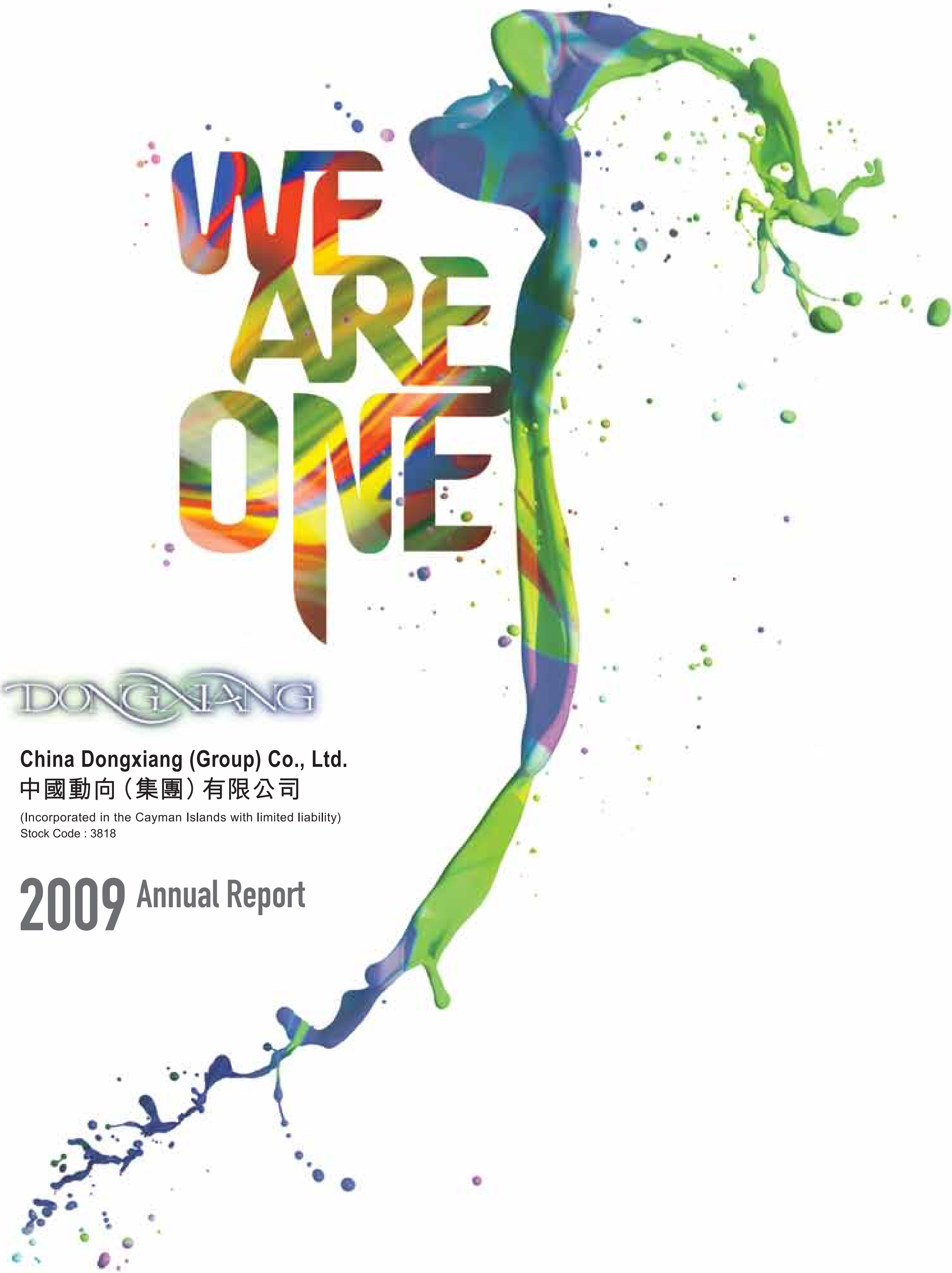
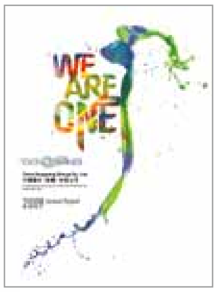


DONGXIANG

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

(Incorporated in the Cayman Islands with limited liability)
Stock Code : 3818

2009 Annual Report



MANIFESTO

OUR AMBITION TO INNOVATE WILL NEVER BE RESTRAINED

OUR DESIRE TO BE ORIGINAL WILL NEVER BE COMPROMISED

WE SHALL

break boundaries while we beat the opposition
see beyond the accepted to find the exceptional
prove that sport and fashion can perfectly coexist
show that sport lives far beyond winning and losing

WE SHALL NEVER

suppress the potential of style within sport
stop pushing for athletic wear to be fashion wear
confine sport to the court or style to the display window

WE ARE ONE

because we believe in the power of the fusion of culture, the mixing and matching anytime and anywhere

WE ARE ONE

because we believe the new wave of sport and fashion, seamlessly blended, is about to take China by storm

KAPPA • WE ARE ONE

DONGXIANG

China Dongxiang (Group) Co., Ltd.

中國動向（集團）有限公司

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Corporate Information

Board of Directors	Executive Directors — Mr. Chen Yihong, Mr. Qin Dazhong Non-Executive Director — Mr. Gao Yu Independent Non-Executive Directors — Mr. Mak Kin Kwong, Dr. Xiang Bing, Mr. Xu Yudi
Registered office	Cricket Square, Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Principal place of business in Hong Kong	Office Unit 9, 13/F Tower Two, Lippo Centre No. 89 Queensway Hong Kong
Website	www.dxsport.com
Company secretary	Mr. Wong Chi Keung, *FCCA, CPA*
Qualified accountant	Mr. Wong Chi Keung, *FCCA, CPA*
Authorised representatives	Mr. Wong Chi Keung, *FCCA, CPA* Mr. Gao Yu
Principal share registrar and transfer office	Butterfield Fulcrum Group (Cayman) Limited Butterfield House 68 Fort Street P.O. Box 705 Grand Cayman KY1-1107 Cayman Islands
Hong Kong branch share registrar and transfer office	Computershare Hong Kong Investor Services Limited Shops 1712–1716 17/F Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Legal advisers	Norton Rose Hong Kong Conyers Dill & Pearman Hylands Law Firm
Auditor	PricewaterhouseCoopers Certified Public Accountants
Investor relations consultant	Porda International (Finance) PR Group

MILESTONE

2009

- **The Group entered into an agreement with Michael Michalsky, the former global creative director of Adidas, for the development and launch of a new collection under the Kappa Brand**
- **Kappa on-line flagship store was opened on Taobao (http://kappa.mall.taobao.com). On 11 November, Kappa Taobao store achieved a single-day sales of RMB4.03 million, breaking the single-day sales record for online sales of sportswear goods in China**
- **Grand launch of a new brand slogan for Kappa Brand, being "We Are One", was held in the PRC market for the first time**
- **Collaborated with Booz & Co., an internationally renowned consulting firm, to review and finetune the Group's future strategic goals and roadmap in the next five years**

2008

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

2007

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

2006

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

2005

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

2004

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

2002

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

1990s

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

MAJOR EVENTS IN 2009

FEBRUARY

BRAND MARKETING

- In February, a back-to-back strategic alliance for co-development was formed with Kappa-Huayi Brothers

MARCH

BRAND MARKETING

- In March, the Group signed a contract with Norwegian Olympic Committee as an official partner of the dedicated sports equipment

APRIL

COMMUNITY SERVICES

- In April, co-organized "2009 Sharing Love-Kindness Travels Thousand Miles" charity activity with Dream Boat, a soccer team

BRAND MARKETING

- In April to November, sponsorsed Kappa X YOHO! Trend Festival

MAY

CORPORATE

- In May, the Group received "2009 Enterprise of the Best Innovative Effect of the Year in China" from the "Entrepreneur" Magazine

JUNE

COMMUNITY SERVICES

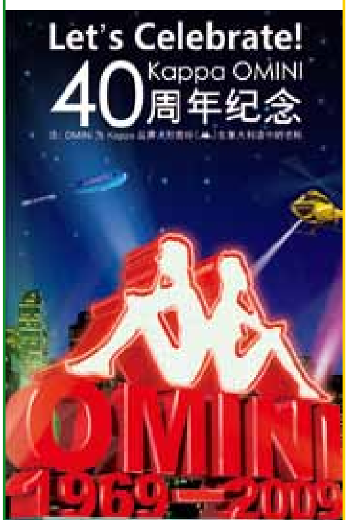
- In June, sponsored "Children's Hope — Golden Cradle" charity activity to support and care for children with disabilities and children living in poverty

Major Events in 2009

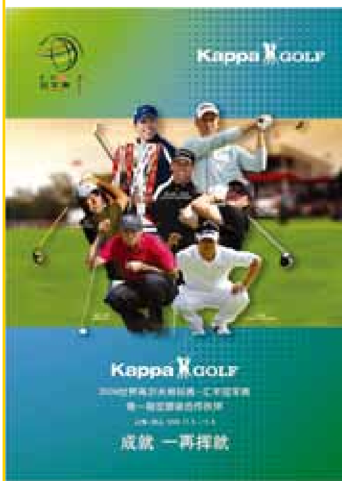
JULY

BRAND MARKETING

- In July, Kappa OMINI 40th anniversary celebration was held
- In July, the Group and Michael Michalsky, the former Adidas creative director, co-launched new fashion sportswear collections, which are planned to be sold exclusively in Kappa stores in 2010



AUGUST



BRAND MARKETING

- In August, 2009 Kappa Cup Star Golf Tournament cum Kappa Golf product launch and release conference were held
- In August, "Kappa Golf" signed a cooperation agreement in respect of the "HSBC Champions" and became the official clothing partner of 2009–2011 "World Golf Championships — HSBC Champions"
- In August, became a co-sponsor of Borussia Dortmund, Class A football team in Germany

OCTOBER

CORPORATE

- In September, the Group again became "Forbes" Top 200 Asia-Pacific SMEs
- In September, 2010 new spring and summer collections under Robe Di Kappa (RDK) brand were rolled out, and sales fairs were held

COMMUNITY SERVICES

- During September to December, held 2009 MusicRadio "I Want To Go To School — Kappa Love 5003 Project" campaign

BRAND MARKETING

- In October, new product release conference of Kappa 2009 ski series and opening ceremony of the strategic cooperation with Kappa — China Ski Association were held
- In October, sponsored China Open Tennis Tournament

NOVEMBER

CORPORATE

- In November, the Group was honored "the Best Business Model Award in the 21st Century" from "21st Century"

BRAND MARKETING

- In November, held a grand launch event of the brand slogan, being "We Are One", for Kappa Brand

Five-Year Financial Highlights

(All amounts in Renminbi thousands unless otherwise stated)

	Note	**2009**	2008	2007	2006	2005
			Year ended 31 December			
Turnover		**3,970,405**	3,322,237	1,711,023	858,921	147,712
Operating profit		**1,697,257**	1,331,651	724,721	385,608	40,517
Profit before income tax	1	**1,796,257**	1,470,115	726,521	372,076	39,936
Profit attributable to equity holders	1	**1,459,844**	1,221,772	688,826	306,459	37,806
Non-current assets		**838,312**	542,976	407,613	344,545	61,355
Current assets		**7,073,446**	6,750,483	5,815,342	506,096	119,074
Current liabilities		**552,194**	569,919	315,218	237,832	111,775
Net current assets		**6,521,252**	6,180,564	5,500,124	268,264	7,299
Total assets		**7,911,758**	7,293,459	6,222,955	850,641	180,429
Total assets less current liabilities		**7,359,564**	6,723,540	5,907,737	612,809	68,654
Equity holders' equity		**7,354,204**	6,719,363	5,901,831	307,504	43,873
Gross profit margin (%)		**60.4**	58.5	58.5	62.4	45.1
Net profit margin (%)	1	**36.8**	36.8	40.3	35.7	25.6
Earnings per share	1, 2					
— basic (RMB cents)		**25.76**	21.54	14.92	7.10	0.88
— diluted (RMB cents)		**25.76**	21.54	14.86	7.07	0.87
Total assets per share (RMB cents)	3	**139.63**	128.60	134.78	19.70	4.18
Debt to equity holders' equity ratio (times)	4	**0.08**	0.09	0.05	1.77	3.11

Notes:

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

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

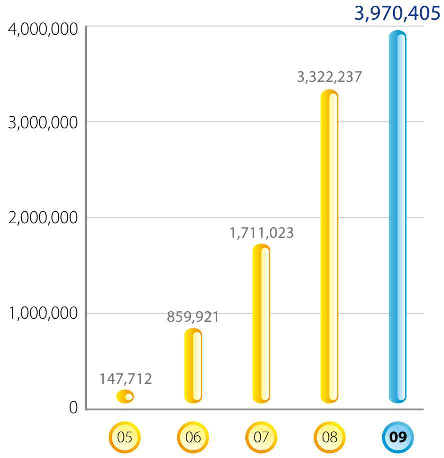
3. The number of ordinary shares used in the calculation for the year ended 31 December 2009, 2008 and 2007 are 5,666,066,000 shares, 5,671,551,000 shares and 4,617,162,000 shares, which are the weighted average number of shares for the year. The comparative figures for the year ended 31 December 2006 and 2005 are calculated based on the assumption that 4,319,000,000 shares had been in issue since 1 January 2005.

4. The debt to equity holders' equity ratio is based on total liabilities divided by equity holders' equity as at 31 December 2009, 2008, 2007, 2006 and 2005.

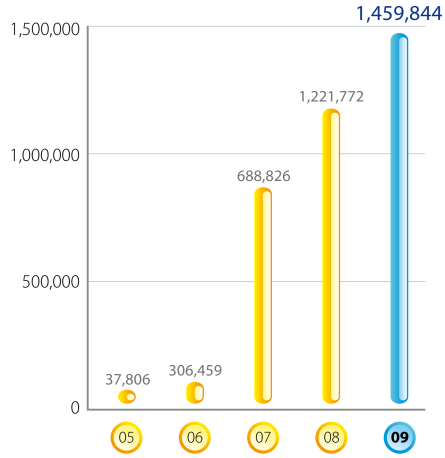
Five-Year Financial Highlights

(All amounts in Renminbi thousands unless otherwise stated)

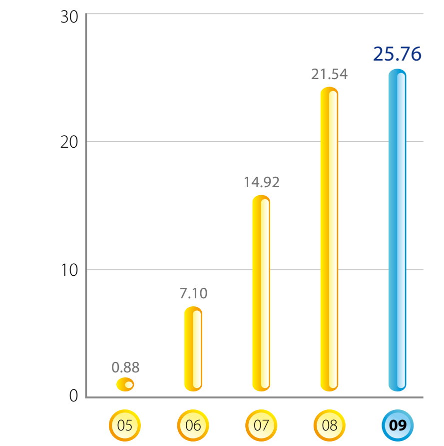
TURNOVER



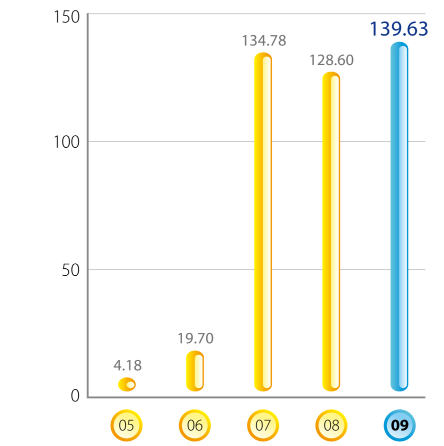
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS



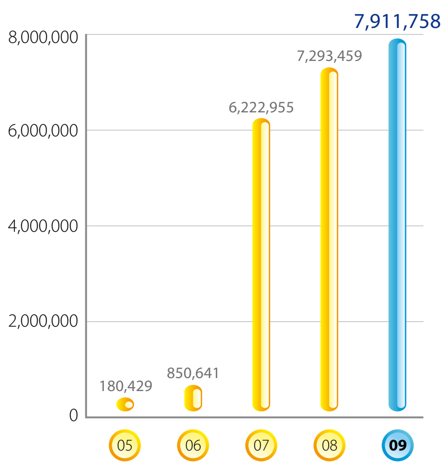
EARNINGS PER SHARE — BASIC (RMB CENTS)



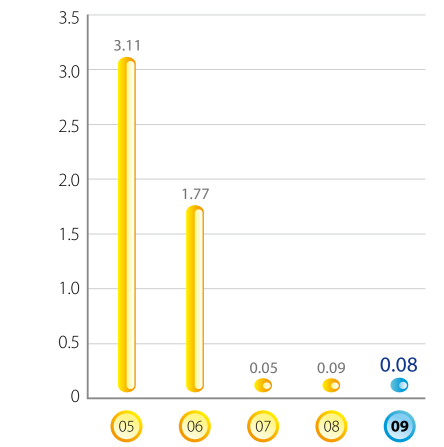
TOTAL ASSETS PER SHARE (RMB CENTS)



TOTAL ASSETS



DEBT TO EQUITY HOLDERS' EQUITY RATIO (TIMES)



Chairman's Statement

The China 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

Chairman's Statement

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 the 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

VISION

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

MISSION

To be the most **PIONEERING** and **DESIRED SPORT-LIFE BRANDS**

WE ARE ONE


Ti amo

Brand Portfolio

The Group is committed to becoming one of the best multi-brand sportswear enterprises in the PRC. The Kappa Brand is our first brand and with the strong presence and network developed through the Kappa Brand, it has established solid foundation for us to implement a multi-brand strategy. After the acquisition of Phenix in 2008, the Group owned the brands of Phenix, X-NIX, and inhabitant as well. In order to explore high end sportswear fashion market, the Group launched Robe Di Kappa, a sister brand of Kappa, in the PRC in 2009. By utilising management's extensive experience in the sportswear industry and our strong financial resources, we will endeavor to identify and explore opportunities to operate more international brands in the PRC and/or regional markets.

Kappa

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

ROBE DI KAPPA

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

phenix

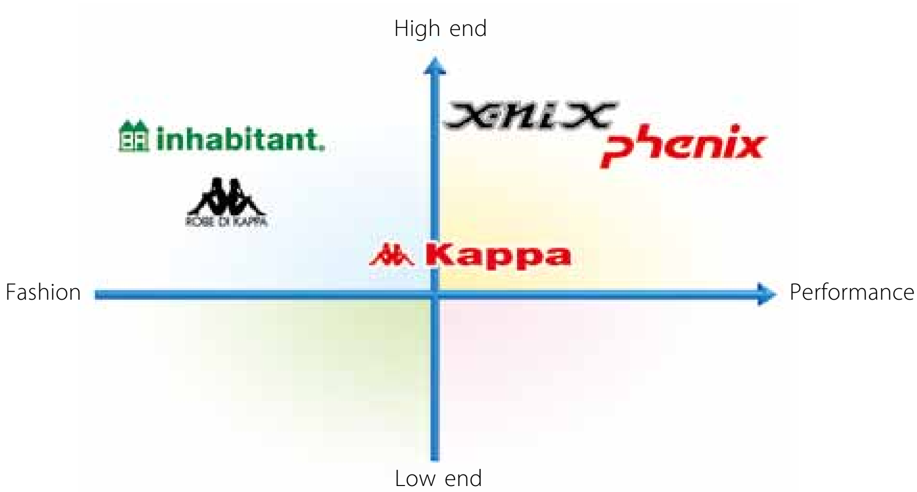
- A top international ski brand with great emphasis on functional performance and fashionable style of equipment through excellence in every detail
- Its simple design yet eye-catching design represents a perfect blend of function and fashion
- It reflects detail-attentive peculiar styles of Japanese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

XNIX

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

inhabitant

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



Management Discussion and Analysis

MACRO ECONOMY AND INDUSTRY REVIEW

Macro 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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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

Management Discussion and Analysis

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 **RMB'000**	2008 RMB'000	**Change**
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.

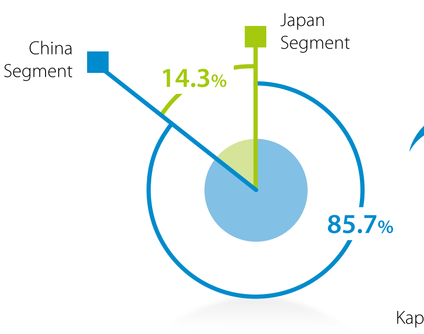
9. Current ratio equals to the closing current assets divided by the closing current liabilities.

Management Discussion and Analysis

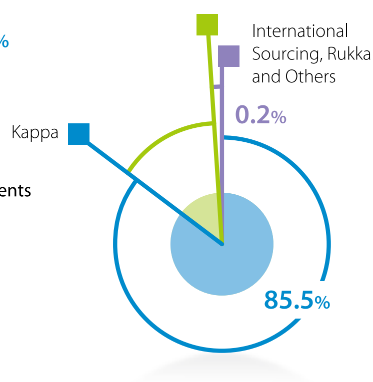
Sales

Sales analyzed by geographical segments, business segments and product categories

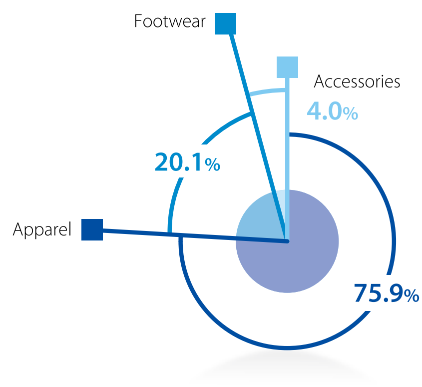
	Year ended 31 December						
	2009			2008			
	RMB'000	% of product/ brand mix	% of Group sales	RMB'000	% of product/ brand mix	% of Group sales	Change
CHINA SEGMENT							
Kappa Brand							
Apparel	2,577,628	75.9%	64.9%	2,011,014	71.8%	60.5%	28.2%
Footwear	682,776	20.1%	17.2%	671,335	23.9%	20.2%	1.7%
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%



Sales analysis by geographical segments
— The Group



Sales analysis by business
— China Segment



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

Management Discussion and Analysis

China Segment

Kappa Brand

The Kappa Brand business, the major business of the Group, accounted for 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.

Management Discussion and Analysis

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 RMB161 for the year ended 31 December 2009 and 2008 respectively.

The decrease in ASP of footwear products from RMB184 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**

Management Discussion and Analysis

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.

Management Discussion and Analysis

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 HKD1.00 = 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:

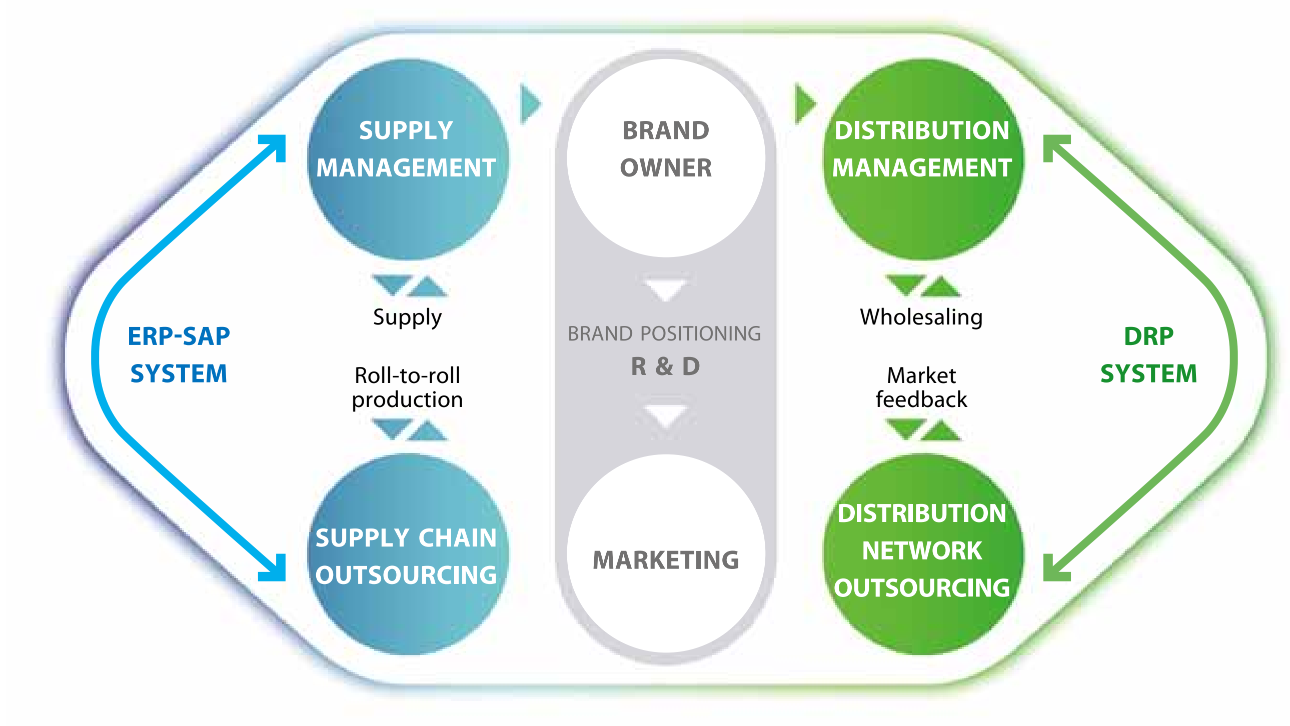
- **Brand building:** The Group continues to uphold a differentiated and highly efficient brand promotion strategy. In 2009, while maintaining a relatively low advertising and promotion expenses as a percentage of sales at 7.4%, the Group has completed a series of nationwide brand building and promotional 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.

Management Discussion and Analysis

- **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.



Management Discussion and Analysis

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.

Management Discussion and Analysis

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 Bolin 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.

Management Discussion and Analysis

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 (totalling 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 fourth generation store of Kappa Brand

Management Discussion and Analysis

The following diagram illustrates geographic distribution of the retail outlets of Kappa Brand as at 31 December 2009:

Anhui	**143**	**Hainan**	**23**	**Jiangsu**	**255**	**Shanxi**	**79**	**Yunnan**	**93**
Beijing	**131**	**Hebei**	**167**	**Jiangxi**	**75**	**Shaanxi**	**62**	**Zhejiang**	**308**
Fujian	**147**	**Henan**	**88**	**Liaoning**	**193**	**Shanghai**	**101**	**Chongqing**	**91**
Gansu	**22**	**Heilongjiang**	**165**	**Inner Mogolia**	**50**	**Sichuan**	**200**	**Macau**	**4**
Guangdong	**260**	**Hubei**	**155**	**Ningxia**	**8**	**Tianjin**	**69**		
Guangxi	**48**	**Hunan**	**123**	**Qinghai**	**7**	**Tibet**	**6**		
Guizhou	**61**	**Jilin**	**129**	**Shandong**	**209**	**Xinjiang**	**39**		

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.

Management Discussion and Analysis

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 HKD5,176.9 million (equivalent to RMB5,013.9 million). As of 31 December 2009, the net proceeds were utilized as follows:

	Total net proceeds HKD million	**Utilized** HKD million	**Unutilized** HKD million
Develop existing brands and expand brand portfolio	2,743.8	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.

Management Discussion and Analysis

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, 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.

Management Discussion and Analysis

Reinforcing the scientific brand management process

The Group 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.

Investor Relations Report

1. 3.
4.
2.

1.&2. 2009 interim results announcement investor presentation

3.&4. 2010 Q2 sales fairs visit

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

In the past year 2009, Group's investor relations achievements are summarized as below:

RESULTS ANNOUNCEMENT AND ROADSHOW

Right after the announcements of the 2008 annual results and the 2009 interim results of the Group were published in March and September 2009 respectively, the Group held investor presentation and press conference in the afternoon on the same day to timely disclose the latest business performance, future development direction and strategies of the Group. Meanwhile, presentation materials and webcast of the event were made available on the Group's website on the same day after the conclusion of the event for investors' inspection.

In order to provide a thorough review of the Group to investors, particularly foreign investors, the management launched two global roadshows after the release of results announcements. A total of 101 one-on-one/group meetings were hosted in Hong Kong, Singapore, the United States and the United Kingdom to facilitate face-to-face communications with investors. While introducing the Group's result performances, development strategies and future prospects, we also received valuable suggestions and feedback from investors regarding the Group's philosophies and development strategies.

INVESTMENT SUMMITS

In 2009, the Group's management and investor relations team took part in more than 10 investment summits held by investment banks in order to increase contacts and communications with global investors. During these sessions, a total of 95 one-on-one/group meetings were conducted.

Investor Relations Report

ONGOING DAILY COMMUNICATION

In daily operation, the Group conducts ongoing communication with investors and analysts by setting up multi-channel and multi-level of communications, which include:

Company Visits and Telephone Conferences

In 2009, a total of 126 face-to-face communications and telephone conferences were conducted with investors and analysts.

Furthermore, to enhance the direct and effective communication with investors and analysts, the Group's management frequently travel to Hong Kong to meet with investors and analysts on a regular basis.

Investors Store Visits

In 2009, based on the needs of store visits from investors and analysts, we arranged 23 stores visits in Beijing, Sichuan, Hangzhou, Shenzhen, Guangzhou, etc.

SALES FAIR VISITS

In November 2009, we invited nearly 40 investors and analysts to attend 2010 Q2 sales fairs and arranged communication symposium with the Group's management and distributors, so that investors and analysts can understand the Group's products, operations and strategies, as well as the latest situation and development of the retail market from a more direct and in-depth perspective.

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

Company Website

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

Investor Phone Inquiry Services

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

MEDIA RELATIONS

Since its listing, the Group has been committed to maintaining a close relationship with the domestic and foreign media through media activities including press releases, media briefings and management interviews. Thus, we disseminate our business strategy and financial performance to shareholders and the community in a more efficient and effective manner.

ANNUAL GENERAL MEETING

In accordance with the Listing Rules of the Hong Kong Stock Exchange, we regularly organize annual general meetings of shareholders to share the Group's business strategies and investment plans through equitable and transparent communication with shareholders, in order to maintain and respect the legitimate rights and interests of all shareholders, especially for small and medium shareholders.

Investor Relations Report

ACCOMPLISHMENTS AND PROSPECTS

In 2009, the Group's management hosted over 350 one-on-one meetings and conference calls (including roadshows, investor summits, daily activities, and etc.) with investors and analysts.

At the same time, as at the end of 2009, the Group's management maintained dialogues with over 960 investors and analysts around the world, thereby establishing a strong and extensive database of investors. In addition, a total of 25 analysts have issued research reports on the Group's developments.

Looking ahead, spearheaded by the Group's management, the Group will devote continued efforts to build positive and pro-active investor relations by maintaining good communication with shareholders, analysts, potential investors and public groups. We will adhere to transparent, accurate, and timely dissemination of the Group's financial performance and operations, and further tap into capital market, so as to construct a long-term stable and reasonable shareholder structure.

Meanwhile, we encourage all shareholders, analysts, potential investors to share with us their views and valuable suggestions about the Group via various channels available including mail, e-mail and telephone, in order for us to constantly improve the Group's operations and management. Contact details are described in the following other important information.

OTHER IMPORTANT INFORMATION

1. Share information

Listing: Main Board of the Hong Kong Stock Exchange, 10 October 2007
Stock code: 3818
Number of ordinary shares issued as at 31 December 2009: 5,666,401,000

2. Important dates

Announcement of 2009 annual results: 24 March 2010
Book closure date: 7 May 2010 to 12 May 2010
Annual General Meeting ("AGM"): 12 May 2010

3. Proposed 2009 final dividend and final special dividend

Proposed final dividend: RMB3.91 cents per ordinary share
Proposed final special dividend: RMB9.04 cents per ordinary share
Payment date: on or after 19 May 2010

4. IR Contact

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

5. Website

http://www.dxsport.com

Directors and Senior management

DIRECTORS

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

Name	Age	Position
Mr. Chen Yihong (陳義紅)	51	Chairman and Executive Director
Mr. Qin Dazhong (秦大中)	41	Chief Executive Officer and Executive Director
Mr. Gao Yu (高煜)	36	Non-Executive Director
Mr. Mak Kin Kwong (麥建光)	48	Independent Non-Executive Director
Dr. Xiang Bing (項兵)	47	Independent Non-Executive Director
Mr. Xu Yudi (徐玉棣)	58	Independent Non-Executive Director

Executive Directors

Mr. Chen Yihong (陳義紅), aged 51, is our founder, chairman and executive Director. Mr. Chen is primarily responsible for our overall corporate strategies, planning and business development. Mr. Chen has extensive experience in the sporting goods industry in China. From 1991 to 2005, Mr. Chen was the vice-general manager, general manager and chief executive officer of Beijing Li Ning Sports Goods Co., Ltd. (北京李寧體育用品有限公司) and the executive director of Li Ning Company Limited, a company listed on Hong Kong Stock Exchange. He was also appointed as the vice-chairman of the National Volleyball Association (中國排球協會) in 2002. Mr. Chen obtained an executive master's of business administration degree from Lincoln University in the United States in 2003.

Mr. Qin Dazhong (秦大中), aged 41, is our chief executive officer and executive Director. Mr. Qin is primarily responsible for our Company's overall strategic planning and the management of our Company's business. Mr. Qin joined Beijing Dongxiang as general manager since October 2002 and has over 12 years of experience in the operation of sportswear companies. From 1997 to 2002, he held various positions at Beijing Li Ning Sports Goods Co., Ltd. (北京李寧體育用品有限公司) where he was responsible for its corporate planning, international business and financial control. Prior to joining the sportswear industry, he worked for the National Audit Office of the PRC (中國國家審計署). He has a Bachelor's degree in economics from Zhongshan University (中山大學) and an executive master's in business administration degree from Guanghua School of Management of Peking University (北京大學光華管理學院) in 2002.

Non-Executive Director

Mr. Gao Yu (高煜), aged 36, is our non-executive Director. He is currently the managing director of the Private Equity Division of Morgan Stanley Asia Limited, and he primarily focuses on private equity investment activities in China. He is also a non-executive director of Belle International Holdings Limited (百麗國際控股有限公司), a company listed on the main board of Hong Kong Stock Exchange. Prior to joining Morgan Stanley Asia Limited, he worked in Citigroup's Investment Banking Division in Asia for about five years. Mr. Gao had also worked in Donaldson, Lufkin & Jenrette's Capital Markets Group in New York. Mr. Gao graduated from Stanford University with a Master's degree in engineering-economic systems and operations research as well as from Tsinghua University (清華大學) in Beijing with dual Bachelors' degrees in engineering and economics.

Independent Non-Executive Directors

Mr. Mak Kin Kwong (麥建光), aged 48, is our independent non-executive director. Mr. Mak is the managing director of Venfund Investment, a Shenzhen based mid-market M&A investment banking firm specializing in cross-border mergers and acquisitions, corporate restructuring, capital raising and international financial advisory services for Chinese privately owned clients, which he co-founded in late 2001. Prior to 2001, he was a partner of Arthur Andersen Worldwide and the managing partner of Arthur Andersen Southern China.

Mr. Mak is a graduate of the Hong Kong Polytechnic University and a fellow member of the Association of Chartered Certified Accountants, United Kingdom, and the Hong Kong Institute of Certified Public Accountants.

Directors and Senior management

Mr. Mak serves as an independent non-executive director and the audit committee chairman of Trina Solar Limited (天合光能有限公司), China GrenTech Corp. Ltd. (國人通信股份有限公司), Dragon Pharmaceutical Inc. (凱龍藥業股份有限公司), and China Security & Surveillance Technology, Inc. (中國安防技術有限公司), all of which are companies listed in the U.S. and Huabao International Holdings Ltd (華寶國際控股有限公司) and Pou Sheng International (Holdings) Limited (寶勝國際(控股)有限公司), both listed on the Hong Kong Stock Exchange. Mr. Mak also serves as an independent non-executive director, audit committee chairman and committee member of nomination committee of 361 Degrees International Limited (361度國際有限公司). Mr. Mak is also an independent non-executive director and the audit and risk management committee chairman of Real Gold Mining Limited (瑞金礦業有限公司), all of which are listed on the Hong Kong Stock Exchange.

Mr. Mak is also a non-executive director of Bright World Precision Machinery Ltd. (沃得精機股份有限公司), a company listed in the Republic of Singapore.

Mr. Mak was an independent non-executive director and the audit committee chairman of Shenzhen Victor Onward Textile Industrial Co., Ltd. (深圳中冠紡織印染股份有限公司) between 2002 and 2007, and Gemdale Industries Ltd (金地集團股份有限公司) between 2002 and 2009, which both listed on the Shenzhen Stock Exchange.

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

Between 2007 and 2009, Mr. Mak was an independent non-executive director and the audit committee chairman of Network CN Inc. (安博(美國)有限公司), a company listed in the U.S.

Dr. Xiang Bing (項兵), aged 47, is our independent non-executive Director. Dr. Xiang obtained a Doctoral degree in accounting from the University of Alberta in Canada. He has over 12 years of teaching experience in the academic field. Dr. Xiang is currently the founding dean and professor of the Cheung Kong Graduate School of Business (長江商學院).

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

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

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

He is an independent non-executive director of Yunan Baiyao Group Co., Ltd. (雲南白藥集團股份有限公司), a company listed on the Shenzhen Stock Exchange.

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

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

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

Directors and Senior management

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

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

Mr. Xu Yudi (徐玉棣), aged 58, is our independent non-executive Director. Mr. Xu obtained qualifications as a certified public accountant and senior auditor in China. He is a committee member of the Chinese Institute of Certified Public Accountants.

Mr. Xu is currently a director of China Citic Group (中國中信集團公司) and the Consultant of Group Strategy & Planning Department. During 2005 to 2009, Mr. Xu was the Chairman of Citic International Cooperation (中信國際合作公司) and the vice-chairman of Citic Constructions Co. Ltd. (中信建設有限責任公司). During 1995 to 2005, Mr. Xu was the general manager of Citic International Cooperation Co., Ltd. and for the period between 2002 and 2004, he was the vice general manager of Citic Constructions Co. Ltd. Prior to that, he was the vice general manager and general accountant of China Leasing Company Limited (中國租賃公司).

Mr. Xu graduated from the Tianjin Commercial School (天津財貿學校) and obtained his Master of Economics degree in accounting from the Institute for Fiscal Science Research under the State Ministry of Finance (財政部財政科學研究院). He was also an intern at the Office of the Auditor General of Canada.

SENIOR MANAGEMENT

Mr. Wong Chi Keung (王志強), FCCA, CPA, aged 43, is our chief financial officer, company secretary and the qualified accountant of our Company. Mr. Wong has over 17 years of experience in accounting, auditing and finance. He joined our Company in May 2007. Prior to joining us, Mr. Wong was appointed to various senior positions including the chief financial officer of a sino-foreign joint venture in Beijing, the senior finance manager of China Netcom Group Corporation (Hong Kong) Limited, which was a company listed on Hong Kong Stock Exchange, and the audit manager of an international accounting firm. Mr. Wong obtained a Bachelors degree in business administration from Chinese University of Hong Kong and a Masters degree in business administration from the Australian Graduate School of Management. He is also a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants.

Mr. Ren Yi (任軼), aged 36, is the general manager of Kappa business in China, and is primarily responsible for overseeing the sale, production, and marketing of Kappa products of our Company. Mr. Ren joined our Company in 2006 and has over 15 years of experience in the sporting goods industry. Prior to joining us, Mr. Ren worked for Beijing Li Ning Sports Goods Co., Ltd. (北京李寧體育用品有限公司) from 1994 to 2006. Mr. Ren obtained executive master's degree in business administration from the Guanghua School of Management of Peking University (北京大學光華管理學院).

Mr. Sun Jianjun (孫建軍), aged 43, graduated from Beijing Institute of Economy (北京經濟學院) (now known as Capital University of Economics and Business (首都經濟貿易大學)) with a Bachelor's degree in Economics in 1989, and he obtained a Master's degree in Business Administration from China Europe International Business School. Prior to joining us, he worked for Beijing Shunmei Garment Co., Ltd. (北京順美服裝有限公司) as workshop supervisor, responsible for marketing and was then promoted to deputy factory head, responsible for sales and finance. Also, he was marketing director of Beijing Li Ning Sports Goods Co., Ltd., (北京李寧體育用品有限公司), general manager of Shanghai Edo Sports Company Limited (上海一動體育有限公司) and executive director of Renhe Oriental Investment Company (仁和東方投資公司). He has 20 years of experience in relevant industry. He joined the Group in April 2008 and is head of Phenix Co., Ltd.

Corporate Social Responsibilities

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

ENVIRONMENTAL PROTECTION

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

We have put a total ban on smoking inside our office buildings and posted an outdoor warning against smoking in order to create less-smoking or non-smoking environment for our employees. Power supply within our office buildings will be gradually closed after the employees have got off duty, so as to completely eliminate "long light" and reduce carbon emissions in the environment. To promote economical use of paper, we introduce the intelligent printing devices, which can be used to conduct regular analysis on the use of paper by each employee in order to urge each of them to save paper. This method is effective in reducing paper waste and saving valuable resource for the community. Meanwhile, according to demands of our staff, the Group has arranged a number of shuttle buses with routes convenient for employees come to work. Employees are encouraged to take shuttle buses instead of driving their own cars. The Group will continue to actively promote environmental protection and extend enthusiastic support and participation in environmental conservation, in order to make its contribution to the sustainable social and business development.

CHARITY ACTIVITIES

In addition to actively foster environmental protection, the Group has played a vital part in a host of charitable campaigns and activities. In 2009, we have embarked on and participated in the following charitable activities, which include:

Health Express Yunnan Bright Trip

On 7 to 16 August 2009, "Health Express 2009 Yunnan Self-driving Bright Trip" activity sponsored by China Life Line Express Foundation was organized within the territory of Yunnan Province. The main purpose of this Yunnan Bright Trip is to raise funds for Life Line Express Foundation. The funds raised will be used to treat and cure the poor cataract patients at the Life Line Express Train Hospital.

The management and staff representatives of the Group have participated in this caring activity, and donated RMB450,000.

Dongxiang Charity Crops

This charity crops is an assistance program spontaneously initiated by the staff themselves, with an aim to give a helping hand to poor and street children who cannot go to school because of family difficulties. Dongxiang Charity Crops was established on 4 September 2009, and became a circle among caring colleagues who gather their mutual hands and power of love to

1. 2009 MusicRadio "I want to go to school" charity project
2. "Children's Hope — Golden Cradle" Charity activities
3. Charity activities of "Dongxiang Charity Crops"

Corporate Social Responsibilities

aid children in need of care and love by making donations to them. The donations cover living materials (books, clothing, etc.) and study subsidies.

Love Sharing and Gathering Activity

"2009 Love Sharing and Gathering" activity was a follow-up activity held by Dream Boat stars in 2008 to support victims in quake-stricken area. The Group together with a couple of celebrities made visits to the disaster area in early summer of 2009, and sprayed compassionate affinity throughout the long journey.

In this activity, the participants rushed to the disaster area in form of fleet teams. By this means, they can arouse the attention of more people to the affected area along the way on the one hand; and they can send caring messages to people in need along the way on the other hand. As such, this charity activity has filled each and every corner with warmth right from the start of the journey.

The two fleet teams expressed their comforts and greetings to victims in several primary schools in the disaster area in Sichuan, including Guangyuan, Beichuan, Ankang and Shifang. After the assembly in Shifang, the teams went to visit and help the victims in local primary schools in the hardest-hit area. Dream Boat stars have brought learning and living supplies for children in need in the disaster area, and played matches with the children, thus beaming warmth of the spring of 2009 at the disaster area.

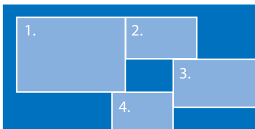
I Want To Go To School Event

The "I Want To Go To School" large-scale social charity project is a love relay activity organized annually by MusicRadio since 2003. From the beginning of 2006, the Group has co-organized the "Affinity Forward" event with MusicRadio; In 2007, Kappa co-constructed "The Spring Bud Boarding School" with MusicRadio to send warmth and fulfill dreams with the sounds of music; In 2008, the Group, as a chief sponsor of the activity, and Music Sound co-organized the "2008 I Want To Go To School, Kappa Orange Hope Is Acting Now" activity, which is designed to bring care and love for children in the earthquake disaster area. Along with this, to help those children fulfill their aspirations, we delivered Kappa's positive and optimistic life vision and healthy lifestyles to those children in distress, and through a persistent passion for life and an energetic spirit, we encouraged those children to dream and live with a sense of courage.

In 2009, Kappa co-organized "2009 MusicRadio I Want To Go To School — Kappa Love 5003 Project" social charity campaign with MusicRadio once again to draw the community's attention to children's growth and nurture and to provide three-year living subsidies for 500 children in poverty.

STAFF DEVELOPMENT

Human resources, as a kind of important strategic resources for modern enterprises, play a vital part in the improvement of management efficiency and the enhancement of productivity. To suit the rapid business growth, the Group has attributed significant values to the setting up of human resources management systems and the training up of talent.



1. Sports event of the Group in 2009
2. Staff award presentation ceremony of 2009
3. Workshop training for staff in 2009
4. Annual dinner of the Group in 2009

Corporate Social Responsibilities

Building Scientific Management Systems for Human Resources

In 2009, the Group cooperated with MERCER, an internationally renowned human resources consulting firm, and upgraded a complete set of human resources management systems and standards in the aspects of organizational structure, salaries and benefits, performance management and long-term incentives. By optimizing human resources management systems, we step up the Group's standardized management processes, improve employees' satisfaction and cohesion, and deepen the image of the Group as an splendid employer.

Pooling of Talent

Driven by its dynamic development, the Group's demand for talent has kept surging in recent years. Therefore, this trend will make recruiting, selecting and retaining talent as a top priority for the Group. In 2009, the Group continued to enrich and optimize its recruitment channels, and achieved its personnel recruitment target in order to support the Group's strategy and business development needs. At the same time, distinct graduates from the University of the Arts London are introduced by the Group through a cooperative manner, and will work in the Group as trainee.

In addition to personnel recruitment and selection, to cater for the Group's future development, the retaining of talent is also one of our focuses. In 2009, the Group held campus recruitment fair for a third time in most of the key colleges, and received overwhelming responses from graduating students, thus uplifting the Group's brand influence and highlighting the Group's human resources philosophies. Through attraction and absorption of a distinguished team of graduates into the relevant positions within the Group, the Group has added new driving forces to cope with its development.

Staff Training and Development

In line with rapid business growth, the cultivation of personnel quality is indispensable to the Group. According to the different training needs and characteristics of staff at different levels, the Group has put into place a comprehensive training curriculum scheme. The training scheme covers multi-angle and multi-level curriculum, including new employee training scheme, generic skills training scheme, professional competence training scheme and leadership training scheme. In 2009, the Group organized 52 different types of training programmes, with the total training hours reaching 16,482 hours.

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

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company is committed to ensuring high standards of corporate governance in the interests of shareholders and devotes considerable effort to identifying and formalising best practices. This corporate governance report (this "Report") describes how the Company has applied the principles and the code provisions as set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules. The Company has complied all the code provisions as set out in the Code for the year ended 31 December 2009.

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

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code governing securities transactions of the Directors and, having made specific enquiries, confirms that the Directors of the Board have complied with the Model Code for the year ended 31 December 2009. Senior managements who, because of their office in the Company, are likely to be in possession of unpublished price sensitive information, have also been requested to comply with the provisions of the Model Code.

THE BOARD OF DIRECTORS

The overall management of the Company's business is vested in the Board. Pursuant to the Articles of Association and the Terms of Reference of the Executive Committee adopted by the Board, the Board has delegated the day-to-day management of the Company's business to the Executive Committee (see details in pages 53 below), and focuses its attention on matters affecting the Company's overall strategic policies, finances and shareholders related matters. These include financial statements, dividend policy, significant changes in accounting policies, annual operating budget, strategies for future growth, major financing arrangements, major investments and risk management strategies.

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

Executive Directors:
Mr. Chen Yihong
Mr. Qin Dazhong

Non-Executive Director:
Mr. Gao Yu

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

Corporate Governance Report

Biographies of the Directors are set out on pages 43 to 45. None of the member of the Board has any relationship (including financial, business, family or other material or relevant relationships) among members of the Board. The composition of the Board is well balanced with each Director having sound knowledge, experience and/or expertise relevant to the business operations and the future development of the Group. All Directors are aware of their collective and individual responsibilities to the shareholders and each ensures that he can give sufficient time and attention to the affairs of the Group.

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

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

Mr. Mak Kin Kwong, Dr. Xiang Bing (both re-elected as independent non-executive Directors on 14 May 2009) and Mr. Xu Yudi (re-elected as independent non-executive Directors on 15 May 2008) shall hold office until they are required to retire in accordance with the Company's articles of association.

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

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

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

BOARD MEETINGS

In 2009, the Board held 4 meetings. The attendance of the Directors at Board meetings and principal Board Committee meetings held in 2009 is set out in the table below.

	Attendance of "Board meetings" in 2009	Attendance of "Audit committee meetings" in 2009	Attendance of "Remuneration committee meetings" in 2009
Executive Directors			
Chen Yihong*	#3/4	N/A	2/2
Qin Dazhong	4/4	N/A	N/A
Non-Executive Director			
Gao Yu	4/4	N/A	N/A
Independent Non-Executive Directors			
Mak Kin Kwong	4/4	3/3	N/A
Xiang Bing	4/4	3/3	2/2
Xu Yudi	4/4	3/3	2/2

* One out of total attendance was attended by Mr. Chen Yihong's alternate director, Mr. Zhao Shiyu.

\# To avoid potential conflict of interest, Mr. Chen Yihong did not form part of the quorum and is abstained from voting at board meeting held on 24 August 2009.

RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

BOARD COMMITTEES

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

Corporate Governance Report

Audit Committee

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

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

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

The Audit Committee met three times in the year of 2009. The major work performed by the Audit Committee in 2009 included:

(i) Review and approval of the 2009 external audit plan

(ii) Review and approval of the 2008 annual report and annual results announcement

(iii) Review and approval of the 2009 interim report and interim results announcement

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

(v) Review of the 2009 internal audit report

(vi) Review of KPMG's IT audit report

(vii) Approval of the remuneration and terms of engagement of PricewaterhouseCoopers for the 2009 audit

(viii) Review and approval of the 2010 internal audit plan

Remuneration Committee

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

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

The Remuneration Committee met two times in the year of 2009. The major work performed by Remuneration Committee in 2009 included approval of human resources report on remuneration and long term compensation proposal of the Group, annual review and determination of the board of Directors' remuneration for the year ending 31 December 2010.

Executive Committee

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

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

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

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

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

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

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

Corporate Governance Report

INTERNAL CONTROL RISK MANAGEMENT

The Board and the Audit Committee are responsible for developing and maintaining the system of internal controls of the Group to protect shareholders' interest and to safeguard the Group's assets by setting appropriate policies and reviewing the effectiveness of major control procedures for financial, operational, compliance and risk management areas. The Board and the Audit Committee have reviewed the effectiveness of the Group's system of internal controls on all major operations, including the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial function, and their training programs and budget, by reviewing the internal control reports prepared by the Internal Audit Department ("the IA") and management letters submitted by external auditors. Also, The Board and the Audit Committee met with the internal auditors, the external auditors and management to discuss findings from their works and resolution. The Board and the Audit Committee considered that the system of internal controls was operating effectively for the year ended 31 December 2009.

Corporate Governance

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

As Information Technology ("IT") is an important function for all the operating and financial activities of the Group, the effectiveness and efficiency of its internal controls is crucial. In 2009, the Group engaged KPMG Corporate Advisory Division to evaluate and propose recommendations for the general controls and application controls of the IT system of the Group.

EXTERNAL AUDITOR

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

The auditor's remuneration for the year ended 31 December 2009 is set out in Note 25 to the consolidated financial statements.

COMMUNICATION WITH SHAREHOLDERS

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

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

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

To further enhance our relationship with the Shareholders and investors and to ensure that our investors have a better understanding of the Company, we have established an IR Department to handle regular contact with our investors. An Investor Relations Report is produced hereto on pages 40 to 42 to provide a more comprehensive overview of the work performed by the IR Department in 2009.

Report of the Directors

The Directors have the pleasure of presenting to the shareholders their report together with the audited consolidated financial statements for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

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

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

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

In April 2008, the 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 11.

GROUP PROFIT

The Group's profit for the year ended 31 December 2009 is set out in the consolidated income statement on page 70.

DIVIDENDS

An interim dividend of RMB216,452,000 and an interim special dividend of RMB71,962,000 in respect of the 6 months ended 30 June 2009 were declared to Shareholders on 9 September 2009 and paid in October 2009.

The Directors recommend a final dividend of RMB3.91 cents and final special dividend of RMB9.04 cents per ordinary share of the Company, amounting to approximately RMB221,556,000 and RMB512,243,000 respectively, subject to approval by the Shareholders of the Company at the AGM to be held on 12 May 2010 and are payable in Hong Kong Dollars based on the official exchange rate of Hong Kong Dollars against Renminbi as quoted by the People's Bank of China on 23 March 2010.

PROPERTY, PLANT AND EQUIPMENT

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

BANK LOANS AND OTHER BORROWINGS

There was no bank loans and other borrowings of the Company and the Group as at 31 December 2009.

FIVE-YEAR SUMMARY

A summary of the results and assets and liabilities of the Company for the last five years is set out on pages 10 to 11.

REPORT OF THE DIRECTORS

SHARE CAPITAL
Movements in the share capital of the Company during the year are set out in Note 18 to the consolidated financial statements.

RESERVES
Movements in reserves of the Group and the Company during the year are set out in Note 20 to the consolidated financial statements.

DISTRIBUTABLE RESERVES
Distributable reserves of the Company as at 31 December 2009 amounted to approximately RMB4,277,289,000, which is the total of the share premium account and retained earnings of the Company calculated in accordance with Companies Law of the Cayman Islands.

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

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

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

Executive Directors:	
Mr. Chen Yihong	(re-elected on 15 May 2008)
Mr. Qin Dazhong	(re-elected on 15 May 2008)
Non-Executive Director:	
Mr. Gao Yu	(re-elected on 15 May 2008)
Independent Non-Executive Directors:	
Mr. Mak Kin Kwong	(re-elected on 14 May 2009)
Dr. Xiang Bing	(re-elected on 14 May 2009)
Mr. Xu Yudi	(re-elected on 15 May 2008)

In accordance with Article 87 of the Company's Articles of Association and the Code on Corporate Governance Practices of Listing Rules, Mr. Qin Dazhong and Mr. Gao Yu will retire from office by rotation and are eligible for re-election at the forthcoming AGM.

The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to the independence guidelines under the Listing Rules and the Company considers such Directors to be independent. Particulars of the Directors' remuneration disclosed pursuant to Appendix 16 of the Listing Rules are set out in Note 26 to the consolidated financial statements.

Report of the Directors

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors of the Company is or was interested in any business apart from the Group's business, that competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business at any time during the year ended 31 December 2009 and up to and including the date of this report.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management are set out on pages 43 to 45.

SHARE OPTION SCHEMES

(a) Pre-IPO Share Option Scheme

The Company had adopted a Pre-IPO Share Option Scheme on 12 September 2007. Options to subscribe for 18,700,000 Shares were granted to three independent non-executive directors and 50 employees on 17 September 2007. The exercise price per Share is HKD2.786. The options granted under the Pre-IPO Share Option Scheme vested 6 months after 10 October 2007, the listing date and may be exercised for a period of two years ending on 9 April 2010.

Movements in the number of share options outstanding under the Pre-IPO Share Options Scheme for the year ended 31 December 2009 are as follows:

				Number of share options			
	Date of grant	Average exercise price per Share HKD	As at 01/01/2009	exercised during the year	cancelled during the year	As at 31/12/2009	Exercise period
Independent Non-Executive Directors							
Mak Kin Kwong	17 September 2007	2.786	200,000	200,000	—	—	—
Xiang Bing	17 September 2007	2.786	200,000	200,000	—	—	—
Xu Yudi	17 September 2007	2.786	200,000	200,000	—	—	—

Notes:

For the year ended 31 December 2009, options to acquire 600,000 shares of the Company were exercised at the exercise price of HKD2.786 each. The weighted average fair value of the 18,700,000 pre-IPO share options granted in 2007 as determined using the Black-Scholes valuation model was HKD1.55 per option as at the date of grant

No options granted lapsed for the year ended 31 December 2009 .

(b) Share Option Scheme

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

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

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

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

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

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

(iii) the nominal value of the shares.

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

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

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

Details of the share options issued, granted or exercised during the year 2009 by the Company are set out in Note 19 to the consolidated financial statements.

Report of the Directors

RETIREMENT SCHEMES

Particulars of the retirement schemes operated by the Group are set out in Note 26 to the consolidated financial statements.

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 has purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2009, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), which have been notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 & 8 Part XV of the SFO, including interests and short positions which the Directors and chief executive of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Model Code contained in the Listing Rules were as follows:

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

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

Notes:

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

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

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

Save as disclosed above, as at 31 December 2009, none of the Directors and chief executives of the Company had or was deemed to have any interests or short position in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2009, other than the interests and short positions as disclosed above, the following persons have interests or short positions in the Shares, underlying Shares and debentures of the Company which fall to be disclosed to the Company under Divisions 2 & 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under Part XV (s.336) of the SFO, or otherwise known to the Directors:

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

Notes:

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

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

Save as disclosed above, as at 31 December 2009, the Directors are not aware of any other person or corporation having an interest or short position in Shares and underlying Shares of the Company representing 5% or more of the issued share capital of the Company.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Report of the Directors

CONNECTED TRANSACTION

During the year ended 31 December 2009, 上海嘉班納體育用品有限公司 (Shanghai Gabanna Sporting Goods Co., Limited) ("Shanghai Gabanna"), an indirect wholly-owned subsidiary of the Company, Mr. Chen Yiliang, Mr. Chen Yiyong, Mr. Chen Yizhong, brothers of Mr. Chen Yihong (our Director), ("Chen Brothers") and 北京動感競技經貿有限公司 (Dong Gan Jing Ji Company Limited) ("Dong Gan Jing Ji") and 北京動感九六體育用品有限責任公司 (Dong Gan Jiu Liu Sportswear Company Limited), both are entities controlled by Chen Brothers, ("Chen Brothers' Controlled Entities") entered into the Cooperation Agreement on 24 August 2009, pursuant to which Shanghai Gabanna subscribed for 30% equity interest in 上海億博韜屬經貿有限公司 (Shanghai Yibotaoli Trading Co., Ltd.), a joint venture company incorporated under the laws of the PRC are controlled by Chen Brothers, for a cash consideration of RMB38,321,400.

CONTINUING CONNECTED TRANSACTION

During the year ended 31 December 2009, the Group conducted certain transactions with connected parties which constituted "continuing connected transactions" under the Listing Rules. Details of those continuing connected transactions which are subject to the reporting requirements under Rules 14A.46 of the Listing Rules and are summarised below.

1. Pursuant to a framework agreement dated 18 September 2007, the Group appointed Dong Gan Jing Ji (an associate of Mr. Chen Yihong, the Company's substantial shareholder, chairman and executive Director and hence a connected person of the Group) as its non-exclusive distributor of Kappa brand products at retail outlets in Beijing, Shandong and Shaanxi in China and as a consignee in relation to sale of the Rukka brand products at one of its Beijing outlets. The framework agreement took effect from 10 October 2007 and has a term of three years. The transactions conducted pursuant to the arrangement as mentioned in the framework agreement for the year ended 31 December 2009 amounted to RMB336,707,000.

2. On 31 December 2008, Shanghai Kappa Sporting Goods Co., Limited, an indirect wholly-owned subsidiary of the Company entered into a framework lease agreement with Dong Gan Jing Ji so as to regulate the lease of flagship stores to Dong Gan Jing Ji (and/or its nominees). The framework lease agreement shall expire on 31 December 2010. The rental value of the lease for the year ended 31 December 2009 amounted to RMB6,664,000.

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

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

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

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

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

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

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

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

(4) have not exceeded the relevant caps.

The related party transactions are set out in Note 36 to the consolidated financial statements. Apart from the connected transactions disclosed above, all the other related party transactions did not fall under the scope of "Connected Transaction" and "Continuing Connected Transaction" under Chapter 14A of the Listing Rules which are required to comply with the reporting, announcement or independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

PUBLIC FLOAT

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

MAJOR SUPPLIERS AND CUSTOMERS

During the year ended 31 December 2009, the purchases from the largest supplier and the aggregated purchases from the largest five suppliers amounted for 5.4% and 24.8% of the Group's total purchases, and the sales to the largest customer and the aggregated sales from the largest five customers amounted for 9.4% and 33.9% of the Group's total sales, respectively.

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

Report of the Directors

POST BALANCE SHEET DATE EVENTS

There was no significant event taken place subsequent to 31 December 2009.

CORPORATE GOVERNANCE

Throughout 2009, the Company has complied with all the code provisions and most of the recommended best practices of the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules. Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 49 to 55 of this report.

AUDITOR

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

On behalf of the Board
Chen Yihong
Chairman

Hong Kong, 24 March 2010

Independent Auditor's Report

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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

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

We have audited the consolidated financial statements of China Dongxiang (Group) Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 67 to 128, which comprise the consolidated and company balance sheets as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and of the Group as at 31 December 2009, and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTERS

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 March 2010

CONSOLIDATED BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

	Note	As at 31 December 2009	2008
ASSETS			
Non-current assets			
Property, plant and equipment	6	**120,101**	121,283
Lease prepayments	7	**33,615**	42,063
Intangible assets	8	**304,465**	307,129
Investments in jointly controlled entities	10	**19,442**	25,926
Investments in associated companies	11	**158,839**	—
Prepayment of considerations for investments in associated companies		**—**	19,390
Deferred income tax assets	12	**16,849**	3,547
Prepayments, deposits and other receivables — non-current portion	15	**35,001**	23,638
Long term bank deposits	17	**150,000**	—
		838,312	542,976
Current assets			
Inventories	13	**223,281**	232,166
Trade receivables	14	**374,585**	367,880
Prepayments, deposits and other receivables	15	**96,228**	86,736
Held-to-maturity financial assets	16	**401,964**	—
Cash and bank balances	17	**5,977,388**	6,063,701
		7,073,446	6,750,483
Total assets		**7,911,758**	7,293,459

The notes on pages 74 to 128 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet (continued)

(All amounts in Renminbi thousands unless otherwise stated)

	Note	As at 31 December 2009	2008
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	18	**54,810**	54,805
Share premium account	18	**4,094,339**	4,910,138
Reserves	20	**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	11	**1,292**	—
Deferred income tax liabilities	12	**4,068**	4,177
		5,360	4,177
Current liabilities			
Trade payables	21	**312,264**	292,068
Accruals and other payables	22	**146,105**	190,927
Provisions	23	**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

The notes on pages 74 to 128 are an integral part of these consolidated financial statements.

BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

	Note	As at 31 December 2009	2008
ASSETS			
Non-current assets			
Investments in subsidiaries	9	**10,103,395**	10,103,395
Amounts due from subsidiaries	9	**1,070,884**	1,072,486
		11,174,279	11,175,881
Current assets			
Trade receivables	14	**—**	989
Prepayments, deposits and other receivables	15	**15,761**	16,354
Amounts due from subsidiaries	9	**220,922**	446,555
Cash and bank balances	17	**2,571,660**	3,425,419
		2,808,343	3,889,317
Total assets		**13,982,622**	15,065,198
EQUITY			
Share capital	18	**54,810**	54,805
Share premium account	18	**4,094,339**	4,910,138
Reserves	20	**9,819,550**	9,794,762
Total equity		**13,968,699**	14,759,705
LIABILITIES			
Current liabilities			
Amounts due to subsidiaries	9	**12,963**	299,312
Accruals and other payables	22	**960**	6,181
		13,923	305,493
Total liabilities		**13,923**	305,493
Total equity and liabilities		**13,982,622**	15,065,198
Net current assets		**2,794,420**	3,583,824
Total assets less current liabilities		**13,968,699**	14,759,705

The notes on pages 74 to 128 are an integral part of these consolidated financial statements.

Consolidated Income Statement

(All amounts in Renminbi thousands unless otherwise stated)

		Year ended 31 December	
	Note	**2009**	2008
Sales	5	**3,970,405**	3,322,237
Cost of goods sold	25	**(1,571,034)**	(1,378,475)
Gross profit		**2,399,371**	1,943,762
Other gains, net	24	**113,651**	72,887
Distribution costs	25	**(645,145)**	(506,962)
Administrative expenses	25	**(170,620)**	(178,036)
Operating profit		**1,697,257**	1,331,651
Negative goodwill on acquisition of a subsidiary	27	**—**	145,950
Finance income, net	28	**109,623**	139,876
Share of results of jointly controlled entities and associated companies	10, 11	**(10,623)**	(1,412)
Profit before income tax		**1,796,257**	1,616,065
Income tax expense	29	**(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	31	**25.76**	24.12
— Diluted	31	**25.76**	24.11
Dividends	32	**1,022,213**	733,154

The notes on pages 74 to 128 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Year ended 31 December 2009	2008
Profit for the year		**1,459,844**	1,367,722
Other comprehensive income, net of tax			
— Foreign currency translation differences	20	**(8,310)**	(267,905)
Total comprehensive income for the year	20	**1,451,534**	1,099,817
Total comprehensive income attributable to equity holders of the Company		**1,451,534**	1,099,817

The notes on pages 74 to 128 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

(All amounts in Renminbi thousands unless otherwise stated)

		Attributable to equity holders of the Company				
	Note	Share capital	Share premium account	Other reserves	Retained earnings	Total
Balance at 1 January 2008		54,904	5,000,710	193,808	652,409	5,901,831
Profit for the year		—	—	—	1,367,722	1,367,722
Other comprehensive income:						
— Foreign currency translation differences		—	—	(267,905)	—	(267,905)
Total comprehensive income		—	—	(267,905)	1,367,722	1,099,817
Appropriation to statutory reserve		—	—	34	(34)	—
Shares repurchased and cancelled	18	(110)	(33,827)	—	—	(33,937)
Exercise of pre-IPO share options	18	11	5,136	(1,947)	—	3,200
Share-based compensation	19	—	—	13,735	—	13,735
Dividends paid	18, 32	—	(61,881)	—	(203,402)	(265,283)
Balance at 31 December 2008		54,805	4,910,138	(62,275)	1,816,695	6,719,363
Balance at 1 January 2009		**54,805**	**4,910,138**	**(62,275)**	**1,816,695**	**6,719,363**
Profit for the year		**—**	**—**	**—**	**1,459,844**	**1,459,844**
Other comprehensive income:						
— Foreign currency translation differences		**—**	**—**	**(8,310)**	**—**	**(8,310)**
Total comprehensive income		**—**	**—**	**(8,310)**	**1,459,844**	**1,451,534**
Appropriation to statutory reserves		**—**	**—**	**32**	**(32)**	**—**
Exercise of pre-IPO share options	18	**5**	**2,367**	**(899)**	**—**	**1,473**
Dividends paid	32	**—**	**(818,166)**	**—**	**—**	**(818,166)**
Balance at 31 December 2009		**54,810**	**4,094,339**	**(71,452)**	**3,276,507**	**7,354,204**

The notes on pages 74 to 128 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Year ended 31 December 2009	2008
Cash flows from operating activities			
Cash generated from operations	33(a)	**1,729,460**	1,048,452
Interest received		**85,805**	135,447
Income tax paid		**(331,120)**	(235,153)
Net cash generated from operating activities		**1,484,145**	948,746
Cash flows from investing activities			
Cash inflow on acquisition of a subsidiary		**—**	22,487
Investments in associated companies		**(149,201)**	(19,390)
Purchase of property, plant and equipment		**(16,761)**	(14,066)
Purchase of intangible assets		**(11,824)**	(8,554)
Increase in term deposits with initial terms of over three months and long term bank deposits		**(4,605,579)**	—
Decrease/(increase) in restricted bank deposits		**50,559**	(50,559)
Proceeds from disposal of property, plant and equipment	33(b)	**887**	—
Increase in held-to-maturity financial assets		**(400,000)**	—
Sale of financial assets at fair value through profit and loss		**—**	204,903
Net cash (used in)/generated from investing activities		**(5,131,919)**	134,821
Cash flows from financing activities			
Proceeds from exercise of pre-IPO share options		**1,473**	3,200
Capital injection from a minority shareholder of a subsidiary		**—**	4,235
Repurchase of shares	18(a)	**—**	(33,937)
Dividends paid	32	**(818,166)**	(265,283)
Net cash used in financing activities		**(816,693)**	(291,785)
Net (decrease)/increase in cash and cash equivalents		**(4,464,467)**	791,782
Cash and cash equivalents at beginning of the year		**5,942,048**	5,311,060
Effect of exchange rate changes on cash and cash equivalents		**(4,220)**	(160,794)
Cash and cash equivalents at end of the year	17	**1,473,361**	5,942,048

The notes on pages 74 to 128 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

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. Further details of the acquisition of Phenix were set out in note 27.

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 area, Shandong, Shaanxi, Ningxia, Hangzhou, Shanxi, Shenyang, Tianjin and Nanjing. Details of the acquisitions are set out in Note 11.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") 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.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Changes in accounting policies and disclosures

(a) *New and amended standards that are relevant and 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 have been 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 relevant but not yet effective and have not been early adopted by the Group*

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods, but the Group has not early adopted them.

- IFRS 2 (amendments) 'group cash-settled share-based payment transactions' — effective 1 January 2010. In addition to incorporating IFRIC — Int 8, 'Scope of IFRS 2', and IFRIC — Int 11, 'IFRS 2 — group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by the interpretation. The new guidance is not expected to have a material impact on the Group's financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Changes in accounting policies and disclosures (continued)

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

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

- IFRS 5 (amendment) 'Measurement of non-current assets (or disposal groups) classified as held for sale'. The amendment is part of the IASB's annual improvements project published in April/May 2009. The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1. The Group will apply IFRS 5 (amendment) from 1 January 2010. It is not expected to have a material impact on the Group's or Company's financial statements.

- IAS 1 (amendment) 'Presentation of financial statements'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The Group will apply IAS 1 (amendment) from 1 January 2010. It is not expected to have a material impact on the Group's or Company's financial statements.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Changes in accounting policies and disclosures (continued)

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

- IAS 38 (amendment) 'Intangible Assets' — effective 1 July 2009. The amendment is part of the IASB's annual improvements project published in April 2009 and the Group and company will apply IAS 38 (amendment) from the date IFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the Grouping of intangible assets as a single asset if each asset has similar useful economic lives.

- IFRIC 17 'Distribution of non-cash assets to owners' — effective 1 July 2009. The interpretation is part of the IASB's annual improvements project published in April 2009. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The Group will apply IFRIC 17 from 1 January 2010. It is not expected to have a material impact on the Group's or Company's financial statements.

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December 2009.

(a) *Subsidiaries*

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

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

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

(a) *Subsidiaries* (continued)

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.8). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(b) *Jointly controlled entities and associated companies*

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

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

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

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

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) *Functional and presentation currency*

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

(b) *Transactions and balances*

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Foreign currency translation (continued)

(b) *Transactions and balances* (continued)

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

(c) *Group companies*

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment

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

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Leasehold land and land use rights

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

2.7 Intangible assets

(a) Goodwill

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

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

(b) Trademarks

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

(c) Licence rights

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

(d) Computer software

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

2.9 Financial assets and financial liabilities

2.9.1 Financial assets

Classification

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

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

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

(b) Loans and receivables

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

(c) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

Notes to the Consolidated Financial Statements
(All amounts in Renminbi thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial assets and financial liabilities (continued)

2.9.1 Financial assets (continued)

Recognition and measurement

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

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'other (losses)/gains, net' in the period in which they arise.

Impairment of financial assets

Assets carried at amortised cost

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

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

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial assets and financial liabilities (continued)

2.9.1 Financial assets (continued)

Impairment of financial assets (continued)

Assets carried at amortised cost (continued)

- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

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

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

The Group first assesses whether objective evidence of impairment exists.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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

2.9.2 Financial liabilities at fair value through profit or loss

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

2.10 Inventories

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

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Trade receivables and other receivables

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

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

2.12 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months or less.

2.13 Share capital

Ordinary shares are classified as equity.

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

2.14 Trade payables

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

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

2.15 Current and deferred income tax

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Current and deferred income tax (continued)

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

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

2.16 Employee benefits

(a) *Pension obligations*

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

(b) *Share-based compensation*

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

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

(c) *Bonus plans*

During the year ended 31 December 2009, the Group implemented a cash-settled performance based employee benefit plan (the "Performance Unit Plan") for the middle to senior management of the Group. Under the Performance Unit Plan, the eligible employees are granted performance units, each of which represents an entitlement to receive cash payments when the Group's performance outperforms a pre-set benchmark in a period of 3 years starting from 1 January 2009, at a cap of RMB2 per unit. The fair value of the performance units granted is recognized as an expense and amortised over the 3 years period. At each balance sheet date, the entity revises its assessment of fair value and the difference is recognized in the income statement.

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

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Provisions

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

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

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

2.18 Revenue recognition

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

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

(a) Sales of goods — wholesale

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

In the Japan market, depending on the terms agreed with distributors, certain distributors are entitled to return goods up to pre-determined quantities or additional sales discounts within specified periods. Management estimates the quantities of goods return and additional sales discount based on historical experience and makes provision accordingly and revenue is recognized to the extent of goods delivered less estimated goods return and sales discount.

(b) Sales of goods — retail

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Revenue recognition (continued)

(c) *Sales of goods — consignment sales*

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

(d) *Interest income*

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

2.19 Government grants

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

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

2.20 Leases

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

2.21 Dividend distribution

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Foreign exchange risk

The Group mainly operates in the PRC and Japan with most of the transactions denominated and settled in RMB and JPY, while limited purchases and sales are from overseas (other than Japan) and settled mainly in USD. Foreign exchange risk also arises from certain bank deposits denominated in currencies other than the functional currencies of the respective companies. These include mainly the deposits denominated in Hong Kong Dollars ("HKD"), USD and JPY in the PRC subsidiaries (functional currency is RMB) and the deposits of the Company which are mostly denominated in HKD and USD while the functional currency of the Company is USD. As the fluctuation in exchange rates between USD and RMB was not significant during the year ended 31 December 2009 and the exchange rate of HKD has been pegged to USD, the foreign exchange risk did not have significant impact on the financial statements of the Company for the year. The Group currently does not hedge its foreign exchange exposure.

As at 31 December 2009, if RMB had strengthened/weakened by 5% against the USD/HKD with all other variables held constant, profit for the year and equity of the Group would have changed mainly as a result of foreign exchange gains/losses on translation of USD and HKD denominated cash and bank balances respectively.

	2009	2008
Year ended 31 December:		
Profit for the year increase/(decrease)		
— Strengthened 5%	**(26,040)**	(17,292)
— Weakened 5%	**26,040**	17,292
As at 31 December:		
Equity of the Group increase/(decrease)		
— Strengthened 5%	**(154,623)**	(188,558)
— Weakened 5%	**154,623**	188,558

(b) Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of restricted bank balances, cash and cash equivalents, trade receivables and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets. As at 31 December 2009, all the bank deposits are deposited in high quality financial institutions without significant credit risk.

The table below shows the bank deposit balances of the Group in the banks as at 31 December 2009 and 2008. Management does not expect any losses from non-performance of these banks.

(All amounts in Renminbi thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

	Rating (i)	As at 31 December 2009	2008
Industrial and Commercial Bank of China	A-	**3,216,340**	4,194,682
China Merchants Bank	BBB-	**1,013,489**	768,672
Citibank Hong Kong	(ii)	**666,995**	—
Shanghai Pudong Development Bank	(ii)	**665,187**	300,584
Bank of China	A-	**173,971**	324,751
Others	(ii)	**391,406**	475,012
		6,127,388	6,063,701

(i) The source of the credit rating is from Standard & Poor as at 31 December 2009.

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

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

(c) Liquidity risk

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

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

	The Group	The Company
At 31 December 2009		
Trade payables	**312,264**	**—**
Amounts due to subsidiaries	**—**	**12,963**
Accruals and other payables	**95,216**	**960**
	407,480	**13,923**
At 31 December 2008		
Trade payables	292,068	—
Amounts due to subsidiaries	—	299,312
Accruals and other payables	132,414	6,181
	424,482	305,493

All the balances are due within one year.

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(d) *Cash flow and fair value interest rate risk*

The Group's exposure to changes in interest rate risk mainly attributes to its cash in bank. The Group currently does not hedge its exposure to interest rate risk. Details of the Group's cash in bank balances are disclosed in Note 17.

3.2 Capital risk management

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

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

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by equity holders' equity as shown in the balance sheet. As at 31 December 2009, the Group did not have any borrowings.

3.3 Fair value estimation

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

The financial liability at fair value through profit or loss as at 31 December 2009 is not material.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

(a) Useful life of trademark

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(b) Income taxes

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

(c) Inventory provision

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

(d) Sales return and discounts provision

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

5 SEGMENT INFORMATION

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

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

China — distribution of sport-related products under Kappa Brand and other brands and international 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
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)

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

5 SEGMENT INFORMATION (continued)

	Year ended 31 December 2008			
	China	Japan	Unallocated	Total
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 the 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
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

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

5 SEGMENT INFORMATION (continued)

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**
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
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	7,244,596
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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

5 SEGMENT INFORMATION (continued)

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).

6 PROPERTY, PLANT AND EQUIPMENT — GROUP

	Freehold land	Buildings	Office furniture and equipment	Vehicles	Leasehold improvements	Construction in progress	Total
At 1 January 2008							
Cost	—	50,378	11,803	5,801	—	32,892	100,874
Accumulated depreciation	—	(2,653)	(2,911)	(836)	—	—	(6,400)
Net book amount	—	47,725	8,892	4,965	—	32,892	94,474
Year ended 31 December 2008							
Opening net book amount	—	47,725	8,892	4,965	—	32,892	94,474
Acquisition of a subsidiary							
— Cost	5,108	5,370	12,547	21	6,553	—	29,599
— Accumulated depreciation	—	(1,108)	(3,782)	(19)	(1,286)	—	(6,195)
— Accumulated impairment	(129)	—	(1,199)	—	—	—	(1,328)
Additions	—	2,346	3,481	503	1,685	6,051	14,066
Transfer	—	28,103	6,135	—	—	(34,238)	—
Disposals							
— Cost	—	—	(2,926)	—	(678)	—	(3,604)
— Depreciation	—	—	1,375	—	173	—	1,548
Depreciation (Note 25)	—	(3,794)	(4,465)	(1,131)	(406)	—	(9,796)
Reversal of impairment (Note 25)	—	—	200	—	—	—	200
Exchange difference	400	460	497	—	707	255	2,319
Closing net book amount	5,379	79,102	20,755	4,339	6,748	4,960	121,283
At 31 December 2008							
Cost	5,108	86,197	31,040	6,325	7,560	4,705	140,935
Accumulated depreciation	—	(7,555)	(9,783)	(1,986)	(1,519)	—	(20,843)
Accumulated impairment	(129)	—	(999)	—	—	—	(1,128)
Exchange difference	400	460	497	—	707	255	2,319
Net book amount	5,379	79,102	20,755	4,339	6,748	4,960	121,283
Year ended 31 December 2009							
Opening net book amount	**5,379**	**79,102**	**20,755**	**4,339**	**6,748**	**4,960**	**121,283**
Additions	**—**	**515**	**8,992**	**1,590**	**3,275**	**2,389**	**16,761**
Transfer	**—**	**—**	**2,602**	**—**	**3,467**	**(6,069)**	**—**
Disposals							
— Cost	**—**	**(32)**	**(2,210)**	**(24)**	**(4,116)**	**(917)**	**(7,299)**
— Depreciation	**—**	**8**	**1,252**	**21**	**1,165**	**—**	**2,446**
Depreciation (Note 25)	**—**	**(4,194)**	**(6,390)**	**(1,263)**	**(1,054)**	**—**	**(12,901)**
Reversal of impairment (Note 25)	**—**	**—**	**64**	**—**	**—**	**—**	**64**
Exchange difference	**(88)**	**(100)**	**207**	**—**	**(174)**	**(98)**	**(253)**
Closing net book amount	**5,291**	**75,299**	**25,272**	**4,663**	**9,311**	**265**	**120,101**
At 31 December 2009							
Cost	**5,108**	**86,680**	**40,424**	**7,891**	**10,186**	**108**	**150,397**
Accumulated depreciation	**—**	**(11,741)**	**(14,921)**	**(3,228)**	**(1,408)**	**—**	**(31,298)**
Accumulated impairment	**(129)**	**—**	**(935)**	**—**	**—**	**—**	**(1,064)**
Exchange difference	**312**	**360**	**704**	**—**	**533**	**157**	**2,066**
Net book amount	**5,291**	**75,299**	**25,272**	**4,663**	**9,311**	**265**	**120,101**

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

6 PROPERTY, PLANT AND EQUIPMENT — GROUP (continued)

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

	As at 31 December	
	2009	2008
Distribution costs	**3,598**	1,819
Administrative expenses	**6,649**	5,982
Manufacturing overheads included under cost of goods sold	**2,654**	1,995
	12,901	9,796

There is no pledge of property, plant and equipment of the Group as at 31 December 2009 and 2008.

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

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

7 LEASE PREPAYMENTS — GROUP

	Lease prepayments for land use rights	Lease prepayments for stores	Total
At 1 January 2008			
Cost	14,262	19,630	33,892
Accumulated amortization	(541)	(3,271)	(3,812)
Net book amount	13,721	16,359	30,080
Year ended 31 December 2008			
Opening net book amount	13,721	16,359	30,080
Additions	—	60,694	60,694
Amortization	(285)	(48,426)	(48,711)
Closing net book amount	13,436	28,627	42,063
At 31 December 2008			
Cost	14,262	80,324	94,586
Accumulated amortization	(826)	(51,697)	(52,523)
Net book amount	13,436	28,627	42,063
Year ended 31 December 2009			
Opening net book amount	**13,436**	**28,627**	**42,063**
Additions	**—**	**53,827**	**53,827**
Amortization	**(285)**	**(61,990)**	**(62,275)**
Closing net book amount	**13,151**	**20,464**	**33,615**
At 31 December 2009			
Cost	**14,262**	**134,151**	**148,413**
Accumulated amortization	**(1,111)**	**(113,687)**	**(114,798)**
Net book amount	**13,151**	**20,464**	**33,615**

(All amounts in Renminbi thousands unless otherwise stated)

7 LEASE PREPAYMENTS — GROUP (continued)

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

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

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

8 INTANGIBLE ASSETS — GROUP

	KAPPA trademarks	Phenix trademark and others	License rights	Computer software	Total
At 1 January 2008					
Cost	280,994	—	6,314	11,478	298,786
Accumulated amortization	(14,049)	—	(2,219)	(2,767)	(19,035)
Net book amount	266,945	—	4,095	8,711	279,751
Year ended 31 December 2008					
Opening net book amount	266,945	—	4,095	8,711	279,751
Acquisition of a subsidiary					
— Cost	116,575	8,605	—	4,139	129,319
— Amortization	(96,137)	—	—	(1,325)	(97,462)
Additions	—	—	—	8,554	8,554
Termination					
— Cost	—	—	(6,314)	—	(6,314)
— Amortization	—	—	3,243	—	3,243
Amortization (Note 25)	(7,419)	(143)	(1,024)	(4,386)	(12,972)
Exchange difference	2,537	—	—	473	3,010
Closing net book amount	282,501	8,462	—	16,166	307,129
At 31 December 2008					
Cost	397,569	8,605	—	24,171	430,345
Accumulated amortization	(117,605)	(143)	—	(8,478)	(126,226)
Exchange difference	2,537	—	—	473	3,010
Net book amount	282,501	8,462	—	16,166	307,129
Year ended 31 December 2009					
Opening net book amount	**282,501**	**8,462**	**—**	**16,166**	**307,129**
Additions	**—**	**—**	**—**	**11,824**	**11,824**
Amortization (Note 25)	**(7,637)**	**(215)**	**—**	**(5,942)**	**(13,794)**
Exchange difference	**(555)**	**—**	**—**	**(139)**	**(694)**
Closing net book amount	**274,309**	**8,247**	**—**	**21,909**	**304,465**
At 31 December 2009					
Cost	**397,569**	**8,605**	**—**	**35,995**	**442,169**
Accumulated amortization	**(125,242)**	**(358)**	**—**	**(14,420)**	**(140,020)**
Exchange difference	**1,982**	**—**	**—**	**334**	**2,316**
Net book amount	**274,309**	**8,247**	**—**	**21,909**	**304,465**

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

8 INTANGIBLE ASSETS — GROUP (continued)

The KAPPA trademarks represent the perpetual rights of the use of KAPPA trademarks in Mainland of the PRC, Macau and Japan. The KAPPA trademarks for Mainland of the PRC and Macau were purchased by the Group from a third party in 2006 at a consideration of USD35,000,000 (equivalent to approximately RMB280,994,000). The KAPPA trademarks for Japan were obtained in the acquisition of Phenix in April 2008 (Note 1). The KAPPA trademarks are subject to amortization on a straight-line basis over an estimated useful life of 40 years.

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

9 INVESTMENTS IN SUBSIDIARIES — COMPANY

	As at 31 December	
	2009	2008
Investments in subsidiaries		
Unlisted investments, at cost	**10,076,280**	10,076,280
Contribution related to the Pre-IPO Share Option Scheme (Note 19)	**27,115**	27,115
	10,103,395	10,103,395
Amounts due from subsidiaries		
Loans to subsidiaries		
— non-current portion	**1,070,884**	1,072,486
Loans to subsidiaries		
— current portion	**20,922**	16,555
Dividends receivable	**200,000**	430,000
	220,922	446,555
Amounts due to subsidiaries		
Loans from subsidiaries	**7,101**	299,312
Others	**5,862**	—
	12,963	299,312

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

(All amounts in Renminbi thousands unless otherwise stated)

9 INVESTMENTS IN SUBSIDIARIES — COMPANY (continued)

The following is a list of the principal subsidiaries of the Company as at 31 December 2009, all of which are limited liability companies:

Company name	Place of incorporation	Particulars of issued/ registered capital	Interest held	Principal activities and place of operation
Directly held:				
Hong Kong Dongxiang Sports Development Holdings Limited	Hong Kong	10,000 ordinary shares of HKD1 each	100%	Investment holding, Hong Kong
Dongxiang (Netherlands) Co.	Netherlands	EUR755,738	100%*	Investment holding, Netherlands
Indirectly held:				
Achilles Sports Pte. Ltd.	Singapore	100,000 ordinary shares of USD1 each	100%	Owns trademark, Singapore
Gaea Sports Limited	Hong Kong	1 ordinary share of HKD1	100%	Investment holding, Hong Kong
北京動向體育發展有限公司 Beijing Dongxiang Sports Development Co., Limited	Beijing, PRC	RMB10,000,000	100%	Design and sales of sport-related footwear, apparel and accessories, PRC
上海卡帕體育用品有限公司 Shanghai Kappa Sporting Goods Co., Limited	Shanghai, PRC	RMB20,000,000	100%	Design and sales of sport-related footwear, apparel and accessories, PRC
上海泰坦體育用品有限公司 Shanghai Taitan Sporting Goods Co., Limited	Shanghai, PRC	RMB3,000,000	100%	Design, production and sales of sport-related footwear, apparel and accessories, PRC
上海雷德體育用品有限公司 Shanghai Leide Sporting Goods Co., Limited	Shanghai, PRC	RMB158,000,000	100%	Design and consulting services, PRC

* The Company directly holds 90% equity interest in Dongxiang (Netherlands) Co., and Hong Kong Dongxiang Sports Development Holdings Limited holds the remaining 10% equity interest.

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(All amounts in Renminbi thousands unless otherwise stated)

9 INVESTMENTS IN SUBSIDIARIES — COMPANY (continued)

Company name	Place of incorporation	Particulars of issued/ registered capital	Interest held	Principal activities and place of operation
Indirectly held (continued):				
西亞體育用品商貿(蘇州)有限公司 Thea Sporting Goods Trading (Suzhou) Co. Ltd.	Suzhou, PRC	USD80,000,000	100%	Design and sales of sport-related footwear, apparel and accessories, and consulting services, PRC
赫拉體育用品商貿(上海)有限公司 Hera Sporting Goods Trading (Shanghai) Co. Ltd.	Shanghai, PRC	USD40,000,000	100%	Sales of sport-related footwear, apparel and accessories, PRC
考伊斯體育用品商貿(上海)有限公司 Coeus Sporting Goods Trading (Shanghai) Co. Ltd.	Shanghai, PRC	USD50,000,000	100%	Sales of sport-related footwear, apparel and accessories, PRC
上海嘉班納體育用品有限公司 Shanghai Gabbana Sporting Goods Co. Ltd.	Shanghai, PRC	RMB120,000,000	100%	Design and consulting services, PRC
上海杜爾斯體育用品有限公司 Shanghai Tours Sporting Goods Co. Ltd.	Shanghai, PRC	RMB80,000,000	100%	Design and consulting services, PRC
Hebe Fashions Pte. Ltd	Singapore	Singapore Dollar 1	100%	Investment holding, Singapore
Cronus Sports Pte. Ltd	Singapore	Singapore Dollar 1	100%	Investment holding, Singapore
Phenix Co., Ltd.	Japan	JPY495,000,000	91%	Brand development, design and sales of sport-related apparel, Japan

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(All amounts in Renminbi thousands unless otherwise stated)

10 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES — GROUP

	As at 31 December	
	2009	2008
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
Total assets	**24,903**	33,565
Total liabilities	**(5,461)**	(7,639)

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

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

The particulars of the Group's jointly controlled entities as at 31 December 2009 are set out below:

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

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(All amounts in Renminbi thousands unless otherwise stated)

11 INVESTMENTS IN ASSOCIATED COMPANIES — GROUP

	As at 31 December	
	2009	2008
Investments in associated companies		
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**	—
Financial liabilities at fair value through profit or loss	**(1,292)**	—

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 (Note 36). The six joint venture companies are engaged in the distribution and retailing of sport related products in Beijing and nearby area, Shandong, Shaanxi, Ningxia, Hangzhou, Shanxi, Shenyang, Tianjin and Nanjing. The considerations totalling 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
Total assets	**249,361**	—
Total liabilities	**(90,522)**	—

(All amounts in Renminbi thousands unless otherwise stated)

11 INVESTMENTS IN ASSOCIATED COMPANIES — GROUP (continued)

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

The particulars of the Group's associated companies as at 31 December 2009 are set out below:

Company name	Place of incorporation	Particulars of issued/registered capital	Interest held	Principal activities
Indirectly held:				
上海熙沐雅體育用品有限公司 *Shanghai Ximuya Sporting Goods Co., Ltd.	PRC	RMB7,150,000	30%	Distribution and retailing of sport-related apparel, footwear and accessories
上海鵬賽服飾有限公司 *Shanghai Pengsai Apparel Co., Ltd.	PRC	RMB7,150,000	30%	Distribution and retailing of sport-related apparel, footwear and accessories
上海超銳服飾有限公司 *Shanghai Chaorui Apparel Co., Ltd.	PRC	RMB20,000,000	30%	Distribution and retailing of sport-related apparel, footwear and accessories
上海欣越家赫服飾有限公司 *Shanghai Xinyuejiahe Apparel Co., Ltd.	PRC	RMB7,150,000	30%	Distribution and retailing of sport-related apparel, footwear and accessories
上海標欣貿易有限公司 *Shanghai Biaoxin Trading Co., Ltd.	PRC	RMB7,150,000	30%	Distribution and retailing of sport-related apparel, footwear and accessories
上海億博韜厲經貿有限公司 *Shanghai Yibotaoli Trading Co., Ltd.	PRC	RMB28,580,000	30%	Distribution and retailing of sport-related apparel, footwear and accessories

* The names of the associated companies represent management's translation of the Chinese names of those companies as no English names have been registered.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

12 DEFERRED INCOME TAX — GROUP

	As at 31 December	
	2009	2008
Deferred tax assets		
— To be recovered after more than 12 months	**—**	106
— To be recovered within 12 months	**16,849**	3,441
	16,849	3,547
Deferred tax liabilities		
— To be recovered after more than 12 months	**(3,995)**	(4,104)
— To be recovered within 12 months	**(73)**	(73)
	(4,068)	(4,177)

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

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

Deferred tax assets:

	Provision for impairment of trade receivables	Provision for impairment of inventories	Provision for sales rebate	Other accrued expenses	Total
At 1 January 2008	—	2,840	—	468	3,308
Recognized in the income statement (Note 29)	106	(1,743)	2,344	(468)	239
At 31 December 2008	106	1,097	2,344	—	3,547
Recognized in the income statement (Note 29)	(106)	309	5,351	7,748	13,302
At 31 December 2009	—	1,406	7,695	7,748	16,849

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12 DEFERRED INCOME TAX — GROUP (continued)

Deferred tax liabilities:

	Fair value gains	Depreciation of property, plant and equipment	Total
At 1 January 2008	—	—	—
Recognised in relation to fair value on acquisition of a subsidiary	(3,939)	(766)	(4,705)
Recognised in the income statement (Note 29)	713	(185)	528
At 31 December 2008	(3,226)	(951)	(4,177)
Recognised in the income statement (Note 29)	74	35	109
At 31 December 2009	(3,152)	(916)	(4,068)

As at 31 December 2009, deferred income tax assets of RMB88,320,000 (2008: RMB82,890,000) have not been recognised in respect of the tax losses amounting to RMB308,749,000 (2008: RMB281,170,000) which can be carried forward against future taxable income. The tax losses were mainly resulted from accumulated operating losses of Phenix before the acquisition by the Group.

Deferred income tax liabilities of RMB109,362,000 (2008: RMB48,026,000) have not been recognised for the withholding tax that would be payable on the unremitted earnings, totaling RMB2,187,231,000 (2008: RMB960,524,000) as at 31 December 2009, of certain subsidiaries in the PRC. The Group determined that no deferred withholding tax liabilities shall be recognised in respect of these profits of the PRC subsidiaries since the Group has no plan to distribute such profits in the foreseeable future.

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13 INVENTORIES — GROUP

	As at 31 December	
	2009	2008
Finished goods		
— Carried at cost	**172,927**	182,277
— Carried at net realizable value	**30,067**	34,726
Raw materials and others		
— Carried at cost	**16,562**	14,210
— Carried at net realizable value	**3,725**	953
	223,281	232,166

The cost of inventories recognized as cost of goods sold and distribution costs amounted to approximately RMB1,529,131,000 (2008: RMB1,347,504,000) (Note 25), for the year ended 31 December 2009.

The Group derived a gain from reversal of impairment losses of inventories of approximately RMB2,227,000 (2008: RMB28,762,000) (Note 25) for the year ended 31 December 2009. The amount has been included in administrative expenses in the consolidated income statement.

14 TRADE RECEIVABLES — GROUP AND COMPANY

	Group As at 31 December		Company As at 31 December	
	2009	2008	**2009**	2008
Trade receivables				
— Third parties	**313,757**	366,789	**—**	—
— Related parties (Note 36(b))	**76,550**	24,742	**—**	989
	390,307	391,531	**—**	989
Less: provision for impairment	**(15,722)**	(23,651)	**—**	—
Trade receivables, net	**374,585**	367,880	**—**	989

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14 TRADE RECEIVABLES — GROUP AND COMPANY (continued)

The Group's sales are mainly made on credit terms ranging from 30 to 60 days. The ageing analysis of trade receivables as at 31 December 2009 and 2008 were as follows:

	Group As at 31 December		Company As at 31 December	
	2009	2008	**2009**	2008
Current	**284,554**	320,988	**—**	989
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	**—**	989

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. The movements of provision for impairment of trade receivables are as follows:

	Year end 31 December	
	2009	2008
At 1 January	**23,651**	544
Acquisition of a subsidiary	**—**	10,581
(Reversal of)/provision for impairment losses of receivables	**(6,973)**	9,972
Written off during the year as uncollectible	**(770)**	—
Exchange difference	**(186)**	2,554
At 31 December	**15,722**	23,651

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15 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES — GROUP AND COMPANY

	Group As at 31 December		Company As at 31 December	
	2009	2008	**2009**	2008
Current portion:				
Advance payments to suppliers	**12,176**	13,112	**—**	—
Prepaid advertising expense	**4,418**	4,992	**—**	—
Interest receivables	**39,990**	18,528	**10,821**	10,370
Deposits for operating leases	**7,794**	15,872	**—**	—
Rental receivables				
— Third parties	**8,537**	15,643	**—**	—
— Related parties (Note 36(b))	**6,358**	1,395	**—**	—
Other receivables	**16,955**	17,194	**4,940**	5,984
	96,228	86,736	**15,761**	16,354
Non-current portion:				
Deposits for operating leases	**35,001**	23,638	**—**	—

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

16 FINANCIAL INSTRUMENTS BY CATEGORY — GROUP AND COMPANY

(a) Group

	Held-to-maturity	Loans and receivables	Total
Assets as per balance sheet			
31 December 2009			
Held-to-maturity financial assets (Note)	**401,964**	**—**	**401,964**
Trade and other receivables excluding prepayments (Note 14, 15)	**—**	**489,220**	**489,220**
Cash and bank balances including long term bank deposits (Note 17)	**—**	**6,127,388**	**6,127,388**
	401,964	**6,616,608**	**7,018,572**
31 December 2008			
Trade and other receivables excluding prepayments (Note 14, 15)	—	460,150	460,150
Cash and bank balances including long term bank deposits (Note 17)	—	6,063,701	6,063,701
	—	6,523,851	6,523,851

(All amounts in Renminbi thousands unless otherwise stated)

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

(a) Group (continued)

Note:

The held-to-maturity financial assets as at 31 December 2009 of RMB401,964,000 represented the investments in registered treasury bonds issued by the Ministry of Finance of the PRC. The treasury bonds are interest bearing at a fixed rate of 2.6% per annum, denominated in RMB and with a maturity of one year, neither endorsable nor transferrable. The carrying amounts approximated their fair values as at the balance sheet dates.

	Financial liabilities at fair value through profit or loss	Other financial liabilities at amortised cost	Total
Liabilities as per balance sheet			
31 December 2009			
Financial liabilities at fair value through profit or loss (Note 11)	**1,292**	**—**	**1,292**
Trade and other payables excluding advance receipts, salary and welfare payable and taxes payable (Note 21, 22)	**—**	**384,876**	**384,876**
	1,292	**384,876**	**386,168**
31 December 2008			
Trade and other payables excluding advance receipts, salary and welfare payable and taxes payable (Note 21, 22)	—	361,577	361,577

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

(b) Company

	Loans and receivables As at 31 December	
	2009	2008
Assets		
Amounts due from subsidiaries (Note 9)	**1,291,806**	1,519,041
Trade and other receivables (Note 14, 15)	**15,761**	17,343
Cash and bank balances including long term bank deposits (Note 17)	**2,571,660**	3,425,419
	3,879,227	4,961,803

	Other financial liabilities at amortised cost As at 31 December	
	2009	2008
Liabilities		
Amounts due to subsidiaries (Note 9)	**12,963**	299,312
Accruals and other payables (Note 22)	**960**	6,181
	13,923	305,493

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17 CASH AND BANK BALANCES — GROUP AND COMPANY

	Group As at 31 December		Company As at 31 December	
	2009	2008	**2009**	2008
Cash and bank balances				
Restricted bank deposits (Note (a))	**48,448**	121,653	**2,731**	—
Term deposits with initial terms over three months and within one year	**4,455,579**	—	**2,544,277**	—
Cash and cash equivalents	**1,473,361**	5,942,048	**24,652**	3,425,419
	5,928,940	5,942,048	**2,568,929**	3,425,419
	5,977,388	6,063,701	**2,571,660**	3,425,419
Long term bank deposits				
Term deposits with initial terms over one year	**150,000**	—	**—**	—

Notes:

(a) The restricted bank deposits as at 31 December 2009 comprised deposits held in bank accounts as guarantee deposits for advertising fees payable and for issue of letters of credit for certain subsidiaries of the Group. The restricted bank deposits as at 31 December 2008 also included approximately RMB50,559,000 deposits restricted for capital injection into a subsidiary to be set up. The restriction on the deposits was released in June 2009 when the subsidiary was set up. As at 31 December 2009, the average interest rate on the restricted bank deposits was 0.70% (2008: 1.20%) per annum.

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

(c) As at 31 December 2009 and 2008, cash and cash equivalents, term deposits with initial terms over three months, restricted bank deposits and long term bank deposits were denominated in the following currencies:

	Group As at 31 December		Company As at 31 December	
	2009	2008	**2009**	2008
RMB	**2,966,413**	2,217,788	**—**	—
USD	**1,809,934**	947,041	**1,624,414**	938,146
HKD	**1,282,525**	2,823,542	**947,246**	2,487,273
JPY	**67,964**	75,223	**—**	—
Other	**552**	107	**—**	—
	6,127,388	6,063,701	**2,571,660**	3,425,419

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

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18 SHARE CAPITAL AND SHARE PREMIUM ACCOUNT — GROUP AND COMPANY

	Authorized capital	
	Number of ordinary shares of par value HKD0.01	Nominal value of ordinary shares HKD'000
At 31 December 2009 and 2008	10,000,000,000	100,000

	Issued capital				
	Number of issued ordinary shares of par value HKD0.01	Nominal value of issued ordinary shares HKD'000	Equivalent nominal value of issued ordinary shares in RMB RMB'000	Share premium account RMB'000	Total RMB'000
At 1 January 2008	5,677,150,000	56,772	54,904	5,000,710	5,055,614
Exercise of pre-IPO share options (Note 19)	1,300,000	13	11	5,136	5,147
Share repurchased and cancelled (Note (a))	(12,649,000)	(126)	(110)	(33,827)	(33,937)
Dividends paid	—	—	—	(61,881)	(61,881)
At 31 December 2008	5,665,801,000	56,659	54,805	4,910,138	4,964,943
Represented by:					
Share capital and premium			54,805	4,380,386	4,435,191
Proposed final dividend and final special dividend (Note 32)			—	529,752	529,752
			54,805	4,910,138	4,964,943
At 1 January 2009	**5,665,801,000**	**56,659**	**54,805**	**4,910,138**	**4,964,943**
Exercise of pre-IPO share options (Note 19)	**600,000**	**6**	**5**	**2,367**	**2,372**
Dividends paid (Note 32)	**—**	**—**	**—**	**(818,166)**	**(818,166)**
At 31 December 2009	**5,666,401,000**	**56,665**	**54,810**	**4,094,339**	**4,149,149**
Represented by:					
Share capital and premium			**54,810**	**3,360,540**	**3,415,350**
Proposed final dividend and final special dividend (Note 32)			**—**	**733,799**	**733,799**
			54,810	**4,094,339**	**4,149,149**

Notes:

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

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

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19 SHARE OPTION SCHEMES

(a) Pre-IPO Share Option Scheme

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

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

The movements in the number of outstanding Pre-IPO share options during the year ended 31 December 2009 are as follows:

	Average exercise price per share HKD	Granted to: Non-executive directors	Granted to: Employees	Total
At 1 January 2008	2.786	600,000	18,100,000	18,700,000
Exercise of share options	2.786	—	(1,300,000)	(1,300,000)
Cancellation		—	(16,800,000)	(16,800,000)
Outstanding options at 31 December 2008		600,000	—	600,000
At 1 January 2009				
Exercise of share options	**2.786**	**(600,000)**	**—**	**(600,000)**
As at 31 December 2009		**—**	**—**	**—**

During the year ended 31 December 2009, options to acquire 600,000 (2008: 1,300,000) shares of the Company were exercised at the exercise price of HKD2.786 (2008: HKD2.786) each. During the year ended 31 December 2008, options granted to employees to acquire 16,800,000 shares of the Company were surrendered by grantees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

19 SHARE OPTION SCHEMES (continued)

(b) Share Option Scheme

The Company adopted a share option scheme (the "Share Option Scheme") on 12 September 2007, the purpose of which is to provide an incentive to employees of and persons contributing to the Group.

The Share Option Scheme shall be valid and effective for 10 years from the date of listing of the Company on 10 October 2007, after which no further option may be granted but the provisions of the Share Option Scheme shall remain in full force and effect in all other respects. The maximum number of shares that may be granted under the Share Option Scheme and other share option schemes of the Group (if any) shall not exceed 10% of the number of issued shares of the Company from time to time.

No share options have been granted under the Share Option Scheme during the year ended 31 December 2009 and up to the date of approval of these financial statements.

20 RESERVES — GROUP AND COMPANY

	Group					
	Capital reserves	Share based compensation reserve	Statutory reserves	Exchange reserve	Retained earnings	Total
At 1 January 2008	269,833	14,279	15,892	(106,196)	652,409	846,217
Share-based compensation (Note (a))	—	13,735	—	—	—	13,735
Exercise of pre-IPO share options (Note 19)	—	(1,947)	—	—	—	(1,947)
Cancellation of pre-IPO share options (Note 19)	25,168	(25,168)	—	—	—	—
Foreign currency translation reserve (Note (b))	—	—	—	(267,905)	—	(267,905)
Appropriation of statutory reserves (Note (c))	—	—	34	—	(34)	—
Profit for the year	—	—	—	—	1,367,722	1,367,722
Dividends paid (Note 32)	—	—	—	—	(203,402)	(203,402)
At 31 December 2008	295,001	899	15,926	(374,101)	1,816,695	1,754,420
At 1 January 2009	**295,001**	**899**	**15,926**	**(374,101)**	**1,816,695**	**1,754,420**
Exercise of pre-IPO share options (Note 19)	**—**	**(899)**	**—**	**—**	**—**	**(899)**
Foreign currency translation reserve (Note (b))	**—**	**—**	**—**	**(8,310)**	**—**	**(8,310)**
Appropriation of statutory reserves (Note (c))	**—**	**—**	**32**	**—**	**(32)**	**—**
Profit for the year	**—**	**—**	**—**	**—**	**1,459,844**	**1,459,844**
At 31 December 2009	**295,001**	**—**	**15,958**	**(382,411)**	**3,276,507**	**3,205,055**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

20 RESERVES — GROUP AND COMPANY (continued)

	Company				
	Capital reserves	Share- based compensation reserve	Exchange reserve	Retained earnings	Total
At 1 January 2008	10,027,204	14,279	(106,196)	39,545	9,974,832
Share-based compensation (Note (a))	—	13,735	—	—	13,735
Exercise of pre-IPO share options (Note 19)	—	(1,947)	—	—	(1,947)
Cancellation of pre-IPO share options (Note 19)	25,168	(25,168)	—	—	—
Foreign currency translation reserve (Note (b))	—	—	(305,980)	—	(305,980)
Profit for the year (Note 30)	—	—	—	317,524	317,524
Dividends paid	—	—	—	(203,402)	(203,402)
At 31 December 2008	10,052,372	899	(412,176)	153,667	9,794,762
At 1 January 2009	**10,052,372**	**899**	**(412,176)**	**153,667**	**9,794,762**
Exercise of pre-IPO share options (Note 19)	**—**	**(899)**	**—**	**—**	**(899)**
Foreign currency translation reserve (Note (b))	**—**	**—**	**(3,596)**	**—**	**(3,596)**
Profit for the year (Note 30)	**—**	**—**	**—**	**29,283**	**29,283**
At 31 December 2009	**10,052,372**	**—**	**(415,772)**	**182,950**	**9,819,550**

Notes:

(a) Share-based compensation reserve represents the value of employee services in respect of share options granted under the Pre-IPO Share Option Scheme, the details of which are set out in note 19.

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

(c) The Company's subsidiaries incorporated in the PRC are required to make appropriations to statutory reserves from their profit for the year after offsetting accumulated losses carried forward from prior years as determined under the PRC accounting regulations and before distribution to equity holders. The percentages to be appropriated to such statutory reserve are determined according to the relevant regulations in the PRC at rate of 10%, and further appropriation is optional when the accumulated fund is 50% or more of the registered capital of the subsidiaries.

21 TRADE PAYABLES — GROUP

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

	As at 31 December	
	2009	2008
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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

22 ACCRUALS AND OTHER PAYABLES — GROUP AND COMPANY

	Group As at 31 December		Company As at 31 December	
	2009	2008	**2009**	2008
Advance receipts from customers	**10,817**	52,265	**—**	—
Salary and welfare payable	**50,889**	58,513	**—**	—
Advertising fees payable	**22,902**	16,198	**—**	—
Other taxes and levies payable	**11,787**	10,640	**—**	—
Accruals and other payables	**49,710**	53,311	**960**	6,181
	146,105	190,927	**960**	6,181

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

23 PROVISIONS — GROUP

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

	As at 31 December	
	2009	2008
At 1 January	**49,364**	—
Acquisition of a subsidiary	**—**	11,720
Utilization	**(37,243)**	(20,768)
Provision	**25,440**	58,412
At 31 December	**37,561**	49,364

24 OTHER GAINS, NET

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

25 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
Cost of inventories recognized as cost of goods sold and distribution costs (Note 13)	**1,529,131**	1,347,504
Depreciation of property, plant and equipment (Note 6)	**12,901**	9,796
Loss on disposal of property, plant and equipment	**3,966**	2,056
Amortisation of lease prepayments (Note 7)	**285**	285
Amortisation of intangible assets (Note 8)	**13,794**	12,972
Advertising and marketing expenses	**295,597**	257,073
Employee salary and benefit expenses (Note 26)	**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 (Note 13)	**(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 (Note 6)	**(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

26 EMPLOYEE SALARY AND BENEFIT EXPENSES

	Year ended 31 December	
	2009	2008
Wages and salaries	**130,214**	117,482
Pension costs (Note (a))	**15,379**	10,107
Staff quarters and housing benefits	**2,689**	2,519
Share-based compensation expenses in relation to pre-IPO share options (Note 19)	**—**	13,735
Performance Units Plan (Note (b))	**6,054**	—
Other benefits	**26,350**	17,690
	180,686	161,533

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

26 EMPLOYEE SALARY AND BENEFIT EXPENSES (continued)

Notes:

(a) Pensions — defined contribution plans

The employees of the subsidiaries of the Group in PRC, Hong Kong and Japan participate in defined contribution retirement benefit plans organized by the relevant local governments. The Group is required to make monthly defined contributions to these plans at rates ranging from 20% to 22% (2008: 20% to 22%) in the PRC and 7.9% (2008:7.7%) in Japan of the employees' basic salaries for the year, depending upon the applicable local regulations.

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

(b) Performance Units Plan

During the year ended 31 December 2009, the Group implemented a cash-settled performance based employee benefit plan (the "Performance Unit Plan") for the middle to senior management of the Group. Under the Performance Unit Plan, the eligible employees are granted performance units, each of which represents an entitlement to receive cash payments when the Group's performance outperforms a pre-set benchmark in a period of 3 years starting from 1 January 2009, at a cap of RMB2 per unit.

A total of 15,999,000 performance units were granted during the year ended 31 December 2009, and a total of 14,030,000 performance units were active as at 31 December 2009. Management has determined the fair value of the performance units granted during the period using a valuation model, based on which, approximately RMB6,054,000 was charged as employee benefit expenses to the consolidated income statement for the year ended 31 December 2009.

(c) Directors' and senior management's emoluments

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

Name of Director	Fees	Salary	Discretionary bonuses	Other benefits*	Employer's contributions to pension schemes	Total
Year ended 31 December 2009						
Mr. Chen Yihong	**155**	**1,785**	**410**	**30**	**26**	**2,406**
Mr. Qin Dazhong	**155**	**1,473**	**286**	**418**	**26**	**2,358**
Mr. Mak Kin Kwong	**176**	**—**	**—**	**—**	**—**	**176**
Mr. Xiang Bing	**176**	**—**	**—**	**—**	**—**	**176**
Mr. Xu Yudi	**176**	**—**	**—**	**—**	**—**	**176**
	838	**3,258**	**696**	**448**	**52**	**5,292**
Year ended 31 December 2008						
Mr. Chen Yihong	145	1,914	650	18	33	2,760
Mr. Qin Dazhong	145	1,422	1,200	18	33	2,818
Mr. Mak Kin Kwong	145	—	—	147	—	292
Mr. Xiang Bing	145	—	—	147	—	292
Mr. Xu Yudi	145	—	—	147	—	292
	725	3,336	1,850	477	66	6,454

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in Renminbi thousands unless otherwise stated)

26 EMPLOYEE SALARY AND BENEFIT EXPENSES (continued)

Notes: (continued)

(d) Five highest paid individuals

Two (2008: nil) of the directors of the Company is included in the five individuals whose emoluments were the highest in the Group for the year ended 31 December 2009. The emoluments paid/payable to the remaining three (2008: five) individuals during the year were as follows:

	2009	2008
Basic salaries, bonus, share options, Performance Unit Plan and other allowances and benefits in kind	**8,394**	22,567
Pension costs	**78**	131
	8,472	22,698

The emoluments fell within the following bands:

	Number of individuals	
	2009	2008
Emolument bands:		
RMB1,762,370 to RMB2,643,555 (HKD2,000,001 to HKD3,000,000)	**2**	—
RMB2,643,556 to RMB3,524,740 (HKD3,000,001 to HKD4,000,000)	**—**	2
RMB3,524,741 to RMB4,405,925 (HKD4,000,001 to HKD5,000,000)	**1**	1
RMB4,405,926 to RMB5,287,110 (HKD5,000,001 to HKD6,000,000)	**—**	1
RMB7,049,481 to RMB7,930,665 (HKD8,000,001 to HKD9,000,000)	**—**	1
	3	5

27 NEGATIVE GOODWILL ON ACQUISITION OF A SUBSIDIARY

In April 2008, the Company acquired 91% equity interest in Phenix from a third party and received an assignment of an outstanding balance of a loan of JPY5,937,000,000 (equivalent to approximately RMB399,139,000) previously provided by the seller to Phenix, for a cash consideration of JPY1, and the subscription of new shares of Phenix amounting to JPY499,799,993 (equivalent to approximately RMB33,601,000). A negative goodwill amounting to RMB145,950,000 was derived and charged to the consolidated income statement for the year ended 31 December 2008.

28 FINANCE INCOME, NET

	Year ended 31 December	
	2009	2008
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in Renminbi thousands unless otherwise stated)

29 INCOME TAX EXPENSE

	Year ended 31 December	
	2009	2008
Current income tax		
— PRC enterprise income tax ("EIT")	**348,453**	248,411
— Taxation in Japan	**1,371**	699
Deferred income tax (Note 12)	**(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.

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

29 INCOME TAX EXPENSE (continued)

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

	Year ended 31 December	
	2009	2008
Profit before income tax	**1,796,257**	1,616,065
Tax calculated at the statutory tax rate of 25% (2008: 25%)	**449,064**	404,016
Preferential tax rates on the profits of certain subsidiaries	**(111,193)**	(145,736)
Income not subject to tax	**(10,128)**	(29,619)
Associated companies' results reported net of tax	**2,655**	—
Expenses not deductible for tax purpose	**3,141**	10,370
Others	**2,874**	9,312
Income tax expense	**336,413**	248,343

The effective applicable tax rate applicable to the Group was 18.7% (2008: 15.4%).

30 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company for the year ended 31 December 2009 is dealt with in the financial statements of the Company to the extent of approximately RMB29,283,000 (2008: RMB317,524,000)(Note 20).

31 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.

	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

31 EARNINGS PER SHARE (continued)

(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.

	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

32 DIVIDENDS

	2009	2008
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 dividends of RMB529,752,000 (2008: 2007 final dividends of RMB61,881,000) and 2009 interim dividends of RMB288,414,000 (2008: 2008 interim dividends of 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, for the year ended 31 December 2009 from the Company's share premium account, respectively. The dividends 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

33 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS

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

	Year ended 31 December	
	2009	2008
Profit before income tax for the year	**1,796,257**	1,616,065
Adjustments for:		
— Depreciation of property, plant and equipment (Note 6)	**12,901**	9,796
— Loss on disposal of property, plant and equipment	**3,966**	2,056
— Reversal of impairment losses of property, plant and equipment (Note 6)	**(64)**	(200)
— Amortization of lease prepayments (Note 7)	**62,275**	48,711
— Amortization of intangible assets (Note 8)	**13,794**	12,972
— Gain on termination of Rukka license right (Note 24)	**—**	(721)
— Reversal of impairment losses of inventories (Note 13)	**(2,227)**	(28,762)
— (Reversal of)/Provision for impairment losses of trade and other receivables	**(6,973)**	9,972
— Gains on financial assets and liabilities	**(1,540)**	(3,398)
— Share of results of jointly controlled entities and associated companies	**10,623**	1,412
— Loss from disposal of interests in a jointly controlled entity	**1,239**	—
— Negative goodwill on an acquisition of a subsidiary	**—**	(145,950)
— Interest income (Note 28)	**(107,269)**	(137,802)
— Interest expenses	**—**	246
— Share-based compensation (Note 19)	**—**	13,735
— Foreign exchange gains, net (Note 28)	**(785)**	(3,944)
	1,782,197	1,394,188
Changes in working capital:		
— Inventories	**11,112**	(21,602)
— Trade receivables, prepayments, deposits and other Receivables	**(48,852)**	(209,100)
— Trade payables, accruals and other payables	**(37,643)**	(65,998)
— Restricted bank balances	**22,646**	(41,573)
— License fees payable	**—**	(7,463)
Cash generated from operations	**1,729,460**	1,048,452

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

	Year ended 31 December	
	2009	2008
Net book amount (Note 6)	**4,853**	2,056
Loss on disposal of property, plant and equipment	**(3,966)**	(2,056)
Proceeds from disposal of property, plant and equipment	**887**	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

34 CONTINGENCIES

The Group and the Company had no significant contingent liabilities as at 31 December 2009 and 2008.

35 COMMITMENTS

The Group had the following commitments as at 31 December 2009:

(a) Capital commitments

Capital commitments outstanding as at 31 December 2009 contracted but not provided for in the financial statements were as follows:

	As at 31 December	
	2009	2008
Investments in associated companies (Note 11)	—	132,710

(b) Operating lease commitments — Group as lessee

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

	As at 31 December	
	2009	2008
No later than 1 year	**80,471**	91,072
Later than 1 year and no later than 5 years	**61,709**	116,999
Over 5 years	—	1,940
	142,180	210,011

(c) Operating lease commitments — Group as lessor

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

	As at 31 December	
	2009	2008
No later than 1 year	**5,750**	34,116
Later than 1 year and no later than 5 years	**5,979**	11,729
	11,729	45,845

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in Renminbi thousands unless otherwise stated)

35 COMMITMENTS (continued)

(d) Other commitments

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

	As at 31 December	
	2009	2008
No later than 1 year	**15,058**	25,471
Later than 1 year and no later than 5 years	**6,040**	8,765
	21,098	34,236

The Company did not have commitments as at 31 December 2009 and 2008.

36 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control. The ultimate controlling party of the Group is Mr. Chen Yihong, the Chairman and Executive director of the Company.

During the years ended and as at 31 December 2009 and 2008, the Group had the following transactions and balances with related parties:

(a) Transactions with related parties

	Year ended 31 December	
	2009	2008
Sales of goods:		
— Beijing Dong Gan Jing Ji Company Limited ("Dong Gan Jing Ji")	**336,707**	304,626
— Associated companies of the Group	**692,055**	—
	1,028,762	304,626
Purchase of goods:		
— Jointly controlled entities of the Group	**31,593**	28,356
Lease income of flagship stores		
— Dong Gan Jing Ji	**6,664**	4,640
— Associated companies of the Group	**10,058**	—
	16,722	4,640

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

36 RELATED PARTY TRANSACTIONS (continued)

(b) Balances with related parties

	As at 31 December	
	2009	2008
Trade receivables (Note 14):		
— Dong Gan Jing Ji	**—**	24,742
— Associated companies of the Group	**76,550**	—
	76,550	24,742
Other receivables (Note 15):		
— Dong Gan Jing Ji	**676**	1,395
— Associated companies of the Group	**5,682**	—
	6,358	1,395
Trade payables		
— Jointly controlled entities of the Group	**518**	489
Other payables		
— Dong Gan Jing Ji	**—**	300

The above balances with related parties were unsecured, non-interest bearing and without fixed repayment terms.

(c) Key management compensation

	Year ended 31 December	
	2009	2008
Salaries, bonus and other welfares	**12,430**	10,809
Pension — defined contribution plans	**104**	55
	12,534	10,864

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