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)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2009

Results Highlights

For the year ended 31 December	**2009** *(RMB million)*	2008 *(RMB million)*	**Change**
Sales	**3,970.4**	3,322.2	+19.5%
Gross profit	**2,399.4**	1,943.8	+23.4%
Gross profit margin	**60.4%**	58.5%	+1.9% pts
Operating profit	**1,697.3**	1,331.7	+27.5%
Gain on negative goodwill on acquisition of Phenix Co., Ltd. ("Phenix") (one-off gain)	**—**	146.0	N/A
Profit attributable to equity holders			
— before one-off gain	**1,459.8**	1,221.8	+19.5%
— after one-off gain	**1,459.8**	1,367.7	+6.7%
	(RMB cents)	*(RMB cents)*	
Basic earnings per share			
— before one-off gain	**25.76**	21.54	+19.6%
— after one-off gain	**25.76**	24.12	+6.8%
Proposed final and final special dividends per share	**12.95**	9.35	+38.5%
Total dividend payout ratio for financial year *(Note)*			
— including special dividends	**70.0%**	60.0%	+10.0% pts

Operational Highlights

Solid & sustainable financial performance	●	Sales and profit attributable to equity holders (excluding one-off gain) increased by 19.5% and 19.5% respectively, propelled by strong brand equity and unique fashion sport products offering
Enhanced gross margin	●	Gross profit margin increased to 60.4% mainly due to termination of low margin business segments
Fast-growing retail network	●	The number of Kappa Brand retail outlets in China segment directly and indirectly operated by the Group's distributors increased by 703 to 3,511
International product design and R&D teams	●	Strong design and R&D teams with totally 161 experts in China and Japan
Efficient working capital management	●	Inventory turnover days and trade receivables turnover days for China segment maintained at healthy level of 44 days and 24 days respectively

Note: An interim and interim special dividends for the six months ended 30 June 2009 totaling RMB5.09 cents per share have been paid in October 2009. Therefore, the total interim, interim special, proposed final and proposed final special dividends will be amounted to RMB18.04 cents per share for the year ended 31 December 2009.

CHAIRMAN'S STATEMENT

The Chinese sportswear industry nurtured numerous brands after years of rapid growth. A flourishing market thus formed with every player looked identical to each other. Being one of the players, we thoroughly realized market competition has been soundlessly shifting from product design and network coverage to brand equity. The core value of a brand lay on the belief it is pursuing, the life attitude it is promoting and the values it is conveying. While the industry is content with copying and reproducing the success formula of others, we are already on our way to brand building, with the aim to move higher and further.

Therefore, in the second half of 2009, the Group launched a brand new slogan of "We Are One" for Kappa Brand.

We portray a picture of a man and a woman sitting together back-to-back in today's thriving and vibrant China land from 40-years-ago romantic Italian Mediterranean to convey our idea of "We Are One in the bond of love", echoing the philosophy of Kappa — We Are One.

2009 was a year of severe challenges for the worldwide economies, including China's economy. Thanks to the strong support from the governments around the world and the concerted efforts of various parties, it is encouraging that the macro economy has demonstrated heightened certainty of gradual stability and recovery. China's economy has led the way to become a global focus as it registered a remarkable gross domestic product growth of 8.7%. While China would be of no exception in facing challenges during time of the prevailing global adversities, China is sharing her successful experience with the whole world. This is because We Are One.

Against the backdrop of the tough external environment, we managed to report a growth. In 2009, the revenue of China Dongxiang (Group) Co., Ltd. (the "Company") and its subsidiaries (collectively the "Group") soared by 19.5% to RMB3,970.4 million. The Group's profit attributable to equity holders rose by 6.7% to RMB1,459.8 million (excluding a one-off gain from the acquisition of Phenix in 2008, the growth rate in profit attributable to equity holder actually reached 19.5%). Basic earnings per share grew by 6.8% to RMB25.76 cents (excluding a one-off gain from the acquisition of Phenix in 2008, the growth rate in basic earnings per share actually reached 19.6%). According to our dividend policy, we propose to distribute 30.0% of profit attributable to equity holders for the year ended 31 December 2009 as dividends. Given the prominent performance of the Group during the period under review and strong cash and bank position, in appreciation of our shareholders' confidence and support to the Group, board of directors of the Company (the "Board") has recommended to distribute an additional 40.0% of profit attributable to equity holders for the year ended 31 December 2009 to share with them our splendid achievement. As a result, the total dividend payout ratio for the year ended 31 December 2009 will be 70.0%. We firmly believe that we should share our returns with the shareholders in light of the promising development prospects of the Group. This is because We Are One.

During the year, the net additional number of stores under Kappa Brand in China segment amounted to 703. As a result, the total number of stores under Kappa Brand in China segment as at 31 December 2009 was increased to 3,511. The retail network expansion was attributable to the mutual collaboration and concerted efforts between the Group and its partners. For instance, efforts are made to speed up store expansion, actively step up inventory turnover, strengthen the communication among the Group as brand operator, retail terminals and end consumers, endeavor to identify new channel opportunities, promptly react to market conditions and strengthen terminal marketing and promotion, thereby making notable success in sales. This is because We Are One.

In face of ferocious market competition, there were imitations of our originally distinctive brand positioning from competitive players. In response to this, we have strengthened our design, research and product development ("R&D") capabilities, and explored us into broader horizons by cooperating with reputed designers such as Mr. Michael Michalsky and leveraging the strong R&D and technical strengths of Phenix Co., Ltd. ("Phenix"), our Japanese subsidiary. We continue to maintain the unique visual effects and wear effects of our own products through a fusion of fashion and sports. We emerge us as a top notch leader in the fashion edge while fostering the development of sports activities including soccer, tennis, golf and skiing. This integration is also grounded on the concept of We Are One.

In 2008, the Group acquired Phenix Co., Ltd., a famous ski brand apparel company in Japan. Relying on our own powerful competencies in production management, we have reduced the ever-rising production cost of the Japanese company on a step-by-step basis. As a result, gross margin of the Japanese company was increased from 40.7% in 2008 to 45.2% in 2009, thereby continuing the profitability of Phenix since the acquisition. At the same time, the marvelous design and technical capabilities of the Japanese company have invigorated the development of products such as Kappa ski series and retro series in China. And that is We Are One.

At present, the Group has 707 employees, with most of staff under age of 35. Reputed for its young, energetic, passionate, intelligent and experienced image, the Group managed to deliver impressive operational performance under abruptly crisis-ridden economic environment in 2009. Human resources is a kind of strategic resources that has long been greatly valued by the Group. In 2009, the Group collaborated with one of the world-renowned human resources consultants, Mercer and gradually perfected a complete set of reasonable yet competitive remuneration and welfare scheme, performance management scheme, long-term incentive scheme and staff development scheme, in order to strive to retain and attract talent who can contribute to the continued growth of the Group. Sharing the Group's success with our staff has always been the policy of the Group. This is because We Are One.

During the year under review, in collaboration with Booz & Company, an internationally renowned consulting firm, the Group also completed a new five-year strategic plan to review and clear its corporate vision and mission, and to determine its development direction, objectives and major strategic initiatives in the next five years. "By uniting outstanding individuals and striving for managerial excellence, We'll lead the sports fashion industry, all with joy and passion" and "To be the most pioneering and desired sport-life brands" has become the Group's new vision and mission. The Group believes that competent talent and sound management are the fundamental factors for generating a lasting business growth. It is essential for the Group to make itself as a cradle for cultivating and developing excellent talent, and as a platform for pooling talent. The Group pursues for a good management which enables us to spontaneously and flexibly respond to any environment conditions in different periods of time, with a view to maintaining an efficient functioning of the entire system and ensuring an invincible management. With new vision and mission in place, the Group has further drawn up a clear core business area for the next five years or in the longer term, namely sportswear fashion (including sports-related or sports-originated lifestyle and leisure areas). By virtue of the formulation and deployment of such strategy, we have further set a distinct and coherent direction for all our members. The Group is confident of fulfilling these strategic goals by creating and providing sports and sports lifestyle brands and products that are cherished by consumers, so as to maximize returns to the community, employees and shareholders, and to grow with our partners in harmony.

The economic sector and the industry peers generally believed that 2010 is a crucial year in which the world economy will pick up steadily, yet they remained cautious of the recovery pace. China's economy sustained strong growth momentum, yet growth potentials of the industry are directly hampered by the insufficient effective domestic demand. Fortunately, in light of great steps taken by the PRC government in stimulating domestic demand, along with increasingly burgeoning economy and rising expected income, the retail industry will embrace more encouraging growth impetus. In 2010, the Group will focus on enhancing brand equity by increasing brand building and promotion efforts. We will continue to maintain our competencies in product innovation and R&D, and devote more resources to establish a forward-looking yet pragmatic human resources scheme in order to support our long-term development. We will also actively explore into new brand business. I believe that with the efforts of all my colleagues in Dongxiang Group and the patronage and support from our shareholders and the community, the Group is optimistic about its performance expectation in 2010.

Finally, on behalf of the Board, I would like to express heartfelt appreciation to shareholders and business partners for their ongoing support and trust, and to extend my gratitude to the members of the Group. The confidence and effort from all of you is the key to the Group's success. With the brand concept "We Are One" in mind, we will stand alongside with our shareholders and business partners to wholeheartedly pursue better results, bringing better return to as well as sharing fruitful success with our shareholders. I believe:

Based on the spirit of "We Are One", the Group can reach the goal through our hard work. We are THE ONE that is the best investment in your portfolios.

Chen Yihong
Chairman

Hong Kong, 24 March 2010

ANNUAL RESULTS

The board of directors (the "Board") of China Dongxiang (Group) Co., Ltd. (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2009, together with the comparative figures for 2008, as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2009
(All amounts in Renminbi ("RMB") thousands unless otherwise stated)

	Note	**2009**	2008
Sales	*3*	**3,970,405**	3,322,237
Cost of goods sold	*10*	**(1,571,034)**	(1,378,475)
Gross profit		**2,399,371**	1,943,762
Other gains, net	*9*	**113,651**	72,887
Distribution costs	*10*	**(645,145)**	(506,962)
Administrative expenses	*10*	**(170,620)**	(178,036)
Operating profit		**1,697,257**	1,331,651
Negative goodwill on acquisition of a subsidiary		**—**	145,950
Finance income, net	*11*	**109,623**	139,876
Share of results of jointly controlled entities and associated companies	*5, 6*	**(10,623)**	(1,412)
Profit before income tax		**1,796,257**	1,616,065
Income tax expense	*12*	**(336,413)**	(248,343)
Profit attributable to equity holders of the Company		**1,459,844**	1,367,722
Earnings per share for profit attributable to equity holders of the Company *(expressed in RMB cents per share)*			
— Basic	*13*	**25.76**	24.12
— Diluted	*13*	**25.76**	24.11
Dividends	*14*	**1,022,213**	733,154

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009
(All amounts in Renminbi ("RMB") thousands unless otherwise stated)

	2009	2008
Profit for the year	**1,459,844**	1,367,722
Other comprehensive income, net of tax		
— Foreign currency translation differences	**(8,310)**	(267,905)
Total comprehensive income for the year	**1,451,534**	1,099,817
Total comprehensive income attributable to equity holders of the Company	**1,451,534**	1,099,817

CONSOLIDATED BALANCE SHEET

As at 31 December 2009

(All amounts in Renminbi ("RMB") thousands unless otherwise stated)

	Note	**2009**	2008
ASSETS			
Non-current assets			
Property, plant and equipment		**120,101**	121,283
Lease prepayments		**33,615**	42,063
Intangible assets	*4*	**304,465**	307,129
Investments in jointly controlled entities	*5*	**19,442**	25,926
Investments in associated companies	*6*	**158,839**	—
Prepayment of considerations for investments in associated companies		**—**	19,390
Deferred income tax assets		**16,849**	3,547
Prepayments, deposits and other receivables — non-current portion		**35,001**	23,638
Long term bank deposits		**150,000**	—
		838,312	542,976
Current assets			
Inventories		**223,281**	232,166
Trade receivables	*7*	**374,585**	367,880
Prepayments, deposits and other receivables		**96,228**	86,736
Held-to-maturity financial assets		**401,964**	—
Cash and bank balances		**5,977,388**	6,063,701
		7,073,446	6,750,483
Total assets		**7,911,758**	7,293,459

CONSOLIDATED BALANCE SHEET (Continued)
As at 31 December 2009
(All amounts in Renminbi ("RMB") thousands unless otherwise stated)

	Note	**2009**	2008
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		**54,810**	54,805
Share premium account		**4,094,339**	4,910,138
Reserves		**3,205,055**	1,754,420
Total equity		**7,354,204**	6,719,363
LIABILITIES			
Non-current liabilities			
Financial liabilities at fair value through profit or loss		**1,292**	—
Deferred income tax liabilities		**4,068**	4,177
		5,360	4,177
Current liabilities			
Trade payables	*8*	**312,264**	292,068
Accruals and other payables		**146,105**	190,927
Provisions		**37,561**	49,364
Current income tax liabilities		**56,264**	37,560
		552,194	569,919
Total liabilities		**557,554**	574,096
Total equity and liabilities		**7,911,758**	7,293,459
Net current assets		**6,521,252**	6,180,564
Total assets less current liabilities		**7,359,564**	6,723,540

Notes:

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.

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

In April 2008, the Group acquired 91% equity interest in Phenix Co., Ltd. ("Phenix") from a third party. Phenix is engaged in brand development and design and sales of sport-related products under the brand names of Kappa, Phenix and other brands in Japan.

In January and November 2009, the Group acquired 30% equity interests in each of six joint venture companies set up by the Group's six distributor customers. The six joint venture companies are engaged in the business of distribution and retailing of sport-related products in Beijing and nearby areas, Shandong, Shaanxi, Ningxia, Hangzhou, Shanxi, Shenyang, Tianjin and Nanjing. Details of the acquisition are set out in Note 6.

These consolidated financial statements have been authorized for issue by the Board of Directors of the Company on 24 March 2010.

2 BASIS OF PREPARATION

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

(a) New and amended standards adopted by the Group

- IAS 1 (revised). 'Presentation of financial statements' — effective 1 January 2009. The revised standard prohibits the presentation of items of income and expenses that are 'non-owner changes in equity' in the statement of changes in equity, and requires 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

- IFRS 7 'Financial Instruments — Disclosures' (amendment) — effective 1 January 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

- IFRS 8, 'Operating segments' — effective 1 January 2009. IFRS 8 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'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker.

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

		Effective for accounting periods beginning on or after
IFRS 2 (amendments)	Group cash-settled share-based payment transactions	1 January 2010
IFRS 3 (revised)	Business combinations	1 July 2009
IFRS 5 (amendment)	Measurement of non-current assets (or disposal groups) classified as held for sale	1 January 2010
IAS 1 (amendment)	Presentation of financial statements	1 January 2010
IAS 27 (revised)	Consolidated and separate financial statements	1 July 2009
IAS 38 (amendment)	Intangible Assets	1 July 2009
IFRIC 17	Distribution of non-cash assets to owners	1 July 2009

3 REVENUE AND SEGMENT INFORMATION

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.

Segment information

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

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

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

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

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

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

	Year ended 31 December 2008			
	China	Japan	Unallocated	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total revenue before inter-segment elimination	2,911,409	414,713	—	3,326,122
Inter-segment revenue	(3,401)	(484)	—	(3,885)
Revenue from external customers	2,908,008	414,229	—	3,322,237
Cost of goods sold	(1,133,029)	(245,446)	—	(1,378,475)
Segment gross profit	1,774,979	168,783	—	1,943,762
Segment operating profit	1,317,090	14,561	—	1,331,651
Negative goodwill on an acquisition *(Note)*	—	145,950	—	145,950
Interest income	42,356	38	95,408	137,802
Interest expenses and others, net	(24,774)	(5,315)	32,163	2,074
Share of results 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 *(Note)*	1,086,500	153,651	127,571	1,367,722
Material items of income and expense				
Depreciation and amortization	19,809	3,244		23,053
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

Note:

The Group recorded an one-off gain of RMB145,950,000 from acquisition of Phenix during the year ended 31 December 2008, should the one-off gain be excluded, the profit attributable to equity holders of the Company from Japan Segment amounted to approximately RMB7,701,000.

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

	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
China		
— Distribution of Kappa Brand products	**3,394,284**	2,802,624
— International sourcing, Rukka and others	**8,831**	105,384
	3,403,115	2,908,008
Japan		
— Distribution and retailing of Kappa Brand products	**191,044**	99,031
— Distribution and retailing of Phenix Brand products	**375,366**	312,139
— Distribution and retailing of products of other Brands	**880**	3,059
	567,290	414,229
	3,970,405	3,322,237

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

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

	As at 31 December 2008			
	China	Japan	Unallocated	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total assets before inter-segment elimination	3,439,716	430,655	3,516,159	7,386,530
Inter-segment elimination	(2,330)	—	(90,741)	(93,071)
Total assets	3,437,386	430,655	3,425,418	7,293,459
Deferred income tax assets	(3,547)	—	—	(3,547)
Investments in jointly controlled entities and prepayment of considerations for investments in associated companies	(19,390)	(25,926)	—	(45,316)
Segment assets	3,414,449	404,729	3,425,418	7,064,596
Total liabilities before inter-segment elimination	400,389	176,037	90,102	666,528
Inter-segment elimination	—	(2,330)	(90,102)	(92,432)
Total liabilities	400,389	173,707	—	574,096
Deferred income tax liabilities	—	(4,177)	—	(4,177)
Current income tax liabilities	(36,007)	(1,553)	—	(37,560)
Segment liabilities	364,382	167,977	—	532,359

As at 31 December 2009, the total non-current assets other than deferred tax assets located in the PRC amounted to RMB456,587,000 (31 December 2008: RMB178,100,000) and the total of these non-current assets located in other countries and places amounted to RMB364,876,000 (31 December 2008: RMB361,329,000).

During the year ended 31 December 2009, additions to total non-current assets other than deferred tax assets in China and Japan segments amounted to RMB380,563,000 and RMB38,537,000 (2008: RMB53,519,000 and RMB82,706,000), respectively.

During the year ended 31 December 2009, there was no customer from whom the revenue amounted to 10% or more of the Group's revenue (2008: nil).

4 INTANGIBLE ASSETS

	Kappa trademarks	**Phenix trademark and others**	**Computer software**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2008				
Net book amount	282,501	8,462	16,166	307,129
At 31 December 2009				
Net book amount	274,309	8,247	21,909	304,465

5 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	As at 31 December	
	2009	2008
	RMB'000	*RMB'000*
At 1 January	**25,926**	—
Acquisition of a subsidiary	**—**	27,668
Disposal of equity interest in a jointly controlled entity	**(5,990)**	—
Share of losses	**(3)**	(1,412)
Exchange differences	**(491)**	(330)
At 31 December, share of net assets	**19,442**	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	
	2009	2008
	RMB'000	*RMB'000*
Total assets	**24,903**	33,565
Total liabilities	**(5,461)**	(7,639)

	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
Revenue	**20,866**	16,549
Loss after income tax for the year	**(3)**	(1,412)

6 INVESTMENTS IN ASSOCIATED COMPANIES

	As at 31 December	
	2009	2008
	RMB'000	*RMB'000*
At 1 January	**—**	—
Cost of investment at date of acquisition	**169,459**	—
Share of losses	**(10,620)**	—
At 31 December, share of net assets	**158,839**	—

On 1 January 2009, the Group completed the acquisitions of 30% equity interests in each of five joint ventures companies set up by the Group's five third party distributor customers, and on 1 November 2009, the Group further acquired 30% equity interest in a joint venture company set up by a related party distributor customer. The six joint venture companies are engaged in the distribution and retailing of sport related products in Beijing and nearby areas, Shandong, Shaanxi, Ningxia, Hangzhou, Shanxi, Shenyang, Tianjin and Nanjing. The considerations totaling RMB168,591,000, were paid by way of cash capital contribution to the six joint venture companies.

In accordance with the investment agreements and supplementary agreements, the joint venture companies are required to achieve certain profit targets for the year ended 31 December 2010 or up to the year ended 31 December 2013. In the event that the profit targets can be met, the Group will be required to pay additional consideration to the original shareholders of the joint venture companies, while on the reverse, the Group will be entitled to obtain additional equity interests in the joint venture companies from the original shareholders.

The cost of investment at date of acquisition of RMB169,459,000 was determined based on the cash considerations paid by the Group by way of capital contributions to the joint venture companies amounting to RMB168,591,000 and the estimated additional considerations to be payable in relation to the profit targets requirement. The estimated additional considerations are recognized as financial liabilities at fair value through profit or loss in the balance sheet and at their fair value at initial recognition on date of acquisitions amounted to RMB868,000 which was adjusted to RMB1,292,000 as at 31 December 2009. The changes in fair value of the financial liabilities at fair value through profit or loss of RMB424,000 were recorded in "other gains, net" of the consolidated income statement.

There was no goodwill derived from the acquisition of the associated companies.

The financial information below, after fair value adjustments of application of purchase accounting and the necessary adjustments to conform to the Group's significant accounting policies, represents the Group's respective interests in the associated companies as follows:

	As at 31 December	
	2009	2008
	RMB'000	*RMB'000*
Total assets	**249,361**	—
Total liabilities	**(90,522)**	—

	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
Revenue	**286,393**	—
Profit after income tax for the year	**15,816**	—
Less: amortization of intangible assets recognised at fair value and other fair value adjustments on date of acquisition	**(26,436)**	—
Loss after adjustments	**(10,620)**	—

7 TRADE RECEIVABLES

	As at 31 December	
	2009	2008
	RMB'000	*RMB'000*
Trade receivables		
— Third parties	**313,757**	366,789
— Related parties	**76,550**	24,742
	390,307	391,531
Less: provision for impairment	**(15,722)**	(23,651)
Trade receivables, net	**374,585**	367,880

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 2009 and 2008 were as follows:

	As at 31 December	
	2009	2008
	RMB'000	*RMB'000*
Current	**284,554**	320,988
Within 30 days	**85,763**	58,227
31 to 120 days	**19,063**	10,541
Over 120 days	**927**	1,775
	390,307	391,531

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

As of 31 December 2009, trade receivables of RMB105,753,000 (2008: RMB70,543,000) were past due, of which RMB15,722,000 (2008: RMB23,651,000) were impaired and fully provided for. The trade receivables that were past due but not impaired relate to a number of independent customers for whom there is no recent history of default.

8 TRADE PAYABLES

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

	As at 31 December	
	2009	2008
	RMB'000	*RMB'000*
Current	**309,762**	251,535
Within 30 days	**863**	38,613
31 to 120 days	**722**	809
Over 120 days	**917**	1,111
	312,264	292,068

9 OTHER GAINS, NET

	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
Government subsidy income	**109,064**	66,690
Gain on termination of Rukka license right	**—**	721
Others	**4,587**	5,476
	113,651	72,887

10 EXPENSES BY NATURE

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

	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
Cost of inventories recognized as cost of goods sold and distribution costs	**1,529,131**	1,347,504
Depreciation of property, plant and equipment	**12,901**	9,796
Loss on disposal of property, plant and equipment	**3,966**	2,056
Amortisation of lease prepayments	**285**	285
Amortisation of intangible assets	**13,794**	12,972
Advertising and marketing expenses	**295,597**	257,073
Employee salary and benefit expenses	**180,686**	161,533
Withholding business tax on license fees payable for an overseas subsidiary	**12,082**	10,005
Design and product development expenses	**90,840**	62,959
Legal and consulting expenses	**24,446**	18,137
Operating lease in respect of buildings	**39,759**	23,556
Logistic fees	**62,845**	64,203
Reversal of impairment losses of inventories	**(2,227)**	(28,762)
(Reversal of)/provision for impairment losses of trade and other receivables	**(6,973)**	9,972
Reversal of impairment of property, plant and equipment	**(64)**	(200)
Travelling expenses	**33,217**	22,587
Donation	**250**	7,500
Auditors' remuneration	**4,532**	4,291
Others	**91,732**	78,006
Total of cost of goods sold, distribution costs and administrative expenses	**2,386,799**	2,063,473

11 FINANCE INCOME, NET

	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
Interest income from bank deposits	**107,269**	137,802
Foreign exchange gains, net	**785**	3,944
Others	**1,569**	(1,870)
	109,623	139,876

12 INCOME TAX EXPENSE

	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
Current income tax		
— PRC enterprise income tax ("EIT")	**348,453**	248,411
— Taxation in Japan	**1,371**	699
Deferred income tax	**(13,411)**	(767)
	336,413	248,343

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 2009 (2008: nil).

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

According to the New EIT Law, the profits of the PRC subsidiaries of the Group derived since 1 January 2008 will be subject to withholding tax at a rate of 5% upon the distribution of such profits to foreign investors incorporated in Hong Kong and Singapore, or at a rate of 10% for other foreign investors. The Group determined that no deferred withholding tax liabilities shall be recognised in respect of the profits of the PRC subsidiaries for the year ended 31 December 2009 and 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 2009 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 2009 and 2008, the subsidiary was subject to the minimum inhabitant tax payments.

13 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.

	Year ended 31 December	
	2009	2008
Profit attributable to equity holders of the Company *(RMB'000)*	**1,459,844**	1,367,722
Weighted average number of ordinary shares in issue *(thousands)*	**5,666,066**	5,671,551
Basic earnings per share *(RMB cents per share)*	**25.76**	24.12

(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 had pre-IPO share options outstanding of 600,000 shares which were the potential dilutive ordinary shares as at 31 December 2008. The outstanding options had been fully exercised in 2009.

	Year ended 31 December	
	2009	2008
Profit attributable to equity holders of the Company *(RMB'000)*	**1,459,844**	1,367,722
Weighted average number of ordinary shares in issue *(thousands)*	**5,666,066**	5,671,551
Adjustment for Pre-IPO Share Options *(thousands)*	**—**	600
Weighted average number of ordinary shares in issue for diluted earnings per share *(thousands)*	**5,666,066**	5,672,151
Diluted earnings per share *(RMB cents per share)*	**25.76**	24.11

14 DIVIDENDS

	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
Interim dividend paid of RMB3.82 cents (2008: 2.71 cents) per share	**216,452**	153,543
Interim special dividend paid of RMB1.27 cents (2008: 0.88 cents) per share	**71,962**	49,859
Proposed final dividend of RMB3.91 cents (2008: 3.76 cents) per share	**221,556**	213,034
Proposed final special dividend of RMB9.04 cents (2008: 5.59 cents) per share	**512,243**	316,718
	1,022,213	733,154

The dividends paid in 2009 amounted to RMB818,166,000, or RMB14.44 cents per share (2008: RMB265,283,000, or RMB4.68 cents per share), comprising 2008 final and final special dividends totaling RMB529,752,000 (2008: 2007 final and final special dividends totaling RMB61,881,000) and 2009 interim and interim special dividends of RMB288,414,000 (2008: 2008 interim and interim special dividends totaling RMB203,402,000).

Pursuant to a resolution passed on 24 March 2010, the board of directors of the Company proposed a final dividend and final special dividend of RMB3.91 cents and RMB9.04 cents per ordinary share of the Company, amounting to RMB221,556,000 and RMB512,243,000 respectively for the year ended 31 December 2009 from the Company's share premium account. The dividend will be reflected as an appropriation of the Company's share premium account and a dividend payable will be recognised in the financial statements for the year ended 31 December 2010.

The aggregate amounts of the dividends paid and proposed during 2009 and 2008 have been disclosed in the consolidated income statement in accordance with the Hong Kong Companies Ordinance.

MANAGEMENT DISCUSSION AND ANALYSIS

Marco Economy and Industry Review

Marco economy

Under the devastating upheavals of the international financial crisis and the economic cyclical callback, China's economy has been affected, as noted from the substantial decrease in the total imports and exports by 13.9% in 2009 as compared to 2008. In the first quarter of 2009, the national GDP only grew by 6.1%, a drop of 4.5% compared to the growth rate in the same period of 2008, marking the leanest growth over the past decade.

With a series of economic initiatives, including proactive fiscal policy, loosened monetary policy, RMB4-trillion investment stimulus program and 10 pillar industries revitalization project staged by the PRC government, China has effectively curbed the economic downturn, and has initially reaped fruitful success. GDP growth rebounded in the second quarter of the year. CPI turned from negative to positive for the first time in November 2009. The economy continued to recover and revitalize along with higher certainty and stronger vitality. In 2009, the PRC economy realized a year-round turnaround. As at the end of 2009, China's annual GDP reached RMB33.5 trillion, an increase of 8.7%, outperforming the government's annual growth target of 8.0% In general, China's economy has revived from the dark clouds of trough.

Against this backdrop, China's consumer goods market thrived in 2009, with the total retail sales of consumer goods reaching a record-breaking growth. The year-round total retail sales of social consumer goods reached RMB12.5 trillion, up 15.5% over the previous year. The growth in China's consumer goods market was attributable to the national policy to encourage consumption and the sustained increase in the national income. In 2009, the central government took great leaps in boosting consumer spending through a consumption stimulus package of an unprecedented coverage, intensity and extent. At the same time, the national income has kept rising. In addition, driven by a couple of factors such as significant improvement in infrastructure in rural areas, along with the national policy to promote household appliances and automobiles to the countryside residents, the retail sales growth of consumer goods in the PRC cities at county level or below county level is slightly faster than that in cities for the first time.

According to a work report released by the central government in March 2010, the PRC government will continue to implement proactive fiscal policy and appropriately loosened monetary policy to ensure policy continuity and stability. It will also continue to implement structural tax policies to promote and foster domestic demand and economic structural adjustment. Continued efforts will be made to optimize the structure of fiscal expenditure. This has established a solid base from which China is set to march towards a sustained growth in 2010, while luring massive development opportunities for businesses.

Industry

2009 was a year of opportunities and challenges for China's sporting goods market. With further accelerating urbanization in China and rapidly growing spending power in second- and third-tier cities, coupled with enhancing awareness and increasing spending of consumers in the aspects of health, leisure and sports, the entire sporting goods industry is blessed with expansion momentum. At the same time, geared by the hosting of domestic and international major sporting events and the resultant renovations of stadium venues, consumers are increasingly attentive to and enthusiastically supportive of sports events. Given this scenario, the development of the industry is embraced with far more impetus. On the other hand, the 2008 Beijing Olympic Games heralded the industry into an era of astounding growth. Following the Olympics Games, the entire industry was facing an era of de-stocking process and slowdown in overall growth in 2009. In this light, the industry is set to undergo a consolidation, portended with a change in market position of various brands.

In the face of a complex market environment in 2009, as a local operator of international brands, the Group has delivered satisfactory achievements by making full use of the management's understanding and insights of the PRC sports market, and by exercising effective control over its distribution channels and supply chain.

Financial Review

In spite of the post Olympic Games issue faced by the sportswear industry in China which was further deteriorated by the global financial crisis occurred in late 2008, the Group was able to achieve a 19.5% growth in sales from RMB3,322.2 million for the year ended 31 December 2008 to RMB3,970.4 million for the year ended 31 December 2009. Profit attributable to equity holders reached RMB1,459.8 million for the year ended 31 December 2009, representing a 6.7% growth compared to RMB1,367.7 million for the year ended 31 December 2008. In 2008, the Group recorded a one-off gain of RMB146.0 million from the acquisition of Phenix. Should the one-off gain be excluded, our core operations would in fact enjoy a growth in profit attributable to equity holders of 19.5% and which was in line with the growth in sales.

Key Financial Performance

		Group *(Note 3)* **Year ended 31 December**			**China Segment** *(Note 1)* **Year ended 31 December**			**Japan Segment** *(Note 2)* **Year ended 31 December**	
		2009	2008	**change**	**2009**	2008	**change**	**2009**	2008
	Note	***RMB'000***	*RMB'000*		***RMB'000***	*RMB'000*		***RMB'000***	*RMB'000*
Key items of consolidated income statement									
Sales		**3,970,405**	3,322,237	**19.5%**	**3,403,115**	2,908,008	**17.0%**	**567,290**	414,229
Gross profit		**2,399,371**	1,943,762	**23.4%**	**2,143,160**	1,774,979	**20.7%**	**256,211**	168,783
Operating profit	3	**1,697,257**	1,331,651	**27.5%**					
Profit attributable to equity holders	3, 4	**1,459,844**	1,367,722	**6.7%**					
		RMB cents	*RMB cents*						
Basic earnings per share	4	**25.76**	24.12	**6.8%**					
Diluted earnings per share	4	**25.76**	24.11	**6.8%**					
Profitability ratios									
Gross profit margin		**60.4%**	58.5%	**1.9% pts**	**63.0%**	61.0%	**2.0 % pts**	**45.2%**	40.7%
Operating profit margin		**42.7%**	40.1%	**2.6% pts**					
Effective tax rate	4	**18.7%**	15.4%	**3.3% pts**					
Net profit margin	4	**36.8%**	41.2%	**–4.4% pts**					
Key operating expenses ratios (as percentage of sales)									
Advertising and marketing expenses		**7.4%**	7.7%	**–0.3% pts**	**7.1%**	7.8%	**–0.7% pts**	**9.3%**	7.1%
Employee salary and benefit expenses		**4.6%**	4.9%	**–0.3% pts**	**3.3%**	3.8%	**–0.5% pts**	**12.3%**	12.4%
Design and product development expenses	3	**2.3%**	1.9%	**0.4% pts**					
		in days	*in days*	***in days***	***in days***	*in days*	***in days***	***in days***	*in days*
Working capital efficiency ratios									
Average trade receivable turnover days	5,8	**36**	N/A	**N/A**	**24**	23	**1**	**107**	N/A
Average trade payables turnover days	6,8	**70**	N/A	**N/A**	**61**	62	**–1**	**107**	N/A
Average inventory turnover days	7,8	**61**	N/A	**N/A**	**44**	42	**2**	**129**	N/A
Asset ratios									
Current ratio	9	**12.8 times**	11.8 times		**10.9 times**	7.5 times		**2.0 times**	1.9 times

Notes:

1. The China segment is mainly engaged in the wholesale of sport-related products under Kappa Brand in the PRC and Macau. In 2008, it was also engaged in international sourcing business as well as distribution of sport-related products under Rukka Brand in the PRC. Since mid/late 2008, the Group has decided to terminate the international sourcing and Rukka distribution businesses, thus, both businesses have been maintaining a minimal scale of operation to clear the remaining inventories and orderings before their total termination.

2. The Japan segment is engaged in sales of sport-related products under Kappa, Phenix and other brands in Japan. For the year ended 31 December 2008, the Japan segment represented eight months' results of Phenix since its acquisition on 1 May 2008. Hence, it is not meaningful to compare the results of this period to the results of the full year ended 31 December 2009.

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

4. Excluding the one-off gain of RMB146.0 million from the acquisition of Phenix in 2008, the key items of the consolidated income statement would be as follows:

	Year ended 31 December		
	2009	2008	**Change**
	RMB'000	*RMB'000*	
Key items of consolidated income statement			
Profit attributable to equity holders	**1,459,844**	1,221,772	**19.5%**
	RMB cents	*RMB cents*	
Basic earnings per share	**25.76**	21.54	**19.6%**
Diluted earnings per share	**25.76**	21.54	**19.6%**
Profitability ratios			
Effective tax rate	**18.7%**	16.9%	**1.8%pts**
Net profit margin	**36.8%**	36.8%	**0.0%pts**

5. 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.

6. 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.

7. 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.

8. For Japan segment and the whole group, the calculations of working capital efficiency ratios for the year ended 31 December 2008 are not meaningful as the period only included eight months results of Phenix since its acquisition on 1 May 2008.

9. 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						
	2009			2008			
	RMB'000	**% of product/ brand mix**	**% of Group sales**	*RMB'000*	% of product/ brand mix	% of Group sales	**Change**
CHINA SEGMENT							
Kappa Brand							
Apparel	**2,577,628**	**75.9%**	**64.9%**	2,011,014	71.8%	60.5%	**28.2%**
Footwear	**682,776**	**20.1%**	**17.2%**	671,335	23.9%	20.2%	**1.7%**
Accessories	**133,880**	**4.0%**	**3.4%**	120,275	4.3%	3.6%	**11.3%**
Kappa Brand total	**3,394,284**	**100.0%**	**85.5%**	2,802,624	100.0%	84.3%	**21.1%**
International sourcing, Rukka and Others	**8,831**		**0.2%**	105,384		3.2%	**–91.6%**
CHINA SEGMENT TOTAL	**3,403,115**		**85.7%**	2,908,008		87.5%	**17.0%**
JAPAN SEGMENT							
Phenix Brand	**375,366**	**66.2%**	**9.5%**	312,139	75.4%	9.4%	**N/A**
Kappa Brand	**191,044**	**33.7%**	**4.8%**	99,031	23.9%	3.0%	**N/A**
Others	**880**	**0.1%**	**0.0%**	3,059	0.7%	0.1%	**N/A**
JAPAN SEGMENT TOTAL	**567,290**	**100.0%**	**14.3%**	414,229	100.0%	12.5%	**N/A**
THE GROUP TOTAL	**3,970,405**		**100.0%**	3,322,237		100.0%	**19.5%**

China Segment

Kappa Brand

The Kappa Brand business, the major business of the Group, accounted for 85.5% (2008: 84.3%) of the total Group's sales for the year ended 31 December 2009. Although the PRC sportswear industry suffered slowdown in business in 2009, the sales of Kappa Brand products still experienced healthy growth and increased by RMB591.7 million (or 21.1%) compared to the year ended 31 December 2008. Such growth was mainly attributable to our on-going efforts to position and market 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 from 2,808 as of 31 December 2008 to 3,511 as of 31 December 2009, a net increase of 703.

Apparel was the major product of Kappa Brand in China and its sales represented 75.9% (2008: 71.8%) of the brand's total sales. The proportions of footwear and accessories were 20.1% (2008: 23.9%) and 4.0% (2008: 4.3%) respectively.

International Sourcing, Rukka and Others

Since the acquisition of Phenix, the Group has decided to terminate the international sourcing and Rukka distribution businesses due to similarities with the business of Phenix. Both businesses have been maintaining a minimal scale of operation since mid/late 2008 in order to clear the remaining inventories and orderings before their total termination.

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 and which are not comparable with the sales for the full year ended 31 December 2009.

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

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

	Year ended 31 December					
	2009		2008		**Change**	
	ASP RMB	**total unit sold in'000**	ASP RMB	total unit sold in'000	ASP	total unit sold
Apparel	**160**	**16,117**	161	12,476	–0.6%	29.2%
Footwear	**179**	**3,814**	184	3,655	–2.7%	4.4%

Notes:

1. ASP represent the sales for the period divided by the total units sold for the period.

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

It is the Group's policy to maintain a stable ASP for similar products during the period of high uncertainty about economic environment after the global financial crisis. The ASP for apparel products remained fairly stable at RMB160 and RMB 161 for the year ended 31 December 2009 and 2008 respectively.

The decrease in ASP of footwear products from RMB 184 for the year ended 31 December 2008 to RMB179 for year ended 31 December 2009 was largely owing to change of product mix. We offered more basic style footwear products in 2009. The ASP of basic style footwear products is generally lower though their unit average cost is low as well, therefore, the change of product mix would not necessarily has an unfavorable impact on the gross profit margin.

Total apparel and footwear product units sold increased by 29.2% and 4.4% respectively for the year ended 31 December 2009 compared with the year ended 31 December 2008. The low growth rate of footwear products was mainly attributable to some 2009 Autumn and Winter product offerings not well accepted by the market. Our management has identified the problem and implemented remedial measures. After our effort, the order book growth rate of 2010 Autumn footwear products overtook apparel products again in the sales fair just held in mid-March 2010.

Cost of Goods Sold and Gross Profit

For the year ended 31 December 2009, the cost of goods sold by the Group amounted to RMB1,571,034,000 (2008: RMB1,378,475,000), which represented an increase of RMB192,559,000 (or 14.0%). The growth was lower than the 19.5% overall increase in sales. The gross profit of the Group amounted to RMB2,399,371,000 (2008: RMB1,943,762,000), which represented an increase of RMB455,609,000 (or 23.4%). The overall gross profit margin of the Group for the year ended 31 December 2009 was 60.4%, which represented an increase of 1.9% as compared to the overall gross margin 58.5% for the year ended 31 December 2008.

The enhancement of gross profit margin was mainly due to termination of low profit margin international sourcing business and improvement of gross profit margin for Japan segment.

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

	Year ended 31 December		
	2009 gross profit margin	2008 gross profit margin	**Change**
China segment			
Kappa Brand	**63.1%**	62.7%	**0.4%pts**
International sourcing and Others	**24.5%**	17.8%	**6.7%pts**
China segment overall	**63.0%**	61.0%	**2.0%pts**
Japan segment	**45.2%**	40.7%	**4.5%pts**
Group overall	**60.4%**	58.5%	**1.9%pts**

The gross profit margin of Kappa Brand in China segment remained fairly stable at the level of 63.1% and 62.7% for the year ended 31 December 2009 and 2008 respectively mainly due to stable discount policy to distributors during the periods.

The gross profit margin in Japan segment for the year ended 31 December 2009 was 45.2%. It was relatively lower than the gross profit margin 63.1% 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 has been integrating the production function of Japan segment with the Group's extensive production network in the PRC since the acquisition of Phenix in May 2008. As a result, the gross profit margin of Japan segment improved from 40.7% for the 8 months ended 31 December 2008 to 45.2% for the year ended 31 December 2009.

The gross profit margin of Kappa Brand products in China segment analysed by product category are as follows:

	Year ended 31 December		
	2009 gross profit margin	2008 gross profit margin	**Change**
Apparel	**65.3%**	66.2%	**–0.9% pts**
Footwear	**54.5%**	52.3%	**2.2% pts**
Accessories	**63.9%**	61.3%	**2.6% pts**
Overall	**63.1%**	62.7%	**0.4% pts**

For apparel products, they were able to maintain a high gross profit margin of 65.3% for the year ended 31 December 2009 as compared with 66.2% for the year ended 31 December 2008.

For footwear products and accessories, better product development process has helped to enhance the gross profit margin from 52.3% and 61.3% respectively for the year ended 31 December 2008 to 54.5% and 63.9% respectively for the year ended 31 December 2009. In particular, the shift of product mix to higher gross profit margin basic style products during the year ended 31 December 2009 also raised up the gross profit margin of footwear products.

Other Gains, Net

Other gains for the year ended 31 December 2009 and 2008 mainly represented subsidy income from the government amounted to RMB109,064,000 and RMB66,690,000 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 2009, total distribution costs and administrative expenses amounted to RMB815,765,000 (2008: RMB684,998,000), accounted for 20.5% of the Group's total sales. These remained fairly stable as compared to 20.6% of the Group's total sales for the year ended 31 December 2008. For major expenses, advertising and marketing expenses as a percentage of sales decreased by 0.3% from 7.7% for the year ended 31 December 2008 to 7.4% for the same period in 2009. The Group has decided to postpone certain non-core promotional activities due to the uncertainty about the economy in the first half year of 2009, though the spending was accelerated in the second half year of 2009 especially on the new "We Are One" slogan campaign, the whole year spending as a percentage of sales was still lower than that in 2008. On the other hand, design and product development expenses as a percentage of sales increased from 1.9% for the year ended 31 December 2008 to 2.3% for the same period in 2009. Since the acquisition of Phenix, the Group has endeavored to expand and integrate the product development function of Phenix which resulted in a higher design and product development expenses.

Operating Profit

For the year ended 31 December 2009, operating profit of the Group was RMB1,697,257,000, an increase of RMB365,606,000 (or 27.5%) compared with RMB1,331,651,000 for the year ended 31 December 2008. The operating profit margin was 42.7% for the year ended 31 December 2009 compared with 40.1% for the year ended 31 December 2008. The increase in the operating profit margin by 2.6% from 40.1% to 42.7% was mainly driven by the increase in gross profit margin of 1.9% and increase in other gains.

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 a one-off gain in the consolidated income statement.

Finance Income, Net

For the year ended 31 December 2009, finance income mainly comprised interest income of RMB107,269,000 (2008: RMB137,802,000) and foreign exchange gains of RMB785,000 (2008: exchange gains of RMB3,944,000).

The interest income mainly comprised 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. The decrease in interest income for the year ended 31 December 2009 as compared with the year ended 2008 was mainly attributable to reductions of bank interest rates in Hong Kong and the PRC since the global financial crisis.

Share of Losses of Jointly Controlled Entities And Associates

For the year ended 31 December 2009, share of losses of jointly controlled entities and associates amounted to RMB10,623,000. This mainly represented the share of profit of the 6 joint ventures with our distributors amounted to RMB15,816,000 under equity method of accounting, less amortization of intangible assets recognized at fair value and other fair value adjustments on dates of acquisitions amounted to 26,436,000. Please refer to the “Significant investments and acquisitions” paragraph under the “FINANCIAL POSITION” section below for more details.

Taxation

For the year ended 31 December 2009, income tax expense of the Group amounted to RMB336,413,000 (2008: RMB248,343,000). The effective tax rate was 18.7% (2008: 15.4%). If the one-off gain from the acquisition of Phenix in 2008 was excluded, the effective tax rate for the year ended 31 December 2008 would amount to 16.9%.

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 20% in 2009 (2008: 18%).

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 2009 was RMB1,459,844,000, representing an increase of 6.7% from RMB1,367,722,000 for the year ended 31 December 2008. Net profit margin for the year ended 31 December 2009 was 36.8%, representing a decrease of 4.4% against 41.2% for the year ended 31 December 2008. If the one-off gain from the acquisition of Phenix amounting to RMB145,950,000 was excluded in 2008, the net profit and net profit margin for the year ended 31 December 2008 would come to RMB1,221,772,000 and 36.8% respectively. Therefore, the profit attributable to equity holders in 2009 in substance increased by 19.5% when compared with 2008 whilst the net profit margins were the same in both years.

Earnings Per Share

The basic and diluted earnings per share were RMB25.76 cents and RMB25.76 cents respectively for the year ended 31 December 2009, a rise of 6.8% and 6.8% against the basic and diluted earnings per share of RMB24.12 cents and RMB24.11 cents respectively for the year ended 31 December 2008. If the one-off gain from the acquisition of Phenix was excluded in 2008, the basic and diluted earnings per share would come to RMB21.54 cents and RMB21.54 cents respectively for the year ended 31 December 2008, thus, it represented a growth of 19.6% and 19.6% for the basic and diluted earnings per share respectively instead.

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 period.

Final Dividend and Final Special Dividend

The Board of the Company recommends the distribution of a final dividend and final special dividend of RMB3.91 cents and RMB9.04 cents respectively per ordinary share (totaling RMB12.95 cents per ordinary share) for the year ended 31 December 2009, amounting to RMB221,556,000 and RMB512,243,000 respectively (totaling RMB733,799,000).

The Company has paid an interim and interim special dividend for the six months ended 30 June 2009 totaling RMB5.09 cents per ordinary share with a total amount of RMB288,414,000. Therefore, the total interim, interim special, final and final special dividends for the year ended 31 December 2009 will be amounted to RMB1,022,213,000, approximately 70.0% of the Group's net profits 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 relevant period. After taking into consideration of the Group's outstanding financial performance in 2009 and strong cash position, we would like to distribute an additional 40.0% 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 = RMB0.8796 being the official exchange rate of Hong Kong Dollars against Renminbi as quoted by the People's Bank of China at 23 March 2010. The dividend will be paid on or around 19 May 2010 to shareholders whose names appear on the register of members of the Company on 12 May 2010.

Business Review

By adopting an asset-light business model with brand management as its core business, the Group is one of leaders in the PRC sportswear industry. Its market leadership is mainly attributable to its capabilities and achievements in the following four areas:

- **Brand building**: The Group continues to uphold a differentiated and highly efficient brand promotion strategy. In 2009, while maintaining a relatively low advertising and promotion expenses as a percentage of sales at 7.4%, the Group has completed a series of nationwide brand building and promotional activities (see below the "Marketing" section), and held a grand event for the launch of a refreshed brand slogan for Kappa Brand, being "We Are One", in November for the first time. In the short term, this series of events have effectively stimulated retail sales and enhanced confidence of our distributors. In the long run, these initiatives would help maintain the image of Kappa as an international brand, and hence, generate a higher price premium.

- **Research, design and product development ("R&D")**: Product differentiation has always been one of the key attributes to the success of the Group. In order to keep ourselves away from price competition brought about by product homogenization, the Group took full advantage of the in-house product development strengths of Phenix. The Group pooled internal and external designers from many countries to develop and launch several lines of brand new products in 2009. For instance, by combining the top ski suit production technology and stylish design of Phenix with a history of over 50 years, Kappa ski series were widely well received by the market as this line of products craved out its own niche among competing brands in the market. In light of this, Kappa's image and position as an international high-end fashion sports brand is greatly enhanced.

- **Distribution channels**: In 2009, given the post Olympic Games issue, the macro atmosphere was marked by an incipient slowdown of growth in industry channels, or even a negative growth in the number of stores of certain brands. Yet, thanks to differentiated branding and product positioning of the Kappa brand, and our distinctive exclusive regional primary distributor policy, our distributors managed to maintain profitability despite an overall decline in the industry. They were willing to explore new markets and expand store network continuously. As a result notable success was attained in the development of channel network in terms of breadth and depth (see below "Sales and Channels" section), thereby strengthening the market share of Kappa brand.

- **Supply chain**: To capture opportunities arising from reduced orders for the PRC's export processing enterprises in the wake of the financial crisis, the Group has expanded high-quality supplier network in the PRC to further enhance the quality level of products such as apparels, footwear and accessories and to optimize costs. In addition, by integrating the sourcing of Phenix into the Group's supply chain, the cost level of Phenix was effectively reduced and therefore gross margin was improved. Accordingly, the profit of Phenix outperformed the expected level.

Marketing

PRC Market

We Are One

The grand launch event of a fresh brand slogan for Kappa Brand, being "We Are One", was held in November 2009 in the PRC market for the first time. "We Are One" is the biggest nationwide brand campaign for Kappa Brand launched by the Group.

Following the official launch party in November this year, the core brand value "We Are One" has been continuously advocated on a national scale through an integrated marketing campaign. Highlights from the campaign include 10 famous artists created their own masterpieces as illustrations of Kappa Brand and "We Are One". All of these artworks were displayed in prime areas in Beijing city centre. The fully-integrated campaign also includes a combination of large scale print and outdoor advertisements across the country.

Sports

- Sponsoring China Open Tennis Tournament. China Open Tennis Tournament is a top integrated tennis event held by three international tennis organizations including ATP, SE WTA and ITF. During the period of the sponsorship, Kappa provided equipment for the match referees, officials and working staff, and participated in the promotional activities organized by the match organizer in order to vigorously promote tennis sports;

- Official partner for the World Golf Championships (WGC): HSBC Champions, one of the top 10 golf tournaments in the world. As the sole partner of tournament for the supply of clothing, Kappa Golf has actively participated in this world-class event, and provided clothing to staff, volunteers, government officials and tournament officials;

- A series of golf sponsorship activities includes Buick China Golf Club League, Kappa Cup Celebrities Golf Game and golf programmes at Travel Channel;

- Co-sponsorship of top Italian Soccer Club: AS Roma and top German Soccer Club: Borussia Dortmund, a new series of Dortmund products were launched in the 4th quarter of 2009; and

- The exclusive uniform provider for the World Cyber Games (WCG), a global electronic game competition event.

Fashion

- 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;

- Kappa Omini's 40th anniversary celebration activities. Omini is the Italian name of the Kappa back-to-back logo and 2009 is the 40th anniversary of the usage of Omini as Kappa's logo. The activities included hosting Omini's 40th birthday party in Beijing, rolling out a series of celebrities' product with entertainers Shin, Miao Pu, Chen Buolin and other celebrities with Huayi Brothers Media Group; and

- Kappa X YOHO! Trendy Festivities. Collaborate with YOHO, one of the most professional and popular fashion magazines in China, to promote the fashion elements of Kappa Brand image through trendy T-shirt design competition, store design competition and awards presentation ceremony.

Japan Market

Phenix Brand

- The appointment as official partner for the provision of sportswear for Norwegian Olympics teams in the 2010 Winter Olympics and the 2012 Summer Olympics Games; and

- 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.

Design and development capabilities

The Group adapted to ever-changing market trends by offering products with active, fashionable and youthful designs. These were realized 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 2009, the Group had design teams of 61 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 a team of 63 talented and knowledgeable specialists who are skillful in the sophisticated process of conversion of product designs into high quality product samples. The Japanese team together with technical staff in the PRC (totaling 100 experts) formed a strong product development platform for the Group.

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 or third party design houses such as Mr. Michael Michalsky. 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. In July 2009, the Group entered into an agreement with Mr. Michael Michalsky, the former global creative director of Adidas, for the development and launch of a new collection under the Kappa Brand which will be launched in the third quarter of 2010. This collaboration will definitely help to broaden the Group's product line and strengthen the fashion elements of its merchandise.

Sales and Channels

Number of stores

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. We hope that such policy will effectively motivate our distributors and enhance their loyalty. As of 31 December 2009, the Group had 41 distributors who directly or indirectly operated 3,511 retail outlets selling Kappa Brand products in China segment. This represented a net increase of 703 retail outlets compared with the 2,808 retail outlets as of 31 December 2008. The distribution of retail outlets covered all major provincial capital cities and many other large urban areas and towns in China. This included expansion of retail outlet areas and conversion of retail outlets into third and fourth generation stores. In July 2009, the fourth generation store plan was launched and the first fourth generation store was opened at Shenyang. As at 31 December 2009, a total of 80 fourth generation stores have been newly opened and renovated.

Since the second half of 2007, the Group had 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 2009, 10 flagship stores were opened in Beijing, Guangzhou, Tianjin, Hangzhou, Suzhou, Harbin, Jinan 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 2009:

	As at 31 December 2009 ***(No. of retail outlets)***	As at 31 December 2008 *(No. of retail outlets)*	Net increase *(No. of retail outlets)*	Net increase
Total	**3,511**	2,808	703	25.0%

Joint venture project

In 2009, the Group formed six joint ventures with its six key distributors in Beijing and nearby areas, Hangzhou, Shanxi, Shenyang, Tianjin, Nanjing, Shandong, Shaanxi and Ningxia. The Group has a 30.0% minority stake in each of the joint ventures. The Group sees the investments as a way to monitor and exercise influence to enhance distribution network operations, direction and execution of business strategies as well as financial controls of its key distributors. The Group considers that the joint ventures will further strengthen the Group's retail network in China.

On line sale

In August 2009, the Group formed a strategic partnership with Taobao.com, the leading e-commerce platform in the PRC. Kappa's first official online flagship store was opened for business at the Taobao Mall on 1 September 2009. Consumers in China can now shop for Kappa products at home via the Internet. Kappa will benefit from the huge membership base and the extensive online resources advantages of the Taobao.com e-platform to further increase the awareness and influence of the Kappa Brand. The Kappa online flagship store will become a brand new sales and marketing channel of the Group. On 11 November 2009, Kappa Taobao flagship store achieved a single-day sales of RMB4.03 million, breaking the single-day sales record for online sales of sporting goods in China.

Supply Chain

In the PRC market, the Group has applied a comprehensive supply chain management approach in 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 2009, the Group selectively engaged and actively supervised approximately 90 manufacturers in processing and manufacturing products in China segment.

Finished goods from manufacturers were delivered to the Group's distribution centres before being dispatched to distributors and their shops. The Group operates three distribution centers in China, located in Beijing, Kunshan of Jiangsu Province and Guangzhou, respectively. By the end of 2009, the total area is over 34,000 sq.m.. In 2009, the Group upgraded the Beijing and Guangzhou distributor centers, in term of areas, internal storage facilities and working processes. The well coverage of the locations of distribution centres from South to North ensures the Group's response capabilities and timeliness of distribution.

In order to further integrate the respective strengths of the PRC and Japanese companies within the Group, the Group and Mercer, the world's leading consulting firm, cooperated to integrate the supply chain in 2009. Upon integration, thanks to rich supplier resources within the Group, the production cost of Phenix has been greatly optimized. At the same time, through the supply chain integration, Phenix's capability to master advanced technology can be applied to Kappa Brand products in China.

FINANCIAL POSITION

Working capital efficiency ratios

China Segment

The average trade receivables turnover days for the year ended 31 December 2009 and 2008 were 24 days and 23 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 2009 and 2008 were 61 days and 62 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 2009 and 2008 were 44 days and 42 days respectively.

Owing to the Group's secured credit and inventory control policies, despite the slowdown of China economy and deterioration of retail environment since the global financial crisis, the Group was still able to maintain healthy and relatively low trade receivables and inventory turnover days.

Japan Segment

The average trade receivables turnover days, average trade payables turnover days and average inventory turnover days were 107 days, 107 days and 129 days respectively for the year ended 31 December 2009. The calculations of working capital efficiency ratios for the year ended 31 December 2008 are not meaningful as the period only included eight months results of Phenix since its acquisition on 1 May 2008.

The turnover days of Japan segment are relatively longer than the turnover days of China segment. The frequency of Phenix's sales fairs is lesser than China segment and therefore required a longer production and settlement period.

Liquidity and financial resources

As at 31 December 2009, cash and bank balances (including long term bank deposits) of the Group amounted to RMB6,127,388,000, an increase of RMB63,687,000 compared with a balance of RMB6,063,701,000 as of 31 December 2008. This increase mainly represents net cash generated from operating activities of RMB1,484,145,000, less investments in associates of RMB149,201,000, investments in the treasury bonds issued by the Ministry of Finance of the PRC of RMB400,000,000 and dividends paid of RMB818,166,000.

As at 31 December 2009, the Group's net asset value was RMB7,354,204,000 (31 December 2008: RMB6,719,363,000). The Group's current assets exceeded current liabilities by RMB6,521,252,000 (31 December 2008: RMB6,180,564,000). The Group also had a very strong liquidity position. The current ratio as of 31 December 2009 was 12.8 times (31 December 2008: 11.8 times). As of 31 December 2009, the Group had no outstanding bank loans or other borrowings.

Pledge of assets

As at 31 December 2009, the Group had bank deposits of RMB11,100,000 (31 December 2008: RMB32,719,000) to secure advertising costs payable to a third party business partner and approximately RMB37,348,000 (31 December 2008: 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 2009, the Group had no significant capital commitments or contingent liabilities.

Foreign exchange risk

The functional currency of the Company is United States Dollars ("US Dollars") owing to the fact that its business is transacted in US Dollars. During the Global Offering in October 2007, the Company received its proceeds in HK Dollars. The proceeds were either deposited in bank accounts denominated in HK Dollars or converted into US Dollars and deposited in bank accounts denominated in US Dollars. As a result, the exchange differences arising from appreciation or depreciation of the US Dollar against the Company's HK Dollars bank deposits, were recognized as exchange gains or losses in the Company's income statement. The exchange gains or losses were not significant because HK Dollars are pegged to US Dollars. The Company's financial statements expressed in US Dollars were translated into Renminbi for the Group's reporting and consolidation purposes. The foreign exchange 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 HK 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 2009, the Group acquired a 30% equity interest in each of the six joint ventures in the PRC for a total consideration of RMB169,459,000, of which RMB19,390,000 were paid by 31 December 2008. The joint ventures were set up by the Group's six major distributors in Beijing and nearby areas, Shandong, Shaanxi, Ningxia, Hangzhou, Shanxi, Shenyang, Tianjin and Nanjing. The 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.

Apart from above, the Group has made no significant investment or any material acquisition or disposal of subsidiaries during the year ended 31 December 2009.

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 2009, 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	131.3	2,612.5
Expand and improve distribution network	1,294.2	293.6	1,000.6
Enhance design and development capabilities	258.8	159.4	99.4
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	383.0	—
Total	5,176.9	1,205.6	3,971.3

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

HUMAN RESOURCE

As of 31 December 2009, the Group had approximately 460 employees throughout the PRC region (As of 31 December 2008: 429 employees). We also have approximately 247 employees in Japan (As of 31 December 2008: 238 employees) 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 business expansion.

The Group deployed a performance based remuneration scheme to its employees under which quarterly/semi-annual KPI and annual bonuses were awarded to high performance employees on top of their basic salary. The Group also implemented long-term cash-settled performance based employees benefit plan (also known as Performance Unit Plan) with key employees to reward long-term contribution from employees.

OUTLOOK

In light of vivid economic development in China, the management is confident of the long-term prospects of the sporting goods market in China. First of all, in comparison to developed countries and some developing countries, China's per capita consumption of sporting goods is still very low. Given accelerating pace of urbanization in China and continued increase in disposable income along with economic growth, China's sports market is set to gear towards a next round of high growth. However, as China is still at a relatively low level in terms of both overall economic development and sports infrastructure, the development of professional sports activities and the sales of performance sporting goods will be subject to constraints of scale. Therefore, the spending habits of consumers who tend to wear sports clothing on casual occasions will remain unchanged in the foreseeable future. The management believes that compared to performance sporting goods, the growth rate of sports fashion market segment will surpass that of the entire sporting goods industry.

Relative to the medium to long term, following a boom cycle invigorated by the 2008 Olympic Games, the growth rate of the PRC sports market has recently demonstrated certain slowdown. The management believes that it takes some time for the market to resume rapid growth momentum from the prevailing slowdown. Meanwhile, players in the market will be exposed to challenges.

In collaboration with Booz & Company, an internationally renowned consulting firm, the Group has recently conducted a review on its corporate strategy. In future, the Group's operations will be focused on the following aspects:

Strengthening brand portfolio, and realizing multi-brand operations

The Kappa Brand will remain as the core business of the Group, and continues to be the major source of revenue and profit to the Group in the future. By virtue of continuous brand building and channel development, efforts are made to post a growth exceeding the average industry level, while maintaining the positioning of an international brands at high margin.

Through an access to new sports brand and more high end sport related or lifestyle brands, we endeavor to tap into the fast-growing market opportunities towards the high- end segment in order to maximize the brand coverage and visibility in key markets in China, such that the Group will be well poised to grow into a sustainable future growth and accumulate operational experience in premium brands.

We will expand and explore opportunities in other market segment through other brands within the Group, such as Robe Di Kappa, Phenix and inhabitant, and strive to present one of these brands as a brand name of certain scale.

Reinforcing the scientific brand management process

The Company will make a more scientific, distinct and explicit definition of brand connotation factor of major brands within the Group, including target consumers, rational and emotional brand values, as well as brand recognition. The Group will enhance its internal brand management culture and process in order to externally and internally maintain and sustain its consistent brand experience and expression.

We will continue to step up brand building through marketing campaigns in order to uplift brand awareness among consumers, particularly consumers in center cities and first tier cities and young consumers. At the same time, through incessant marketing efforts in international sports activities, we will strive to bring Kappa Brand to international characters and sports properties.

Through systematic R&D and product innovation, we will continue to position the brand at the forefront of sportswear fashion in China market. For instance, we will take full advantage of the existing design and technology platform of Phenix strengthen the innovative cooperation with well-known manufacturers and domestic/international design resources, and foster the design and R&D cooperation with BasicNet, Kappa's global owner based in Italy.

We will speed up the expansion and penetration of Kappa stores in center cities and first tier cities in order to enhance the brand recognition of Kappa Brand in these markets. At the same time, the Group plans to increase the number of flagship stores in center markets and to establish a dedicated management mechanism on visual, display and service to distinct such flagship stores from those general stores.

Deepening channel management and retail capabilities

Through the establishment of a more professional product and sales management team, we will enhance our product portfolio and retail sales analysis skills in order to match up the supply chain strategy, thereby reacting more promptly to the terminal market.

In the centre cities, through form of owning and running the brand's flagship stores, we will strengthen the Group's retail management experience and response to feedbacks from end consumers, so as to enhance consumers' experience of our brand culture and products.

A more flexible tailored supply chain

The Group will continue to integrate the supply chain operations among the PRC and Japanese companies in order to synchronize technological evolvement and synergize products among the PRC and Japanese companies. Through the establishment of differentiated supply chain strategy and business model, the existing product development and production process will be divided into different stages — in accordance with the supply chain model of "Tailored Business Stream", thereby optimizing the current supply chain operations. At the same time, through real time control, analysis and feedback in respect of terminal actual sales and inventory information, the supply chain cycle will be shortened, thus improving supply chain efficiencies.

OTHER INFORMATION

Compliance with Code on 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. The Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") for the year ended 31 December 2009. Details of the Company's corporate governance practices can be found in the Corporate Governance Report set out in the Company's annual report for the year ended 31 December 2009.

Compliance with the Model Code for Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules as the standard for securities transactions by Directors. The Company has made enquiries of all the Directors and all the Directors confirmed that they have complied with the required standards for the year ended 31 December 2009.

Audit Committee

The Audit Committee is responsible for overseeing the relationship with the Company's external auditor, review of the financial statements of the Company, and review and monitoring of the Group's financial reporting system and internal control. The Audit Committee discusses with the external auditor the nature and scope of audit and reporting obligations before the audit commences, and is responsible for reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard.

Members of the Audit Committee comprise Mr. Mak Kin Kwong (Chairman), Dr. Xiang Bing and Mr. Xu Yudi. The Audit Committee consists solely of independent non-executive Directors, all of whom have extensive financial experience. Up to 31 December 2009, the Audit Committee had held three meetings in 2009.

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the financial statements for the year ended 31 December 2009.

Purchase, Sale or Redemption of the Company's Listed Securities

For the year ended 31 December 2009, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

Books Closure

The Register of Members of the Company will be closed from 7 May 2010 to 12 May 2010, both days inclusive, for the purpose of determining shareholders' entitlements to the 2009 final dividend and final special dividend. In order to qualify for the 2009 final dividend and final special dividend and the right to attend and vote at the meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's Hong

Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 6 May 2010 at 4: 30 p.m..

Annual General Meeting ("AGM")

The AGM of the Company will be held in Hong Kong on 12 May 2010. Notice of the AGM will be issued and disseminated to shareholders in due course.

Publication of Results Announcement

This annual results announcement is available for viewing on the Company's website at www.dxsport.com and The Stock Exchange of Hong Kong Limited's website at www.hkexnews.hk.

On behalf of the Board
China Dongxiang (Group) Co., Ltd.
Chen Yihong
Chairman

Hong Kong, 24 March 2010

As at the date of this announcement, the executive directors of the Company are Mr. Chen Yihong and Mr. Qin Dazhong. The non-executive director is Mr. Gao Yu. The independent non-executive directors are Mr. Mak Kin Kwong, Dr. Xiang Bing and Mr. Xu Yudi.