 5 years	Total
At 31 December 2008				
Amounts due to subsidiaries	299,312	—	—	299,312
Accruals and other payables	6,181	—	—	6,181
	305,493	—	—	305,493
At 31 December 2007				
Accruals and other payables	23,806	—	—	23,806

(d) Cash flow and fair value interest rate risk

The Group's exposure to changes in interest rate risk mainly attributes to its cash in bank. The Group currently does not hedge its exposure to interest rate risk. Details of the Group's cash in bank balances are disclosed in Note 16.

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital risk management

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

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

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by equity holders' equity as shown in the balance sheet. As at 31 December 2008, the Group did not have any borrowings (2007: nil).

3.3 Fair value estimation

The carrying amounts of the Group's financial assets including cash and cash equivalents, restricted bank balances, trade and other receivables and financial liabilities including trade payables, and accruals other payables, are assumed to approximate their fair values due to their short maturities.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

(a) Useful life of trademark

The Group's management determines that the useful life of Kappa, Phenix and other trademarks is 40 years (Note 8). This estimate is based on the management's experiences in the sportswear industry. The Group will increase or decrease the amortisation charge where useful life is shorter or longer than previously estimated life. The estimate of useful life of the trademark and the amortisation charge could change significantly as a result of changes in the sportswear 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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(b) Income taxes

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

(c) Inventory provision

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

(d) Sales return and discounts provision

Depending on the terms agreed between Phenix and its distributors, certain distributors are entitled to return goods of pre-determined quantities or additional sales discounts within a specified period. Management estimates the quantities of goods return and additional sales discount based on historical experience and makes provision accordingly. Revenue is recognised to the extent of goods delivered less estimated goods return and sales discount. Management will adjust the provision where actual sales return or sales discount are more or less than previously estimated.

5 SEGMENT INFORMATION

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment, which are subject to risks and returns that are different from those of segments operating in other economic environments.

During the year ended 31 December 2008, the Group acquired Phenix in Japan and accordingly the Group determined that its primary format for reporting segment information is geographical segments, with business segments reported as secondary format.

(a) Primary reporting format — geographical segments

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

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

Japan — sales of sport-related products under Kappa, Phenix, and other Brands.

(All amounts in Renminbi thousands unless otherwise stated)

5 SEGMENT INFORMATION (continued)

(a) Primary reporting format — geographical segments (continued)

The segment results, other segment items included in the income statements and capital expenditures for the year ended 31 December 2008 and 2007 were as follows:

	Year ended 31 December 2008			
	China	Japan	Unallocated	Total
Segment revenue	2,908,008	414,229	—	3,322,237
Segment results/operating profit	1,317,090	14,561	—	1,331,651
Negative goodwill on an acquisition	—	145,950	—	145,950
Finance income, net	17,582	(5,277)	127,571	139,876
Share of losses of jointly controlled entities	—	(1,412)	—	(1,412)
Profit before income tax	1,334,672	153,822	127,571	1,616,065
Income tax expense	(248,172)	(171)	—	(248,343)
Profit attributable to equity holders of the Company	1,086,500	153,651	127,571	1,367,722
Other items in income statement				
Depreciation	7,913	1,883	—	9,796
Amortization	11,895	1,362	—	13,257
Reversal of impairment losses of inventories	(6,564)	(22,198)	—	(28,762)
(Reversal of)/provision for impairment losses of trade and other receivables	(15)	9,987	—	9,972
Capital expenditures	11,707	64,843	—	76,550

(All amounts in Renminbi thousands unless otherwise stated)

5 SEGMENT INFORMATION (continued)

(a) Primary reporting format — geographical segments (continued)

	Year ended 31 December 2007			
	China	Japan	Unallocated	Total
Segment revenue	1,711,023	—	—	1,711,023
Segment results/operating profit	724,721	—	—	724,721
Finance income, net	6,603	—	39,939	46,542
Profit before income tax	731,324	—	39,939	771,263
Income tax expense	(37,695)	—	—	(37,695)
Profit attributable to equity holders of the Company	693,629	—	39,939	733,568
Other items in income statement				
Depreciation	4,161	—	—	4,161
Amortization	9,939	—	—	9,939
Provision for impairment losses of inventories	9,007	—	—	9,007
Reversal of impairment losses of trade and other receivables	(1,595)	—	—	(1,595)
Capital expenditures	58,957	—	—	58,957

(All amounts in Renminbi thousands unless otherwise stated)

5 SEGMENT INFORMATION (continued)

(a) Primary reporting format — geographical segments (continued)

The segment assets and liabilities as at 31 December 2008 and 31 December 2007 were as follows:

	As at 31 December 2008				
	China	Japan	Unallocated	Inter-segment elimination	Total
Segment assets	3,436,169	404,729	3,516,159	(93,071)	7,263,986
Deferred income tax assets	3,547	—	—	—	3,547
Investments in jointly controlled entities	—	25,926	—	—	25,926
Total assets	3,439,716	430,655	3,516,159	(93,071)	7,293,459
Segment liabilities	(364,382)	(170,307)	(90,102)	92,432	(532,359)
Deferred income tax liabilities	—	(4,177)	—	—	(4,177)
Current income tax liabilities	(36,007)	(1,553)	—	—	(37,560)
Total liabilities	(400,389)	(176,037)	(90,102)	92,432	(574,096)

	As at 31 December 2007				
	China	Japan	Unallocated	Inter-segment elimination	Total
Segment assets	1,509,424	—	4,710,223	—	6,219,647
Deferred income tax assets	3,308	—	—	—	3,308
Total assets	1,512,732	—	4,710,223	—	6,222,955
Segment liabilities	(297,886)	—	—	—	(297,886)
Current income tax liabilities	(23,238)	—	—	—	(23,238)
Total liabilities	(321,124)	—	—	—	(321,124)

Segment assets consist primarily of tangible and intangible assets, other non-current assets, financial assets, inventories, receivables and operating cash, and exclude deferred income tax assets. Unallocated assets represent inter-company financing receivables and cash and bank balances held by the Company.

(All amounts in Renminbi thousands unless otherwise stated)

5 SEGMENT INFORMATION (continued)

(a) Primary reporting format — geographical segments (continued)

Segment liabilities comprise operating liabilities including license fees payable, provision and other liabilities. They exclude taxation liabilities. Unallocated liabilities represent intercompany financing payables.

Capital expenditure comprises additions to property plant and equipment, intangible assets, and additions resulted from acquisition of Phenix (Note 31).

(b) Secondary reporting format — business segments

The Group operates three business segments:

Distribution of sport-related products in China — including brand development, design and sales of sport-related apparel, footwear and accessories of Kappa and Rukka Brands in the PRC and Macau.

Distribution of sport-related products in Japan — including brand development, design and sales of sport-related apparel and accessories of Kappa, Phenix and other Brands in Japan.

International sourcing — including the provision of Kappa Brand products for Kappa licensees in other countries.

The Group's sales are generated from the three business segments as follows:

	Year ended 31 December	
	2008	2007
Distribution of sport-related products in China		
Kappa Brand	2,802,624	1,645,237
Rukka Brand	10,429	5,662
	2,813,053	1,650,899
Distribution of sport-related products in Japan		
Kappa Brand	99,031	—
Phenix Brand	312,139	—
Other Brands	3,059	—
	414,229	—
International sourcing	94,955	60,124
Total sales of the Group	3,322,237	1,711,023

(All amounts in Renminbi thousands unless otherwise stated)

5 SEGMENT INFORMATION (continued)

(b) Secondary reporting format — business segments (continued)

The Group's total assets by business segments were as follows:

	As at 31 December	
	2008	2007
Distribution of sport-related products in China	3,254,486	1,458,931
Distribution of sport-related products in Japan	430,655	—
International sourcing	129,737	50,493
Unallocated assets	3,571,652	4,713,531
Inter-segment elimination	(93,071)	—
Total assets	7,293,459	6,222,955

The Group's total capital expenditure by business segments were as follows:

	Year ended 31 December	
	2008	2007
Distribution of sport-related products in China	11,707	58,957
Distribution of sport-related products in Japan	64,843	—
Total capital expenditures	76,550	58,957

(All amounts in Renminbi thousands unless otherwise stated)

6 PROPERTY, PLANT AND EQUIPMENT — GROUP

	Freehold land	Buildings	Office furniture and equipment	Vehicles	Leasehold improvements	Construction in progress	Total
Balance at 31 December 2007							
Opening net book amount	—	38,181	3,648	1,006	—	—	42,835
Additions	—	5,357	6,722	4,704	—	39,051	55,834
Transfer	—	6,070	89	—	—	(6,159)	—
Disposals							
— Cost	—	—	(204)	(353)	—	—	(557)
— Depreciation	—	—	181	342	—	—	523
Depreciation (Note 24)	—	(1,883)	(1,544)	(734)	—	—	(4,161)
Closing net book amount	—	47,725	8,892	4,965	—	32,892	94,474
At 31 December 2007							
Cost	—	50,378	11,803	5,801	—	32,892	100,874
Accumulated depreciation	—	(2,653)	(2,911)	(836)	—	—	(6,400)
Net book amount	—	47,725	8,892	4,965	—	32,892	94,474
Balance at 31 December 2008							
Opening net book amount	—	47,725	8,892	4,965	—	32,892	94,474
Acquisition of a subsidiary (Note 31)							
— Cost	5,108	5,370	12,547	21	6,553	—	29,599
— Accumulated depreciation	—	(1,108)	(3,782)	(19)	(1,286)	—	(6,195)
— Accumulated impairment	(129)	—	(1,199)	—	—	—	(1,328)
Additions	—	2,346	3,481	503	1,685	6,051	14,066
Transfer	—	28,103	6,135	—	—	(34,238)	—
Disposals							
— Cost	—	—	(2,926)	—	(678)	—	(3,604)
— Depreciation	—	—	1,375	—	173	—	1,548
Depreciation (Note 24)	—	(3,794)	(4,465)	(1,131)	(406)	—	(9,796)
Impairment reversal (Note 24)	—	—	200	—	—	—	200
Exchange difference	400	460	497	—	707	255	2,319
Closing net book amount	5,379	79,102	20,755	4,339	6,748	4,960	121,283
At 31 December 2008							
Cost	5,108	86,197	31,040	6,325	7,560	4,705	140,935
Accumulated depreciation	—	(7,555)	(9,783)	(1,986)	(1,519)	—	(20,843)
Accumulated impairment	(129)	—	(999)	—	—	—	(1,128)
Exchange difference	400	460	497	—	707	255	2,319
Net book amount	5,379	79,102	20,755	4,339	6,748	4,960	121,283

(All amounts in Renminbi thousands unless otherwise stated)

6 PROPERTY, PLANT AND EQUIPMENT — GROUP (continued)

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

	As at 31 December	
	2008	2007
Distribution costs	1,819	285
Administrative expenses	5,982	3,876
Manufacturing overheads included under cost of goods sold	1,995	—
	9,796	4,161

There is no pledge of property, plant and equipment of the Group as at 31 December 2008 and 2007.

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.

(All amounts in Renminbi thousands unless otherwise stated)

7 LEASE PREPAYMENTS — GROUP

	Lease prepayments for land use rights	Lease prepayments for stores	Total
Year ended 31 December 2007			
Opening net book amount	14,001	—	14,001
Additions	—	19,630	19,630
Amortization (Note 24)	(280)	(3,271)	(3,551)
Closing net book amount	13,721	16,359	30,080
At 31 December 2007			
Cost	14,262	19,630	33,892
Accumulated amortization	(541)	(3,271)	(3,812)
Net book amount	13,721	16,359	30,080
Year ended 31 December 2008			
Opening net book amount	13,721	16,359	30,080
Additions	—	60,694	60,694
Amortization (Note 24)	(285)	(48,426)	(48,711)
Closing net book amount	13,436	28,627	42,063
At 31 December 2008			
Cost	14,262	80,324	94,586
Accumulated amortization	(826)	(51,697)	(52,523)
Net book amount	13,436	28,627	42,063

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

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

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

(All amounts in Renminbi thousands unless otherwise stated)

8 INTANGIBLE ASSETS — GROUP

	KAPPA trademarks	Phenix trademark and others	License rights	Computer software	Total
Year ended 31 December 2007					
Opening net book amount	273,970	—	5,119	7,198	286,287
Additions	—	—	—	3,123	3,123
Amortization (Note 24)	(7,025)	—	(1,024)	(1,610)	(9,659)
Closing net book amount	266,945	—	4,095	8,711	279,751
At 31 December 2007					
Cost	280,994	—	6,314	11,478	298,786
Accumulated amortization	(14,049)	—	(2,219)	(2,767)	(19,035)
Net book amount	266,945	—	4,095	8,711	279,751
Year ended 31 December 2008					
Opening net book amount	266,945	—	4,095	8,711	279,751
Acquisition of a subsidiary (Note 31)					
— Cost	116,575	8,605	—	4,139	129,319
— Amortization	(96,137)	—	—	(1,325)	(97,462)
Additions	—	—	—	8,554	8,554
Termination					
— Cost	—	—	(6,314)	—	(6,314)
— Amortization	—	—	3,243	—	3,243
Amortization (Note 24)	(7,419)	(143)	(1,024)	(4,386)	(12,972)
Exchange difference	2,537	—	—	473	3,010
Closing net book amount	282,501	8,462	—	16,166	307,129
At 31 December 2008					
Cost	397,569	8,605	—	24,171	430,345
Accumulated amortization	(117,605)	(143)	—	(8,478)	(126,226)
Exchange difference	2,537	—	—	473	3,010
Net book amount	282,501	8,462	—	16,166	307,129

(All amounts in Renminbi thousands unless otherwise stated)

8 INTANGIBLE ASSETS — GROUP (continued)

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

The KAPPA trademarks represent the perpetual rights of the use of KAPPA trademarks in Mainland of the PRC, Macau and Japan. The KAPPA trademarks for Mainland of 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 in 2008 (Note 31). The KAPPA trademarks are subject to amortization on a straight-line basis over an estimated useful life of 40 years.

During the year ended 31 December 2008, the Rukka license right was terminated. As a result of the termination, the gain on termination of Rukka license right amounting to RMB721,000 was recognized in other gains, net.

9 INTERESTS IN SUBSIDIARIES — COMPANY

	As at 31 December	
	2008	2007
Investments in subsidiaries		
Unlisted investments, at cost	10,076,280	10,068,859
Contribution related to the Pre-IPO Share Option Scheme (Note 18)	27,115	13,821
	10,103,395	10,082,680
Amounts due from subsidiaries		
Advances to subsidiaries		
— non-current portion	1,072,486	—
— current portion	16,555	17,927
Dividends receivable	430,000	230,000
	1,519,041	247,927

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

	2008	2007
Amounts due to subsidiaries		
Loans from subsidiaries	299,312	—

(All amounts in Renminbi thousands unless otherwise stated)

9 INTERESTS IN SUBSIDIARIES — COMPANY (continued)

The following is a list of the principal subsidiaries of the Company as at 31 December 2008:

Company name	Place of incorporation	Particulars of issued/ registered capital	Interest held	Principal activities and places of operation
Directly held:				
Hong Kong Dongxiang Sports Development Holdings Limited	Hong Kong	10,000 ordinary shares of HKD1 each	100%	Investment holdings, Hong Kong
Dongxiang (Netherlands) Co.	Holland	EUR755,738	100%	Investment holdings, Netherlands
Indirectly held:				
Achilles Sports Pte. Ltd.	Singapore	100,000 ordinary shares of USD1 each	100%	Own trademark, Singapore
Gaea Sports Limited	Hong Kong	1 ordinary share of HKD1	100%	Investment holdings, Hong Kong
北京動向體育發展有限公司 Beijing Dongxiang Sports Development Co., Limited	Beijing, PRC	RMB10,000,000	100%	Design and sales of sport-related footwear, apparel and accessories, PRC
上海卡帕體育用品有限公司 Shanghai Kappa Sporting Goods Co., Limited	Shanghai, PRC	RMB20,000,000	100%	Design and sales of sport-related footwear, apparel and accessories, PRC
上海泰坦體育用品有限公司 Shanghai Taitan Sporting Goods Co., Limited	Shanghai, PRC	RMB3,000,000	100%	Design, production and sales of sport-related footwear, apparel and accessories, PRC
上海雷德體育用品有限公司 Shanghai Leide Sporting Goods Co., Limited	Shanghai, PRC	RMB158,000,000 (Note (i))	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., Limited (Note (ii))	Suzhou, PRC	USD80,000,000	100%	Design, sales of sport-related footwear, apparel and accessories, and consulting services, PRC
赫拉體育用品商貿(上海)有限公司 Hera Sporting Goods Trading (Shanghai) Co. Ltd. (Note (ii))	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. (Note (ii))	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. (Note (ii))	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. (Note (ii))	Shanghai, PRC	RMB80,000,000	100%	At set up stage
Hebe Fashions Pte. Ltd (Note (ii))	Singapore	Singapore Dollar 1	100%	Investment holdings, Singapore
Cronus Sports Pte. Ltd (Note (ii))	Singapore	Singapore Dollar 1	100%	Investment holdings, Singapore
Phenix Co., Ltd. (Note (iii))	Japan	JPY495,000,000	91%	Brand development, design and sales of sport-related apparel, Japan

(All amounts in Renminbi thousands unless otherwise stated)

9 INTERESTS IN SUBSIDIARIES — COMPANY (continued)

Notes:

(i) On 20 June 2008, the registered capital of Shanghai Leide increased from RMB1,110,000 to RMB158,000,000.

(ii) These subsidiaries were newly set up by the Group during the year ended 31 December 2008.

(iii) Phenix was acquired by the Group on 30 April 2008 (Note 31).

10 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES — GROUP

	As at 31 December	
	2008	2007
Unlisted investments, at cost of the acquisition (Note 31)	27,668	—
Share of losses	(1,412)	—
Share of net assets	25,926	—

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	
	2008	2007
Total assets	33,565	—
Total liabilities	(7,639)	—

	Year ended 31 December	
	2008	2007
Revenue	16,549	—
Loss after income tax for the year	(1,412)	—

(All amounts in Renminbi thousands unless otherwise stated)

10 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES — GROUP (continued)

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

The particulars of the Group's jointly controlled entities as at 31 December 2008 are set out below:

Company name	Place of incorporation	Particulars of issued/ registered capital	Interest held	Principal activities and places of operation
Indirectly held:				
Shanghai Phenix Apparel Co., Ltd. 上海菲尼克斯製衣有限公司	Shanghai, PRC	USD4,300,000	52%	Production and sale of apparel and sports wears, PRC
Shanghai Fengda Garment Co., Ltd. 上海鳳達服裝有限公司	Shanghai, PRC	USD3,500,000	26%	Production and sale of apparel and sports wears, PRC

11 DEFERRED INCOME TAX — GROUP

	As at 31 December	
	2008	2007
Deferred tax assets		
— To be recovered after more than 12 months	106	468
— To be recovered within 12 months	3,441	2,840
	3,547	3,308
Deferred tax liabilities		
— To be recovered after more than 12 months	(4,104)	—
— To be recovered within 12 months	(73)	—
	(4,177)	—

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

(All amounts in Renminbi thousands unless otherwise stated)

11 DEFERRED INCOME TAX — GROUP (continued)

The movements in deferred tax assets and liabilities during the years ended 31 December 2008 and 2007, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred tax assets:

	Provision for impairment of trade receivables	Provision for impairment of inventories	Provision for sales rebate	Others	Total
At 1 January 2007	462	777	—	183	1,422
Recognized in the income statement (Note 27)	(462)	2,063	—	285	1,886
At 31 December 2007	—	2,840	—	468	3,308
Recognized in the income statement (Note 27)	106	(1,743)	2,344	(468)	239
At 31 December 2008	106	1,097	2,344	—	3,547

Deferred tax liabilities:

	Fair value gains	Depreciation of property, plant and equipment	Total
At 1 January and 31 December 2007	—	—	—
Recognized in relation to fair value on date of acquisition (Note 31)	(3,939)	(766)	(4,705)
Recognized in the income statement (Note 27)	713	(185)	528
At 31 December 2008	(3,226)	(951)	(4,177)

(All amounts in Renminbi thousands unless otherwise stated)

12 INVENTORIES — GROUP

	As at 31 December	
	2008	2007
Finished goods		
— Carried at cost	182,277	68,855
— Carried at net realizable value	34,726	18,590
Raw materials and others		
— Carried at cost	14,210	230
— Carried at net realizable value	953	498
	232,166	88,173

For the year ended 31 December 2008, the cost of inventories recognized as cost of goods sold and distribution costs amounted to approximately RMB1,347,504,000 (2007: RMB696,559,000) (Note 24).

The Group had a gain from reversal of impairment losses of inventories of approximately RMB28,762,000 (2007: loss of approximately RMB9,007,000) (Note 24) for the year ended 31 December 2008. The amount has been included in administrative expenses in the consolidated income statement.

13 FINANCIAL ASSETS — GROUP

The financial assets at fair value through profit or loss as at 31 December 2007 of RMB201,505,000 represented investment in a non-listed interest bearing financial instrument issued and managed by a commercial bank in the PRC. The interest rate of the instrument was determined based on the returns of the underlying investments of the instrument. The investment was denominated in RMB and had a maturity of three months.

(All amounts in Renminbi thousands unless otherwise stated)

14 TRADE RECEIVABLES

	Group As at 31 December		Company As at 31 December	
	2008	2007	2008	2007
Trade receivables				
— Third parties	366,789	113,755	—	—
— Related parties (Note 35(b))	24,742	25,108	989	—
	391,531	138,863	989	—
Less: provision for impairment	(23,651)	(544)	—	—
Trade receivables, net	367,880	138,319	989	—

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 2008 and 2007 were as follows:

	Group As at 31 December		Company As at 31 December	
	2008	2007	2008	2007
Current	320,988	129,054	989	—
Overdue by:				
1 to 30 days	58,227	6,804	—	—
31 to 120 days	10,541	1,447	—	—
Over 120 days	1,775	1,558	—	—
	391,531	138,863	989	—

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

(All amounts in Renminbi thousands unless otherwise stated)

15 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group As at 31 December		Company As at 31 December	
	2008	2007	2008	2007
Current portion —				
Advance to suppliers	13,112	15,563	—	—
Prepaid advertising expense	4,992	9,044	—	—
Interest receivables	18,528	16,173	10,370	13,412
Deposits	15,872	2,720	—	—
Rental receivables				
— Third parties	15,643	—	—	—
— Related parties (Note 35(b))	1,395	—	—	—
Other receivables	17,194	3,264	5,984	10
	86,736	46,764	16,354	13,422
Non-current portion —				
Deposits	23,638	—	—	—

The carrying amounts of prepayments, deposits and other receivables approximated their fair values as at the balance sheet dates.

16 CASH AND BANK BALANCES

	Group As at 31 December		Company As at 31 December	
	2008	2007	2008	2007
Restricted bank deposits (Note (a))	121,653	29,521	—	—
Cash and cash equivalents (Note (b))	5,942,048	5,311,060	3,425,419	4,710,223
	6,063,701	5,340,581	3,425,419	4,710,223

Notes:

(a) Restricted bank deposits

The restricted bank deposits as at 31 December 2008 comprised approximately RMB 32,719,000 (2007: RMB29,521,000) deposits held in a commercial bank account as guarantee deposit for the advertising fees payable to a third party within 3 years, the restriction will be released when the advertising fee is paid; approximately RMB38,375,000 guarantee deposit for letter of credit of the subsidiaries of the Group; and approximately RMB50,559,000 for capital injection to a subsidiary to be set up, and the restriction will be released on the same date when the subsidiary is set up.

As at 31 December 2008, majority of the deposits are held in high quality financial institutions without significant credit risk to management's best knowledge.

As at 31 December 2008, the average interest rate on the restricted bank deposits was 1.20% (2007: 0.99%) per annum.

16 CASH AND BANK BALANCES (continued)

(b) Cash and cash equivalent

The cash and cash equivalents represent cash at bank and in hand. As at 31 December 2008 and 2007, cash and cash equivalents were denominated in the following currencies:

	Group As at 31 December		Company As at 31 December	
	2008	2007	2008	2007
RMB	2,134,511	599,701	—	—
USD	947,041	1,072	938,146	—
HKD	2,788,950	4,710,287	2,487,273	4,710,223
JPY	71,439	—	—	—
Other	107	—	—	—
	5,942,048	5,311,060	3,425,419	4,710,223

As at 31 December 2008 and 2007, all cash and cash equivalents were deposits held at call with banks and the applicable interest rates were as follows:

	Group As at 31 December		Company As at 31 December	
	2008	2007	2008	2007
RMB	0.72~4.77%	0.72~1.71%	—	—
USD	0.05~4.00%	1.00~3.95%	0.05~4.00%	1.00%
HKD	0.05~4.12%	0.65~5.38%	0.05~4.12%	0.65~5.38%
JPY	0.04%	—	—	—

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.

17 SHARE CAPITAL AND SHARE PREMIUM ACCOUNT

	Authorized capital — Company	
	Number of ordinary shares of par value HK$0.01	Nominal value of ordinary shares HKD'000
At 31 December 2008 and 2007	10,000,000,000	100,000

17 SHARE CAPITAL AND SHARE PREMIUM ACCOUNT (continued)

At the date of incorporation on 23 March 2007, the authorized share capital of the Company was USD50,000 divided into 5,000,000 shares of par value USD0.01 ("USD Share"). On 27 March 2007, a subscriber's resolution was passed to re-denominate the authorized capital of the Company from USD50,000 to HKD390,000 by the creation of 390,000 shares of par value HKD1 ("HKD Share"), and the 5,000,000 USD Shares were cancelled. On 9 May 2007, shareholders' resolutions were passed to approve the subdivision of each HKD Share into 100 shares of par value HKD0.01. On 12 September 2007, shareholders' resolutions were passed to increase the authorized share capital of the company to HKD100,000,000 divided into 10,000,000,000 shares of par value HK$0.01.

		Issued capital			
	Number of issued ordinary shares of par value HKD0.01	Nominal value of issued ordinary shares HKD'000	Equivalent nominal value of issued ordinary shares RMB'000	Share premium account RMB'000	Total RMB'000
At incorporation on 23 March 2007	—	—	—	—	—
Issue of HKD Shares	10,000,000	100	97	—	97
Issue of HKD Shares pursuant to the Capitalization Issue	4,309,000,000	43,090	41,655	—	41,655
Issue of new shares upon Global Offering	1,358,150,000	13,582	13,152	5,000,710	5,013,862
At 31 December 2007	5,677,150,000	56,772	54,904	5,000,710	5,055,614
Represented by:					
Share capital and premium			54,904	4,938,829	4,993,733
Proposed final dividend (Note 30)			—	61,881	61,881
			54,904	5,000,710	5,055,614
At 1 January 2008	5,677,150,000	56,772	54,904	5,000,710	5,055,614
Exercise of pre-IPO share options (Note 18)	1,300,000	13	11	5,136	5,147
Share repurchased and cancelled (Note (a))	(12,649,000)	(126)	(110)	(33,827)	(33,937)
Dividends paid (Note 30)	—	—	—	(61,881)	(61,881)
At 31 December 2008	5,665,801,000	56,659	54,805	4,910,138	4,964,943
Represented by:					
Share capital and premium			54,805	4,380,386	4,435,191
Proposed final dividend and final special dividend (Note 30)			—	529,752	529,752
			54,805	4,910,138	4,964,943

17 SHARE CAPITAL AND SHARE PREMIUM ACCOUNT (continued)

Notes:

(a) During the year ended 31 December 2008, the Company repurchased a total of 12,649,000 own shares listed on the Main Board of the Stock Exchange of Hong Kong Limited. These repurchased shares were cancelled upon repurchase and, accordingly, the issued share capital of the Company was reduced by the nominal value of these shares. The premium paid on repurchase was deducted from the share premium account. The details of the shares repurchased are as follows:

	Number of	Price per share		Aggregate	Equivalent aggregate
	shares of	Highest	Lowest	consideration paid	consideration paid
Date of repurchase	HKD0.01 each	HKD	HKD	HKD'000	RMB'000
17 June 2008	2,479,000	3.19	3.12	7,831	6,950
30 June 2008	2,686,000	3.22	3.12	8,530	7,525
07 July 2008	2,503,000	3.03	2.99	7,518	6,634
09 July 2008	2,070,000	2.93	2.87	6,027	5,320
10 July 2008	2,911,000	2.95	2.86	8,487	7,508
	12,649,000			38,393	33,937

(b) Under the Companies Law of the Cayman Islands, the share premium account is distributable to the 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.

Pursuant to a resolution passed on 25 March 2009, the board of directors of the Company proposed a final dividend and final special dividend of RMB3.76 cents and RMB5.59 cents per ordinary share of the Company, amounting to RMB213,034,000 and RMB316,718,000 respectively for the year ended 31 December 2008 from the Company's share premium account. The dividend will be reflected as an appropriation of the Company's share premium account in the financial statements ended 31 December 2009.

18 SHARE OPTION SCHEMES

(a) Pre-IPO Share Option Scheme

The Company adopted a Pre-IPO share option scheme ("Pre-IPO Share Option Scheme") on 12 September 2007. Options to subscribe for a total of 18,700,000 shares of the Company were granted on 17 September 2007 to independent non-executive directors and employees at a subscription price of HKD2.786, representing a discount of 30% to the Global Offering price. All options granted under the Pre-IPO Share Option Scheme are subject to a vesting period of six months commencing from the date of listing of the Company's shares on the Main Board of the Stocks Exchange of Hong Kong Limited on 10 October 2007. These options are exercisable during a period of two years ending 9 April 2010. The Group has no legal or constructive obligation to repurchase or settle these options in cash. No further options can be granted under the Pre-IPO Share Option Scheme.

(All amounts in Renminbi thousands unless otherwise stated)

18 SHARE OPTION SCHEMES (continued)

(a) Pre-IPO Share Option Scheme (continued)

The movements in the number of outstanding Pre-IPO share options during the year ended 31 December 2008 are as follows:

	Average exercise price per share HKD	Granted to Non-executive directors	Employees	Total
At 1 January 2008	2.786	600,000	18,100,000	18,700,000
Exercise of share options	2.786	—	(1,300,000)	(1,300,000)
Cancellation		—	(16,800,000)	(16,800,000)
Outstanding options at 31 December 2008		600,000	—	600,000

During the year ended 31 December 2008, options to acquire 1,300,000 shares of the Company were exercised at the exercise price of HKD 2.786 each. In late 2008, options granted to employees to acquire 16,800,000 shares of the Company were surrendered by grantees.

The weighted average fair value of the 18,700,000 pre-IPO share options granted in 2007 as determined using the Black-Scholes valuation model was HKD1.55 per option on date of granted. The significant inputs into the model were spot price of HKD3.76, exercise price as shown above, volatility of 50%, option life of two and a half years, and annual risk-free interest rate of 3.9%. Accordingly, the fair value of approximately HKD29,000,000 was charged as employee benefit expenses to the consolidated income statement for the years ended 31 December 2007 and 2008 in the amounts of approximately RMB14,279,000 and RMB13,735,000, respectively.

(b) Share option schemes

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 of 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 on 10 October 2007, 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 (if any) shall not exceed 10% of the number of issued shares of the Company from time to time.

No share options have been granted under the Share Option Scheme during the year ended 31 December 2008 and up to the date of approval of these financial statements.

(All amounts in Renminbi thousands unless otherwise stated)

19 RESERVES

	Group						
	Capital reserves	Share-based compensation reserve	Special reserve	Statutory reserves	Exchange reserve	Retained earnings	Total
At 1 January 2007	272,840	—	(280,069)	5,892	—	308,841	307,504
Contribution by the investors (Note (a))	23,203	—	—	—	—	—	23,203
De-recognition of a financial liability (Note (a))	15,445	—	280,069	—	—	—	295,514
Issue of shares pursuant to the Capitalization Issue	(41,655)	—	—	—	—	—	(41,655)
Share-based compensation (Note (b))	—	14,279	—	—	—	—	14,279
Foreign currency translation reserve (Note (c))	—	—	—	—	(106,196)	—	(106,196)
Appropriation of statutory reserves (Note (d))	—	—	—	10,000	—	(10,000)	—
Profit for the year	—	—	—	—	—	733,568	733,568
Dividends paid (Note 30)	—	—	—	—	—	(380,000)	(380,000)
At 31 December 2007	269,833	14,279	—	15,892	(106,196)	652,409	846,217
At 1 January 2008	269,833	14,279	—	15,892	(106,196)	652,409	846,217
Share-based compensation (Note (b))	—	13,735	—	—	—	—	13,735
Exercise of pre-IPO share options (Note 18)	—	(1,947)	—	—	—	—	(1,947)
Cancellation of pre-IPO share options (Note 18)	25,168	(25,168)	—	—	—	—	—
Foreign currency translation reserve (Note (c))	—	—	—	—	(267,905)	—	(267,905)
Appropriation of statutory reserves (Note (d))	—	—	—	34	—	(34)	—
Profit for the year	—	—	—	—	—	1,367,722	1,367,722
Dividends paid (Note 30)	—	—	—	—	—	(203,402)	(203,402)
At 31 December 2008	295,001	899	—	15,926	(374,101)	1,816,695	1,754,420

	Company				
	Capital reserves	Share-based compensation reserve	Exchange reserve	Retained earnings	Total
At incorporation on 23 March 2007					
Issue of shares pursuant to the Capitalisation Issue	(41,655)	—	—	—	(41,655)
Reserve resulting from share swap pursuant to the Reorganisation	10,068,859	—	—	—	10,068,859
Share-based compensation (Note (b))	—	14,279	—	—	14,279
Foreign currency translation reserve (Note (c))	—	—	(106,196)	—	(106,196)
Profit for the period (Note 28)	—	—	—	269,545	269,545
Dividends paid (Note 30)	—	—	—	(230,000)	(230,000)
At 31 December 2007	10,027,204	14,279	(106,196)	39,545	9,974,832
At 1 January 2008	10,027,204	14,279	(106,196)	39,545	9,974,832
Share-based compensation (Note (a))	—	13,735	—	—	13,735
Exercise of pre-IPO share options (Note 18)	—	(1,947)	—	—	(1,947)
Cancellation of pre-IPO share options (Note 18)	25,168	(25,168)	—	—	—
Foreign currency translation reserve (Note (c))	—	—	(305,980)	—	(305,980)
Profit for the year (Note 28)	—	—	—	317,524	317,524
Dividends paid (Note 30)	—	—	—	(203,402)	(203,402)
At 31 December 2008	10,052,372	899	(412,176)	153,667	9,794,762

(All amounts in Renminbi thousands unless otherwise stated)

19 RESERVES (continued)

Notes:

(a) Prior to the listing of the Group, in May 2006, the Group entered into various investment agreements with certain investors. Pursuant to the investment agreements, the investors made capital contributions to the Group amounting to USD35,000,000 (equivalent to approximately RMB280,069,000) in May to September 2006 and USD3,000,000 (equivalent to approximately RMB23,203,000) in March 2007, in exchange for 20% of the equity interests of the Group. Also pursuant to the investment agreements, the Group had an unavoidable contractual obligation to purchase back from the investors the 20% equity interests held by them. As a consequence, the contribution equivalent to RMB280,069,000 was regarded as a financial liability, and was recognized concurrently with the recognition of the capital contribution equity as at as at 31 December 2006. Subsequently in April 2007, the Group and the investors entered further agreements, pursuant to which the Group was released from the contractual obligation of the equity re-purchase. As a result, the financial liability of RMB280,069,000 and the interest accrued of RMB15,445,000 were derecognized and reclassified to equity in 2007.

(b) Share-based compensation reserve represents the value of employee services in respect of share options granted under the Pre-IPO Share Option Scheme, the details of which are set out in note 18.

(c) 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 RMB, the presentation currency of the financial statements of the Company and the Group.

(d) 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 at rate of 10%, and further appropriation is optional when the accumulated fund is 50% or more of the registered capital of the subsidiaries.

20 TRADE PAYABLES — GROUP

The ageing analysis of trade payables as at 31 December 2008 and 2007 were as follows:

	As at 31 December	
	2008	2007
Current	251,535	136,281
Overdue by:		
1 to 30 days	38,613	35,334
31 to 120 days	809	3,768
Over 120 days	1,111	2,236
	292,068	177,619

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.

(All amounts in Renminbi thousands unless otherwise stated)

21 ACCRUALS AND OTHER PAYABLES

	Group		Company	
	As at 31 December		As at 31 December	
	2008	2007	2008	2007
Advances from customers	52,265	30,442	—	—
Salary and welfare payable	58,513	12,645	—	—
Advertising fees payable	16,198	5,600	—	—
Other taxes and levies payable	10,640	20,171	—	—
Accruals and other Payables	53,311	43,946	6,181	23,806
	190,927	112,804	6,181	23,806

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

22 PROVISIONS

These provisions represent provision for sales returns and sales discount of Phenix, the Group's subsidiary operating in Japan. The movements in provisions for the year ended 31 December 2008 and 2007 were as follows:

	Year ended 31 December	
	2008	2007
At 1 January	—	—
Acquisition of a subsidiary (Note 31)	11,720	—
Additional provisions netting of sales	37,644	—
At 31 December	49,364	—

(All amounts in Renminbi thousands unless otherwise stated)

23 OTHER GAINS, NET

	Year ended 31 December	
	2008	2007
Government subsidy income	66,690	17,734
Gain on termination (including derecognition of asset, liabilities and payment of compensation) of Rukka license right (Note 8)	721	—
Gain from financial assets at fair value through profit and loss	3,398	1,505
Others	2,078	905
	72,887	20,144

24 EXPENSES BY NATURE

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

	Year ended 31 December	
	2008	2007
Cost of inventories recognized as cost of goods sold and distribution costs (Note 12)	1,347,504	696,559
Depreciation of property, plant and equipment (Note 6)	9,796	4,161
Loss on disposal of property, plant and equipment	2,056	—
Amortisation of lease prepayments (Note 7)	285	3,551
Amortisation of intangible assets (Note 8)	12,972	9,659
Advertising and marketing expenses	257,073	111,026
Employee salary and benefit expenses (Note 25)	161,533	60,192
Withholding business tax on license fees payable for an overseas subsidiary	10,005	8,247
Design and product development expenses	62,959	30,795
Legal and consulting expenses	18,137	8,952
Operating lease in respect of buildings	23,556	7,771
Logistic fees	64,203	18,249
(Reversal of)/provision for impairment losses of inventories (Note 12)	(28,762)	9,007
Provision for/(reversal of) impairment losses of trade and other receivables	9,972	(1,595)
Reversal of impairment of property, plant and equipment (Note 6)	(200)	—
Travelling expenses	22,587	11,203
Donation	7,500	—
Auditors' remuneration	4,291	2,032
Others	78,006	26,637
Total of cost of goods sold, distribution costs and administrative expenses	2,063,473	1,006,446

(All amounts in Renminbi thousands unless otherwise stated)

25 EMPLOYEE SALARY AND BENEFIT EXPENSES

	Year ended 31 December	
	2008	2007
Wages and salaries	117,482	33,770
Pension costs	10,107	3,242
Staff quarters and housing benefits	2,519	1,166
Share-based compensation expenses in relation to Pre-IPO Share Options (Note 18)	13,735	14,279
Other benefits	17,690	7,735
	161,533	60,192

(a) Pensions — defined contribution plans

The employees of the subsidiaries of the Group in PRC and Japan participate in defined contribution retirement benefit plans organized by the relevant local governments. The Group is required to make monthly defined contributions to these plans at rates ranging from 20% to 22% (2007: 20%) in the PRC and 7.7% 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.

(All amounts in Renminbi thousands unless otherwise stated)

25 EMPLOYEE SALARY AND BENEFIT EXPENSES (continued)

(b) Directors' and senior management's emoluments

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

Name of Director	Fees	Salary	Discretionary bonuses	Other benefits*	Employer's contributions to pension schemes	Total
Year ended 31 December 2008						
Mr. Chen Yihong	145	1,914	650	18	33	2,760
Mr. Qin Dazhong	145	1,422	1,200	18	33	2,818
Mr. Mak Kin Kwong	145	—	—	147	—	292
Mr. Xiang Bing	145	—	—	147	—	292
Mr. Xu Yudi	145	—	—	147	—	292
	725	3,336	1,850	477	66	6,454
Year ended 31 December 2007						
Mr. Chen Yihong	37	1,503	—	13	21	1,574
Mr. Qin Dazhong	37	998	—	13	21	1,069
Mr. Mak Kin Kwong	37	—	—	153	—	190
Mr. Xiang Bing	37	—	—	153	—	190
Mr. Xu Yudi	37	—	—	153	—	190
	185	2,501	—	485	42	3,213

* Other benefits include insurance premium, housing allowance and the fair value of share options charged to the consolidated income statement during the year.

(All amounts in Renminbi thousands unless otherwise stated)

25 EMPLOYEE SALARY AND BENEFIT EXPENSES (continued)

(c) Five highest paid individuals

None (2007: two) of the directors of the Company is included in the five individuals whose emoluments were the highest in the Group for the year ended 31 December 2008. The emoluments paid/payable to the five (2007: remaining three) individuals during the year are as follows:

	2008	2007
Basic salaries, bonus, share options, other allowances and benefits in kind	22,567	6,709
Pension costs	131	63
	22,698	6,772

The emoluments fell within the following bands:

	Number of individuals	
	2008	2007
Emolument bands (in HKD)		
HKD1,000,000–HKD2,000,000	—	1
HKD2,000,000–HKD3,000,000	—	1
Over HKD3,000,000	5	1
	5	3

(All amounts in Renminbi thousands unless otherwise stated)

26 FINANCE INCOME, NET

	Year ended 31 December 2008	2007
Interest income from subscription money upon the Global Offering	—	44,742
Interest income from bank deposits	137,802	56,408
Total interest income	137,802	101,150
Interest expenses on bank borrowings repayable within five years	—	(149)
Interest expense on license fees payable	(246)	(391)
Total interest expenses	(246)	(540)
Foreign exchange gains/(losses), net	3,944	(54,068)
Others	(1,624)	—
	139,876	46,542

27 INCOME TAX EXPENSE

	Year ended 31 December 2008	2007
Current income tax		
— PRC enterprise income tax (“EIT”)	248,411	39,581
— Taxation in Japan	699	—
Deferred income tax (Note 11)	(767)	(1,886)
	248,343	37,695

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 2008 (2007: nil).

(All amounts in Renminbi thousands unless otherwise stated)

27 INCOME TAX EXPENSE (continued)

The subsidiaries incorporated in the PRC are subject to income tax at the applicable rates ranging from 18% to 25% (2007: from 15% to 33%) during the year ended 31 December 2008. Shanghai Taitan and Shanghai Kappa are entitled to preferential income tax at a rate of 18% as residents in Shanghai Pudong New Area. In respect of 2007, Shanghai Kappa obtained the approval from the State Taxation Bureau of Shanghai Pudong New Area for its entitlement to full exemption from the preferential income tax of 15% for its first profit making year ended 31 December 2007.

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

According to the New EIT Law, the profits of the PRC subsidiaries of the Group derived since 1 January 2008 will be subject to withholding tax at a rate of 5% upon the distribution of such profits to foreign investors incorporated in Hong Kong and Singapore, or at a rate of 10% for other foreign investors. The Group determined that no deferred withholding tax liabilities shall be recognised in respect of the profits of the PRC subsidiaries for the year ended 31 December 2008 since the Group has no plan to distribute such profits in the foreseeable future.

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 2008 applicable to the subsidiary is 30% based on the assessable profit. The inhabitant tax is determined based on rates (determined by the prefecture and city where the company maintains its operations) on the income tax payable, subject to a certain minimum payment. As there was no assessable profit derived during the year ended 31 December 2008, the subsidiary was subject to the minimum inhabitant tax payments.

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

	Year ended 31 December	
	2008	2007
Profit before income tax	1,616,065	771,263
Tax calculated at the statutory tax rate of 25% (2007:33%)	404,016	254,517
Preferential tax rates on the profits of certain subsidiaries	(145,736)	(227,018)
Expenses not deductible for tax purpose	10,370	25,377
Non-taxable income	(29,619)	(13,724)
Others	9,312	(1,457)
Income tax expense	248,343	37,695

The weighted average applicable tax rate applicable to the Group was 15.4% (2007: 4.9%).

28 PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company for the year ended 31 December 2008 is dealt with in the financial statements of the Company to the extent of approximately RMB317,524,000 (2007: RMB269,545,000)(Note 19).

29 EARNINGS PER SHARE

(a) Basic

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year. The comparative basic earnings per share for the year ended 31 December 2007 is calculated based on the profit attributable to the equity holders of the Company and on the assumption that the 4,319,000,000 shares issued since the incorporation of the Company on 23 March 2007 till the completion of the Reorganization and Capitalization Issue had been in issue since 1 January 2007.

	2008	2007
Profit attributable to equity holders of the Company (RMB'000)	1,367,722	733,568
Weighted average number of ordinary shares in issue (thousands)	5,671,551	4,617,162
Basic earnings per share (RMB cents per share)	24.12	15.89

(b) Diluted

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has pre-IPO share options for outstanding of 600,000 shares of the Company which are the potential dilutive ordinary shares as at 31 December 2008. The comparative diluted earnings per share for the year ended 31 December 2007 are calculated based on the profit attributable to the equity holders of the Company and on the assumption that the 4,319,000,000 shares issued upon the incorporation of the Company and in connection with the Reorganization and Capitalization Issue, and the 18,700,000 shares in relation to the pre-IPO share option upon exercise, have been in issue since 1 January 2007.

	2008	2007
Profit attributable to equity holders of the Company (RMB'000)	1,367,722	733,568
Weighted average number of ordinary shares in issue (thousands)	5,671,551	4,617,162
Adjustment for Pre-IPO Share Options (thousands)	600	18,700
Weighted average number of ordinary shares in issue for diluted earnings per share (thousands)	5,672,151	4,635,862
Diluted earnings per share (RMB cents per share)	24.11	15.82

(All amounts in Renminbi thousands unless otherwise stated)

30 DIVIDENDS

	2008	2007
Interim dividend paid of RMB2.71 cents (2007: Not applicable) per ordinary share	153,543	—
Interim special dividend paid of RMB0.88 cents (2007: Not applicable) — per ordinary share	49,859	—
Interim and special dividends before Global Offering	—	380,000
Proposed final dividend of RMB3.76 cents (2007: 1.09 cents) per ordinary share	213,034	61,881
Proposed final special dividend of RMB5.59 cents (2007: nil) per ordinary share	316,718	—
	733,154	441,881

The Company was incorporated on 23 March 2007 and became the holding company of the companies now comprising the Group on 29 June 2007. An interim dividend of RMB150,000,000 (being dividend declared by Hong Kong Dongxiang, a subsidiary of the Group, on 28 May 2007 to its then shareholders) and a special dividend of RMB230,000,000 (in relation to the profit of the Group for the five months ended 31 May 2007) was declared before the Global Offering of the Company's shares on 10 October 2007. The dividends were paid in August and October 2007 respectively.

Pursuant to a resolution passed on 1 April 2008, the Company proposed a final dividend of RMB1.09 cents per ordinary share for the year ended 31 December 2007, totaling RMB61,881,000, from the share premium account. The dividend were paid in May 2008.

Pursuant to a resolution passed on 10 September 2008, the board of directors of the Company recommended the distribution of an interim dividend and special dividend of RMB2.71 cents and RMB0.88 cents respectively per ordinary share for the six months ended 30 June 2008, amounting to RMB153,543,000 and RMB49,859,000 respectively, from the retained earnings of the Company. The dividends were paid in October 2008.

Pursuant to a resolution passed on 25 March 2009, the directors of the Company recommended a final dividend and final special dividend of RMB3.76 cents and RMB5.59 cents per ordinary share for the year ended 31 December 2008, amounting to RMB213,034,000 and RMB316,718,000 respectively, from the share premium account of the Company. Such dividend is to be approved by the shareholders at the forthcoming Annual General Meeting. These financial statements do not reflect a dividend payable as at 31 December 2008.

31 BUSINESS COMBINATIONS

As mentioned in Note 1, in April 2008, the Company, Orix and OPI, entered into several agreements whereby the Company, through a wholly owned subsidiary, agreed to acquire from Orix and OPI the entire equity interest in Phenix and receive the assignment of the outstanding balance of a loan of JPY 5,937,000,000 provided by Orix to Phenix for a cash consideration of JPY 1 respectively. On 30 April 2008, the Company, through a wholly owned subsidiary, and Orix further agreed to subscribe certain new shares in Phenix for a subscription price of the JPY 499,799,993 (representing 71,399,999 shares, equivalent to approximately RMB33,601,000) and JPY 63,000,000 (representing 9,000,000 shares, equivalent to approximately RMB4,235,000), respectively. Upon completion of the acquisition and the subscriptions of new shares, on 30 April 2008, Phenix became a 91% indirectly owned subsidiary of the Company.

(All amounts in Renminbi thousands unless otherwise stated)

31 BUSINESS COMBINATIONS (continued)

The acquired business contributed revenues of RMB414,229,000 and net profit of RMB7,701,000 (excluding gain from negative goodwill) to the Group for the period from date of acquisition on 1 May 2008 to 31 December 2008. If the acquisition had occurred on 1 January 2008, consolidated revenue and consolidated profit attributable to equity holders of the Company for the year ended 31 December 2008 would have been RMB3,546,672,000 and RMB1,296,937,000 respectively.

Details of the goodwill arising from the Acquisition are as follows:

Cost of acquisition:	
— Cash consideration paid	33,601
— Direct costs attributable to the acquisition	14,000
	47,601
Fair value of net assets acquired:	
— Fair value of net identifiable liabilities of Phenix	(205,588)
— Shareholder's loan assigned	399,139
	193,551
Negative goodwill	(145,950)

The identifiable assets and liabilities of Phenix as at 30 April 2008 were as follows:

	Acquiree's carrying amount	Provisional fair value
Cash and bank	70,088	70,088
Property, plant and equipment	19,766	22,076
Intangible assets	23,251	31,857
Investments in jointly controlled entities	27,668	27,668
Inventories	91,414	93,629
Trade receivables	74,288	74,288
Prepayments, deposits and other receivables	48,202	48,202
Trade payables	(119,440)	(119,440)
Provisions	(11,720)	(11,720)
Accruals and other payables	(38,392)	(38,392)
Loan from a shareholder	(399,139)	(399,139)
Deferred tax liabilities	(766)	(4,705)
Net identifiable liabilities acquired	(214,780)	(205,588)

Cash paid for the acquisition, net of cash acquired is set out below:	
— Costs of acquisition, in cash	(47,601)
— Cash and cash equivalents in the subsidiary acquired	70,088
Cash inflow on acquisition	22,487

(All amounts in Renminbi thousands unless otherwise stated)

32 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS

(a) Reconciliation of profit for the year to net cash generated from operations

	Year ended 31 December	
	2008	2007
Profit before income tax for the year	1,616,065	771,263
Adjustments for:		
— Depreciation of property, plant and equipment (Note 6)	9,796	4,161
— Loss/(gain) on disposal of property, plant and equipment	2,056	(95)
— Amortization of lease prepayment (Note 7)	48,711	3,551
— Amortization of intangible assets (Note 8)	12,972	9,659
— Gain on termination of Rukka license right (Note 23)	(721)	—
— Reversal of impairment losses of property, plant and equipment (Note 6)	(200)	—
— (Reversal of)/provision for impairment losses of inventories (Note 12)	(28,762)	9,007
— Provision for/(reversal of) impairment losses of trade and other receivables	9,972	(1,595)
— Interest income (Note 26)	(137,802)	(101,150)
— Interest expenses (Note 26)	246	540
— Interest income on held-to-maturity	—	(584)
— Investment income on financial assets (Note 23)	(3,398)	(1,505)
— Negative goodwill	(145,950)	—
— Share-based compensation (Note 18)	13,735	14,279
— Exchange (gains)/losses, net (Note 26)	(3,944)	54,068
	1,392,776	761,599
Changes in working capital:		
— Inventories	(21,602)	(9,334)
— Trade receivables, prepayments, deposits and other receivables	(227,378)	(63,717)
— Trade payables, accruals and other payables	(65,998)	(7,108)
— Restricted bank balances	(41,573)	—
— License fees payable	(7,463)	391
— Amounts due to related parties	300	(727)
Cash generated from operations	1,029,062	681,104

(All amounts in Renminbi thousands unless otherwise stated)

32 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS (continued)

(b) In the consolidated cash flow statements, proceeds from disposal of property, plant and equipment comprise:

	Year ended 31 December	
	2008	2007
Net book amount (Note 6)	2,056	34
(Loss)/gain on disposal of property, plant and equipment	(2,056)	95
Proceeds from disposal of property, plant and equipment	—	129

33 CONTINGENCIES

The Group and the Company had no significant contingent liabilities as at 31 December 2008 and 2007.

34 COMMITMENTS

As at 31 December 2008, the Group had the following commitments:

(a) Capital commitments

Capital expenditure contracted for but not yet incurred at the balance sheet dates is as follows:

	As at 31 December	
	2008	2007
Investments in associates (Note 36)	132,710	—

(b) Operating lease commitments

The Group leases certain of its office premises, plant 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:

	As at 31 December	
	2008	2007
No later than 1 year	91,072	17,980
Later than 1 year and no later than 5 years	116,999	57,892
Over 5 years	1,940	—
	210,011	75,872

(All amounts in Renminbi thousands unless otherwise stated)

34 COMMITMENTS (continued)

(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:

	As at 31 December	
	2008	2007
No later than 1 year	25,471	—
Later than 1 year and no later than 5 years	8,765	—
	34,236	—

The Company did not have commitments as at 31 December 2008 and 2007.

35 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, 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. The ultimate controlling party of the Group is Mr. Chen Yihong, the Chairman and Executive director of the Company.

During the years ended and as at 31 December 2008 and 2007, the Group had the following transactions and balances with related parties:

(a) Transactions with related parties

	Year ended 31 December	
	2008	2007
Discontinued:		
Borrowings from directors		
— Mr. Chen Yihong	—	5,766
— Mr. Qin Dazhong	—	434
	—	6,200
Continuing:		
Purchase of goods:		
— from jointly controlled entities	28,356	—
Sales of goods:		
— Beijing Dong Gan Jing Ji Company Limited* (“Dong Gan Jing Ji”)	304,626	157,513
Lease income of flagship store:		
— Dong Gan Jing Ji	4,640	—

* Beijing Dong Gan Jing Ji is a company beneficially owned by Mr. Chen Yihong’s brother, Mr. Chen Yiliang.

(All amounts in Renminbi thousands unless otherwise stated)

35 RELATED PARTY TRANSACTIONS (continued)

(b) Balances with related parties

	As at 31 December	
	2008	2007
Trade receivables (Note 14):		
— Beijing Dong Gan Jing Ji	24,742	25,108
Trade payables due to jointly controlled entities	489	—
Other receivables (Note 15):		
— Beijing Dong Gan Jing Ji	1,395	—
Other Payables		
— Beijing Dong Gan Jing Ji	300	—

The above balances with related parties were unsecured, non-interest bearing and had no fixed repayment terms.

(c) Key management compensation

	Year ended 31 December	
	2008	2007
Salaries, bonus and other welfares	10,809	13,874
Pension — defined contribution plans	55	126
	10,864	14,000

36 EVENTS AFTER THE BALANCE SHEET DATE

Save as disclosed elsewhere in this report, the following significant events took place subsequent to 31 December 2008:

On 1 January 2009, the Group acquired 30% equity interests in each of six joint ventures in the PRC. The joint ventures were set up by the six major distributors of the Group in Hangzhou, Shanxi, Shenyang, Tianjin, Nanjing and Ningbo. The six joint ventures are mainly engaged in distribution and retailing of sport-related apparel, footwear and accessories of various brands including Kappa of the Group in the PRC. The total cash considerations for the acquisition is RMB152,100,000 and will be injected into the six joint ventures as additional capital injection. As at 31 December 2008, RMB19,390,000 were paid and the remaining considerations of RMB132,710,000 will be paid in 2009. Up to the date of the report, management is still in the process of measuring the fair values of assets and liabilities of the joint ventures acquired on the date of acquisition, accordingly no details of such assets and liabilities are disclosed.