China Dongxiang (Group) Co., Ltd.

中 國 動 向 （集 團） 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3818)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

Financial Highlights

- Group sales increased by 7.3% to RMB 4,261.6 million
- Gross profit increased by 6.1% to RMB 2,545.7 million
- Profit attributable to the equity holders was RMB 1,463.7 million
- Strong cash and bank position of RMB 5,027.9 million and without bank borrowings
- Recommend a total final dividend of RMB 9.76 cents per share, comprising a final dividend and a final special dividend of RMB 3.59 cents and RMB 6.17 cents per share, respectively. Together with the total interim dividends paid on 20 September 2010, the total dividend payout represents 70% of the Group's profit attributable to the equity holders in 2010.

CHAIRMAN'S STATEMENT

Dear shareholders,

China's sports goods industry is undergoing a transformation. For the past few years, a variety of brands have risen to prominence and the market has grown rapidly. Today, the industry faces a new series of challenges, including intensifying competition and inventory excess. In 2010, both brand operators and retailers in the market faced correlated business pressure. Despite the challenges, we still see a good prospect of rapid growth in the retail market given the ongoing rapid economic development. We believe that China's sports goods industry will continue to grow steadily and significantly. As a major market player, China Dongxiang is ready to make self-adjustment and capitalize on the market expansion. We will apply pertinent approaches to strive for business growth.

In a market fraught with challenges, we still managed to achieve encouraging results. For the 12 months ended 31 December 2010, the Group recorded a turnover of RMB 4,261.6 million, representing a 7.3% year-on-year increase. During the year, the Group's gross profit margin remained at a satisfactory level at 59.7%. Profit attributable to equity holders of the Company amounted to RMB 1,463.7 million, up 0.3% year-on-year. Basic earnings per share were RMB 25.83 cents, up 0.3%. According to our dividend policy, we propose to distribute 30% of profit attributable to equity holders for the year ended 31 December 2010 as dividend. Given the strong cash position, the board of directors of the Company has recommended to distribute an additional 40% of profit attributable to equity holders for the year ended 31 December 2010. As a result, the total dividend payout ratio for the year ended 31 December 2010 will be 70%.

Considering the intensifying competition in the industry, as well as rising operation cost of distributors, we have adopted a more prudent expansion policy in this year. As at 31 December 2010, the number of our Kappa Brand retail stores in China increased by 240 to reach 3,751. The Robe Di Kappa Brand was also launched in the mainland market during the year. A total of 20 Robe Di Kappa Brand retail shops, including a flagship store in Wangfujing, Beijing, were opened. The addition of Robe Di Kappa Brand to our brand portfolio paved way for our product diversification and enhancement. All this reflected the Group's prudent strategy to expand its sales network and boost its sales efficiency with a view to delivering good business results.

To further strengthen the brand image of Kappa, the main brand of our product portfolio, we launched a variety of brand promotional activities, including the brand's first TV commercial aired on CCTV's sports channel CCTV-5. The advertisement featured young and energetic models in fashionable Kappa Brand sportswear and accessories, highlighting the perfect mélange of fashion and sportswear of Kappa Brand products. During the 2010 World Cup, Kappa held a range of promotional campaigns. In addition, it collaborated with Harpers' Bazaar and sponsored a series of sports events. All these have effectively strengthened Kappa Brand's reputation.

Product quality and product innovation form the propelling force for business growth at the Group. We have developed a range of new technologies at our world-class R&D center in Japan. The innovations are set to inject new life to our new products in the future. Our new product lines have been pursued by the market, with no exception for Kappa P-A.C series which was launched in 2010, marked by simple and stylish looks.

The year 2010 marked the third anniversary of the Company after listing on HKEx. We have been making relentless efforts to expand our sales network and build our brands. Amid market changes, we have embarked on a new development path and we look forward to penning a new chapter for our business. One of the important figures leading the Company's change of direction is the appointment of Ms. Sandrine Zerbib as Chief Executive Officer and Executive Director in November 2010. Ms Zerbib has 17 years of experience in the sports industry in the PRC. With her profound industry knowledge and highly analytical mind, she will help the Company grasp growth opportunities and steer the Group to another period of high growth.

With retail sales continuing to grow, crediting to China's persistent economic growth, we believe the compound annual growth rate of the market will stand at a rate in low to mid-teens for the period from 2011 to 2015. In particular, the rate for smaller cities will increase rapidly. With urbanization accelerating and people's consumption power continuing to increase, market demand for sporting goods will move from the low-to-mid range to the mid-to-high end, and there will be a shift of consumers' preference from sports functionality to fashion and personal style.

Having placed ourselves on the pulse of market development, we now have to properly adjust our market strategy. We will leverage our talents and resources from the R&D center in Japan to further improve our merchandise. In 2011, we will refine our sales network, carefully evaluate the geographic coverage of our sales points, and restructure our sales teams. In addition, we will establish strategic cooperative partnerships through our main distributor, GX Retail Group, so as to enhance the service standard and efficiency of our retail stores. We will provide sufficient training and other forms of support to our distributors, as well as exert more influence on the retail end with a goal to boosting operating efficiency and productivity of the retail stores.

In addition to traditional sales channels, the Group will also place great importance on the online sales platform. We have recently made a strategic investment along with SINA Corporation in an e-commerce company Mecox Lane Limited in a move that has widened the scope of our online sales platform. We also plan to work together with Mecox Lane Limited, with an expectation to selling a bigger variety of sports goods with higher value through e-commerce sale. This move illustrates our determination to and strength in developing the online sales business segment.

The sport-and-fashion positioning of Kappa Brand has long been established. In 2011, we will step up efforts to promote this core brand value, strive for continuous growth of the brand in the sportswear market. We will also meticulously widen our product portfolio to capture the changing demand on both sides of the sportswear market spectrum, by continuously combining style and functionality. We plan to launch the Phenix Brand in the PRC in 2011. The move will set our foot in the ski and outdoor apparel market in the PRC.

The Phenix Brand, coupled with our stylish sports brands of Robe Di Kappa, X-nix and Inhabitant, will stand us in good stead promoting the idea of combining functionality with style in the sportswear market.

Inevitably, we will be facing challenges to our Kappa business in the year 2011. Amid the ever-changing business environment, it also brings us more business opportunities to which we shall be able to pursue further growth of the Group in the long term. We believe that our growth dynamics will forge ahead through the operations of e-commerce, multi-brands and brand building integrated with retailing business. We are confident that the new management led by Ms. Zerbib together with our strong financial position will become our new growth engine.

Last but not least, on behalf of the Board, I would like to express wholehearted thanks to all our shareholders and business partners for their constant support. I would also like to thank all employees of the Group. We believe that with our collective efforts, the Company will overcome all challenges along the way, carve out a better future and bring more lucrative returns to our shareholders.

Chen Yihong
Chairman

Hong Kong, 22 March 2011

ANNUAL RESULTS

The board of directors (the "Board") of China Dongxiang (Group) Co., Ltd. (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2010, together with the comparative figures for 2009, as follows:

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2010

		Year ended 31 December	
		2010	2009
	Note	***RMB'000***	*RMB'000*
Sales	*3*	**4,261,605**	3,970,405
Cost of goods sold	*11*	**(1,715,900)**	(1,571,034)
Gross profit		**2,545,705**	2,399,371
Other gains, net	*10*	**226,050**	113,651
Distribution costs	*11*	**(797,400)**	(645,145)
Administrative expenses	*11*	**(232,971)**	(170,620)
Operating profit		**1,741,384**	1,697,257
Finance income, net	*12*	**93,806**	109,623
Share of profits/(losses) of jointly controlled entities and associated companies, net	*5,6*	**2,249**	(10,623)
Profit before income tax		**1,837,439**	1,796,257
Income tax expense	*13*	**(373,479)**	(336,413)
Profit for the year		**1,463,960**	1,459,844
Profit attributable to:			
Equity holders of the Company		**1,463,692**	1,459,844
Non-controlling interests		**268**	—
		1,463,960	1,459,844
Earnings per share for profit attributable to the equity holders of the Company during the year *(expressed in RMB cents per share)*			
— Basic earnings per share	*14*	**25.83**	25.76
— Diluted earnings per share	*14*	**25.82**	25.76
Dividends	*15*	**1,024,485**	1,022,213

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

		Year ended 31 December	
		2010	2009
	Note	***RMB'000***	*RMB'000*
Profit for the year		**1,463,960**	1,459,844
Other comprehensive income:			
Fair value gain on available-for-sale financial assets	7	**4,237**	—
Currency translation differences		**(16,350)**	(8,310)
Other comprehensive income for the year, net of tax		**(12,113)**	(8,310)
Total comprehensive income for the year		**1,451,847**	1,451,534
Attributable to:			
— Equity holders of the Company		**1,451,579**	1,451,534
— Non-controlling interests		**268**	—
		1,451,847	1,451,534

CONSOLIDATED BALANCE SHEET
As at 31 December 2010

		As at 31 December	
		2010	2009
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**132,807**	120,101
Lease prepayments		**25,690**	33,615
Intangible assets	*4*	**302,861**	304,465
Interests in jointly controlled entities	*5*	**19,142**	19,442
Interests in associated companies	*6*	**—**	158,839
Available-for-sale financial assets	*7*	**213,938**	—
Deferred income tax assets		**57,448**	16,849
Prepayments, deposits and other receivables — non-current portion		**45,397**	35,001
Other financial assets — non-current portion		**153,211**	—
Long term bank deposits		**—**	150,000
		950,494	838,312
Current assets			
Inventories		**255,702**	223,281
Trade receivables	*8*	**694,508**	374,585
Prepayments, deposits and other receivables		**94,348**	96,228
Other financial assets		**1,369,286**	401,964
Cash and bank balances		**5,027,870**	5,977,388
		7,441,714	7,073,446
Total assets		**8,392,208**	7,911,758

CONSOLIDATED BALANCE SHEET (continued)

As at 31 December 2010

		As at 31 December	
		2010	2009
	Note	***RMB'000***	*RMB'000*
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		**54,810**	54,810
Share premium account		**2,889,096**	4,094,339
Reserves		**4,571,071**	3,205,055
		7,514,977	7,354,204
Non-controlling interests		**268**	—
Total equity		**7,515,245**	7,354,204
LIABILITIES			
Non-current liabilities			
Financial liabilities at fair value through profit or loss		**—**	1,292
Deferred income tax liabilities		**5,453**	4,068
		5,453	5,360
Current liabilities			
Trade payables	*9*	**368,953**	312,264
Accruals and other payables		**235,626**	146,105
Provisions		**188,526**	37,561
Current income tax liabilities		**78,405**	56,264
		871,510	552,194
Total liabilities		**876,963**	557,554
Total equity and liabilities		**8,392,208**	7,911,758
Net current assets		**6,570,204**	6,521,252
Total assets less current liabilities		**7,520,698**	7,359,564

Notes:

1 GENERAL INFORMATION

China Dongxiang (Group) Co., Ltd. (the "Company") and its subsidiaries (together the "Group") are principally engaged in brand development, design and sales of sport-related apparel, footwear and accessories in Mainland of the People's Republic of China (the "PRC"), Macau and Japan.

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

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

These financial statements are presented in Renminbi ("RMB"), unless otherwise stated.

These financial statements have been approved for issue by the Board of directors on 22 March 2011.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

Changes in accounting policies and disclosure

(a) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010, and relevant to the Group:

- IFRS 3 (revised), 'Business combinations', and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

  The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed. The adoption of IFRS 3 (revised) did not have an impact to the Group's financial statements as there was no acquisitions occurred during the year.

- IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognized in profit or loss. There have been no transactions whereby an interest in an entity is retained after the loss of control of that entity, and there have been no transactions with non-controlling interests.

- IAS 17 (amendment), 'Leases', deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of IAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Prior to the amendment, land interest which title is not expected to pass to the Group by the end of the lease term was classified as operating lease under 'Leasehold land and land use rights', and amortised over the lease term. The Group has re-assessed the classification of unexpired leasehold land and land use rights as at 1 January 2010 and concluded that the adoption of IAS17 (amendment) did not have an impact to the Group's financial statements.

(b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the group (although they may affect the accounting for future transactions and events)

		Effective for accounting periods beginning on or after
IFRIC 17	Distribution of non-cash assets to owners	1 July 2009
IFRIC 18	Transfers of assets from customers	1 July 2009
IFRIC 9	Reassessment of embedded derivatives	1 July 2009
IAS 39	Financial instruments: Recognition and measurement	1 July 2009
IFRIC 16	Hedges of a net investment in a foreign operation	1 July 2009
IAS 1 (amendment)	Presentation of financial statements	1 January 2010
IAS 36 (amendment)	Impairment of assets	1 January 2010
IFRS 5 (amendment)	Non-current assets held for sale and discontinued operations	1 January 2010
IFRS 2 (amendments)	Group cash-settled share-based payment transactions	1 January 2010

3 REVENUE AND SEGMENT INFORMATION

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

Segment information

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

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

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

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

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

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

	China	Japan	Unallocated	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2010				
Total revenue before inter-segment elimination	**3,660,715**	**619,428**	**—**	**4,280,143**
Inter-segment revenue	**(10,833)**	**(7,705)**	**—**	**(18,538)**
Revenue from external customers	**3,649,882**	**611,723**	**—**	**4,261,605**
Cost of goods sold	**(1,372,531)**	**(343,369)**	**—**	**(1,715,900)**
Segment gross profit	**2,277,351**	**268,354**	**—**	**2,545,705**
Segment operating profit	**1,828,642**	**33,879**	**(121,137)**	**1,741,384**
Interest income	**68,545**	**8**	**15,690**	**84,243**
Interest expenses and others, net	**10,866**	**589**	**(1,892)**	**9,563**
Share of profits/(losses) of jointly controlled entities and associated companies, net	**2,652**	**(403)**	**—**	**2,249**
Profit before income tax	**1,910,705**	**34,073**	**(107,339)**	**1,837,439**
Income tax expense	**(372,992)**	**(487)**	**—**	**(373,479)**
Profit for the year	**1,537,713**	**33,586**	**(107,339)**	**1,463,960**
Material items of income and expense				
Depreciation and amortization	**25,915**	**7,435**		**33,350**
Provision for/(reversal of) impairment losses of inventories	**15,306**	**(1,462)**		**13,844**
Provision for impairment losses of trade and other receivables	**96**	**1,771**		**1,867**

	China	Japan	Unallocated	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2009				
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 losses 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 for the year	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)

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

	2010	2009
	RMB'000	*RMB'000*
China		
— Distribution of Kappa Brand products	**3,632,511**	3,394,284
— International business and others	**17,371**	8,831
	3,649,882	3,403,115
Japan		
— Distribution and retail of Kappa Brand products	**218,598**	191,044
— Distribution and retail of Phenix Brand products	**393,055**	375,366
— Distribution and retail of products of other brands	**70**	880
	611,723	567,290
	4,261,605	3,970,405

Revenues of approximately RMB 558,203,000 (2009: RMB 374,071,000) are derived from one single external customer. These revenues are attributable to the China segment.

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

	China *RMB'000*	**Japan** *RMB'000*	**Unallocated** *RMB'000*	**Total** *RMB'000*
As at 31 December 2010				
Total assets before inter-segment elimination	**6,710,176**	**498,857**	**1,313,732**	**8,522,765**
Inter-segment elimination	**(18,437)**	**(25,608)**	**(86,512)**	**(130,557)**
Total assets	**6,691,739**	**473,249**	**1,227,220**	**8,392,208**
Deferred income tax assets	**(57,448)**	**—**	**—**	**(57,448)**
Interests in jointly controlled entities	**—**	**(19,142)**	**—**	**(19,142)**
Available-for-sale financial assets	**(213,938)**	**—**	**—**	**(213,938)**
Segment assets	**6,420,353**	**454,107**	**1,227,220**	**8,101,680**
Total liabilities before inter-segment elimination	**719,434**	**199,409**	**41,142**	**959,985**
Inter-segment elimination	**(25,737)**	**(16,143)**	**(41,142)**	**(83,022)**
Total liabilities	**693,697**	**183,266**	**—**	**876,963**
Deferred income tax liabilities	**(1,412)**	**(4,041)**	**—**	**(5,453)**
Current income tax liabilities	**(76,680)**	**(1,725)**	**—**	**(78,405)**
Segment liabilities	**615,605**	**177,500**	**—**	**793,105**

	China *RMB'000*	Japan *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
As at 31 December 2009				
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)
Interests in jointly controlled entities	—	(19,442)	—	(19,442)
Interests 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 2010, the total non-current assets other than deferred tax assets located in the PRC amounted to RMB 527,095,000 (31 December 2009: RMB 456,587,000) and the total of these non-current assets located in other countries and places amounted to RMB 365,951,000 (31 December 2009: RMB 364,876,000).

During the year ended 31 December 2010, additions to total non-current assets other than deferred tax assets in China and Japan segments amounted to RMB 285,735,000 and RMB 6,390,000 (2009: RMB 380,563,000 and RMB 38,537,000), respectively.

4 INTANGIBLE ASSETS

	KAPPA trademarks	Phenix trademark and others	Computer software	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2009				
Net book amount	274,309	8,247	21,909	304,465
At 31 December 2010				
Net book amount	268,782	8,032	26,047	302,861

5 INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2010	2009
	RMB'000	***RMB'000***
At 1 January	**19,442**	25,926
Disposal of equity interest in a jointly controlled entity	**—**	(5,990)
Share of losses	**(403)**	(3)
Exchange differences	**103**	(491)
At 31 December, share of net assets	**19,142**	19,442

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	
	2010	2009
	RMB'000	*RMB'000*
Total assets	**22,801**	24,903
Total liabilities	**(3,659)**	(5,461)

	Year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
Revenue	**21,412**	20,866
Loss after income tax for the year	**(403)**	(3)

6 INTERESTS IN ASSOCIATED COMPANIES — GROUP

	2010	2009
	RMB'000	*RMB'000*
At 1 January	**158,839**	—
Cost of investment at date of acquisition	**—**	169,459
Dividends received	**(9,873)**	—
Share of profits/(losses)	**2,652**	(10,620)
Deemed disposal of equity interest in associated companies	**(151,618)**	—
At 31 December, share of net assets	**—**	158,839

In January and November 2009, the Group, through one of its wholly owned subsidiary, acquired 30% equity interests in each of six companies set up by the Group's six distributor customers, of which, Han Bo Jia Ye (Beijing) Company Limited ("HBJY") is beneficially owned by the close family members of Mr Chen Yi Hong, the Chairman and controlling shareholder of the Company. The six companies are engaged in the distribution and retail of sport related products in various provinces in the PRC (referred thereafter the "G6"). The cost of investment at date of acquisition of RMB 169,459,000 was determined based on the cash considerations paid by the Group by way of capital contributions to the six companies amounting to RMB 168,591,000, and the estimated additional considerations amounting to RMB 868,000 to be payable in the future if the companies were able to achieve certain pre-determined profit targets. The estimated additional considerations payable of RMB 1,292,000 are recognized as financial liabilities at fair value through profit or loss in the consolidated balance sheet of the Group as at 31 December 2009.

In August 2010, the G6, the equity holders of the G6 (including the Group's wholly owned subsidiary), the Group's another few distributors (collectively the "S&C Distributor") who operate in Sichuan and Chongqing areas (the "Sichuan and Chongqing Companies") signed a re-organization agreement. Pursuant to the re-organization agreement, HBJY would become the holding company that wholly holds the other five companies of the G6 and the Sichuan and Chongqing Companies (collectively referred thereafter the "GX Group"). In addition, the Group and certain equity holders of the GX Group would inject further capital to HBJY. Upon completion of the re-organization and the capital injection, the S&C Distributor becomes the largest shareholder holding 38.5% equity interest in the GX Group, the Group holds 22.05% and the rest of the equity interest are held by the remaining equity holders of the GX Group.

Furthermore, subsequent to the re-organization, the Group has given up the right to assign or be nominated as directors of HBJY and has not held any management position in the GX Group. The directors of the Company are of the view that the Group has ceased to have significant influence over the GX Group, accordingly, the remaining equity interests in the associated companies at the date the significant influence was lost was re-measured to fair value and became the cost for the purpose of the subsequent accounting for the retained interests as available-for-sale financial assets (Note 7). There was no resultant gain or loss recognized in the consolidated income statement.

7 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2010	2009
	RMB'000	*RMB'000*
At 1 January	—	—
Additions, unlisted equity investments:		
— The GX Group	**187,289**	—
— Other investment	**21,000**	—
Change in fair value	**5,649**	—
At 31 December	**213,938**	—

The GX Group available-for-sale financial asset represents the 22.05% equity interest in HBJY which wholly owns the companies engaging in the distribution and retail of sport-related products in various provinces in the PRC. The investments were transferred from interests in associated companies to available-for-sale financial assets during the year. Further details are set out in Note 6 above.

The fair values of available-for-sale financial assets as at each balance sheet date are determined with reference to a valuation model based on estimated discounted cash flows. Changes in the fair value of available-for-sale financial asset are recognised in other comprehensive income, except for impairment losses which will be charged to the income statement, if any.

During the year, the Group also invested RMB 21,000,000 for a 3% equity interest in a company engaging in the distribution of sport related products in Northern China.

None of the available-for-sale financial assets is impaired as at 31 December 2010.

8 TRADE RECEIVABLES

	2010	2009
	RMB'000	*RMB'000*
Trade receivables		
— Third parties	**524,461**	313,757
— Related parties	**188,816**	76,550
	713,277	390,307
Less: provision for impairment	**(18,769)**	(15,722)
Trade receivables, net	**694,508**	374,585

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 2010 and 2009 was as follows:

	2010	2009
	RMB'000	*RMB'000*
Current	**571,110**	284,554
Within 30 days	**116,985**	85,763
31 to 120 days	**24,880**	19,063
Over 120 days	**302**	927
	713,277	390,307

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 2010, trade receivables of RMB 142,167,000 (2009: RMB 105,753,000) were past due, of which RMB 18,769,000 (2009: RMB 15,722,000) 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.

9 TRADE PAYABLES

The ageing analysis of trade payables as at 31 December 2010 and 2009 was as follows:

	2010	2009
	RMB'000	***RMB'000***
Current	**367,251**	309,762
Within 30 days	**670**	863
31 to 120 days	**178**	722
Over 120 days	**854**	917
	368,953	312,264

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.

10 OTHER GAINS, NET

	2010	2009
	RMB'000	*RMB'000*
Government subsidy income	**199,104**	109,064
Others	**26,946**	4,587
	226,050	113,651

Government subsidy income is granted by the local finance bureaus at their full discretion and is recognised at fair value where there is a reasonable assurance that the subsidy will be received.

11 EXPENSES BY NATURE

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

	2010	2009
	RMB'000	*RMB'000*
Cost of inventories recognized as cost of goods sold and distribution costs	**1,671,160**	1,529,131
Depreciation of property, plant and equipment	**14,743**	12,901
Loss on disposal of property, plant and equipment	**1,318**	3,966
Amortisation of lease prepayments	**285**	285
Amortisation of intangible assets	**18,322**	13,794
Advertising and marketing expenses	**397,990**	295,597
Employee salary and benefit expenses	**196,141**	180,686
Withholding business tax on license fees payable for an overseas subsidiary	**13,980**	12,082
Design and product development expenses	**121,137**	90,840
Legal and consulting expenses	**11,817**	24,446
Operating lease in respect of buildings	**54,714**	39,759
Logistic fees	**92,047**	62,845
Provision for/(reversal of) impairment losses of inventories	**13,844**	(2,227)
Provision for/(reversal of) impairment losses of trade and other receivables	**1,867**	(6,973)
Reversal of impairment of property, plant and equipment	**(45)**	(64)
Travelling expenses	**32,497**	33,217
Donation	**2,240**	250
Auditors' remuneration	**5,005**	4,532
Others	**97,209**	91,732
Total of cost of goods sold, distribution costs and administrative expenses	**2,746,271**	2,386,799

12 FINANCE INCOME, NET

	2010	2009
	RMB'000	*RMB'000*
Finance income:		
— Interest income from bank deposits	**84,243**	107,269
— Income from treasury bonds and treasury products	**30,932**	1,964
	115,175	109,233
Finance cost:		
— Foreign exchange (losses)/gains, net	**(16,621)**	785
— Others	**(4,748)**	(395)
	(21,369)	390
Finance income, net	**93,806**	109,623

13 INCOME TAX EXPENSE

	2010	2009
	RMB'000	*RMB'000*
Current income tax		
— PRC enterprise income tax ("EIT")	**413,544**	348,453
— Taxation in Japan	**561**	1,371
Deferred income tax	**(40,626)**	(13,411)
	373,479	336,413

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 2010 (2009: 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 2008 to 2010 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 2010 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 2010 (2009: nil), the subsidiary was subject to the minimum inhabitant tax payments.

14 EARNINGS PER SHARE

(a) Basic

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

	2010	2009
Profit attributable to equity holders of the Company *(RMB'000)*	**1,463,692**	1,459,844
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme *(thousands)*	**5,666,053**	5,666,066
Basic earnings per share *(RMB cents per share)*	**25.83**	25.76

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding assuming conversion of all dilutive potential ordinary shares. The Company's dilutive potential ordinary shares comprise shares to be issued under its share option schemes and shares held for Restricted Share Award Scheme. The Company had share options outstanding of 3,000,000 shares which were the potential dilutive ordinary shares as at 31 December 2010, excluding shares held for Restricted Share Award Scheme that were not granted (31 December 2009: nil).

	2010	2009
Profit attributable to equity holders of the Company *(RMB'000)*	**1,463,692**	1,459,844
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme *(thousands)*	**5,666,053**	5,666,066
Adjustment for share options *(thousands)*	**3,000**	—
Weighted average number of ordinary shares in issue for diluted earnings per share *(thousands)*	**5,669,053**	5,666,066
Diluted earnings per share *(RMB cents per share)*	**25.82**	25.76

15 DIVIDENDS

	2010	2009
	RMB'000	*RMB'000*
Interim dividend paid of RMB 4.16 cents (2009: 3.82 cents) per share	**235,722**	216,452
Interim special dividend paid of RMB 4.16 cents (2009: 1.27 cents) per share	**235,722**	71,962
Proposed final dividend of RMB 3.59 cents (2009: 3.91 cents) per share	**203,424**	221,556
Proposed final special dividend of RMB 6.17 cents (2009: 9.04 cents) per share	**349,617**	512,243
	1,024,485	1,022,213

The dividends paid in 2010 amounted to RMB 1,205,243,000, or RMB 21.27 cents per share (2009: RMB 818,166,000, or RMB 14.44 cents per share), comprising 2009 final dividends of RMB 733,799,000 (2009: 2008 final dividends of RMB 529,752,000) and 2010 interim dividends of RMB 471,444,000 (2009: 2009 interim dividends of RMB 288,414,000).

Pursuant to a resolution passed on 22 March 2011, the board of directors of the Company proposed a final dividend and final special dividend of RMB 3.59 cents and RMB 6.17 cents per ordinary share of the Company, amounting to RMB 203,424,000 and RMB 349,617,000 for the year ended 31 December 2010 from the Company's share premium account, respectively. The final dividend and final special dividend are to be proposed for approval by the shareholders of the Company at the annual general meeting to be held on 12 May 2011.

The aggregate amounts of the dividends paid and proposed during 2010 and 2009 have been disclosed in the consolidated income statement in accordance with the Hong Kong Companies Ordinance.

MANAGEMENT DISCUSSION AND ANALYSIS

Macroeconomic and Industry Review

Macroeconomic Review

The global economy faced a number of uncertainties in 2010. Although the U.S. economy steered clear of a double dip recession in the aftermath of the financial crisis, the outbreak of the European debt crisis cast a shadow over prospects for economic recovery. Nevertheless, the Chinese economy maintained healthy and steady growth against the backdrop of a moderate currency policy. Chinese economic growth remained startling, with annual GDP rising 10.3% on the previous year to approximately RMB 40,000 billion, allowing China to surpass Japan as the world's second-largest economy. China's trade picture was also encouraging. Imports and exports combined scaled a new record of approximately RMB 3,000 billion in 2010, up 34.7% on the year, showing that export demand had returned to levels witnessed before the financial crisis.

Domestic demand remained relatively buoyant as a significant jump in local incomes stoked consumption despite rising inflation and tightening monetary policy by the government to tighten bank and money market rates. The value of retail sales last year topped RMB 15,000 billion, up 18.4% compared with the previous year. Consumption in urban areas grew at a faster pace than in rural regions, with big-ticket purchases leading the way.

According to China's National Bureau of Statistics, domestic demand boosted GDP growth 9.5 percentage points, contribution to growth was 92.1%. While risks associated with the global financial markets linger, expansion of domestic demand is expected to remain a key approach for maintaining the growth of the Chinese economy in a steady and rapid manner, thereby fostering favorable business conditions for enterprises.

Industry Review

The growth picture of the Chinese sportswear industry has moderated from one in which annual growth rates of 30% from 2004 to 2007 and even 45% in 2008, the year of the Beijing Olympics, to those in the mid-teens.

At the same time, competition among industry players has intensified as a result of the rapid development of local sports brands. In particular, the casual and lifestyle sector of the sports industry is growing faster than the sports performance sector. Established local and international companies that have made a name in the sports performance arena have all been trying to break into the casual sports market, while international casual wear brands have also made aggressive inroads into China.

Over the years, the Chinese sportswear market has developed into a relatively mature sector with dwindling opportunities for new stores. Rising rental and labor costs were exerting more pressure on sportswear retailers.

Overall expenditure in the sportswear market as a percentage of consumers' apparel spending was declining and moving closer to levels seen in more mature markets. However, sportswear consumption in China remains relatively muted by global standards. We can thus expect to see the growth trend in the sector to continue, albeit at a lower rate than in the period of 2006 to 2010.

Rapidly rising incomes and accelerated urbanization will drive China's sportswear market in the future. It is expected that, in the next five years, the CAGR of the sportswear market will reach approximately 12.0%, with faster growth coming from lower-tier markets and the mid-to-high end segment.

Business Review

2010 marked a turning point for the Group, with the focus placed on strengthening its foundations to maintain growth and seize emerging opportunities. The Group made adjustments to its operating strategies to propel business growth. During the year, the Group dedicated its efforts to brand building and marketing, successfully enlarged its brand portfolio and enhanced its product design and research and product development.

Brand Building and Marketing

In 2010, Kappa, the core brand of the Group, continued to adopt "We are One" as its brand building and marketing slogan. The Group reinforced its promotional efforts through its first television commercial, a series of World Cup South Africa marketing activities and cooperation with magazines and sports events.

Kappa TV commercial

Between May and October 2010, the Group has launched Kappa brand image TV commercials that featured the sports in season on CCTV 5, which is the main sports broadcaster in mainland China. The TV commercials have also been aired in Anhui TV, Zhejiang TV, Liaoning TV, Nanjing TV, Beijing TV, etc. On the back of this marketing channel, the Group has successfully conveyed the brand theme of fusing sports and fashion.

Kappa's Promotion Activities for the 2010 FIFA World Cup South Africa

Besides the TV commercial, Kappa also launched a World Cup marketing campaign dubbed "Soccer Frenzy" during the period of the 2010 FIFA World Cup South Africa from 11 June to 11 July 2010, which included:

— The "Kappa World Team" Series Video

  The Group produced the "Kappa World Team" series video which was shown on the Kappa activity website by integrating a series of official visual references inspired by the World Cup. The video showed football players sporting the three theme colors of red, green and white, catching a football in different postures. By presenting a combination of dynamic visuals, the video demonstrated Kappa's spirit of combining sports and fashion.

— Penetration Through the Internet

Through the most frequently-visited online platforms in China including www.163.com, www.hi.qq.com, www.kaixin001.com, www.renren.com, www.youku.com and www.baidu.com, Kappa targeted the young consumer segment to promote Kappa's World Cup activities and Kappa product.

The Kappa public homepage on www.kaixin001.com was officially launched in the first half of 2010. Through www.kaixin001.com, the online platform for youngsters with the largest user population in the PRC, Kappa presented its brand fundamentals, products, history and activities, etc. in a language spoken by the young generation on its public home page.

— Kappa Art Show

During the World Cup period, Kappa organized street art shows on Beijing's Wangfujing shopping street and Solana ("藍色港灣") shopping park, where works of various artists were displayed and promoted through a combination of online activities.

— Kappa Celebrity Campaign

Kappa sponsored the "DreamBoat Soccer Team" and launched the "DreamBoat and Kappa Team Up for the 2010 World Cup South Africa".

The 2010 World Cup South Africa marketing campaign successfully beat a number of other World Cup marketing efforts and was awarded "Best World Cup Marketing Campaign on the Internet" in the "Internet Sports Marketing Awards" with the support of www.163.com, Cheung Kong Graduate School of Business, marketing professionals, media representatives and 400 million internet surfers who voted on the best sports marketing by brands or corporations.

Crossover with Bazaar

Kappa cooperated with *Bazaar* magazine to create a new graphic fashion image and officially presented it to the *Bazaar* and *Bazaar Men's Style* issues between June and October, 2010. The new graphic image integrates fashion and sports, and was the result of the combined creative work of our stylists, fashion advocates and column editors of *Bazaar*.

In addition, *Bazaar* joined hands with Kappa to launch the "Soccer Frenzy" carnival and invited the "DreamBoat Soccer Team" to support the event.

Crossover with BMW

Kappa joined forces with BMW and became the official Clothing Sponsor for the "BMW Mission 3" event. The alliance with a world-class, high-end brand significantly enhanced Kappa's brand image.

Sports Sponsorships

China Open

During the year, the Group sponsored the China Open, a top integrated tennis event held by three international tennis organizations including ATP, SE WTA and ITF. Kappa was not only the Platinum Sponsor of the China Open, but also became the title sponsor of the event "Kappa-CRT", with the goal of promoting tennis to the public. Kappa further promoted its brand by extending its promotional activities for the China Open to its retail outlets.

The Group cooperated with BasicNet S.p.A. ("BasicNet"), the other owner of the Kappa Brand, together with licensees of Kappa in other countries in a series of sporting sponsorships, including:

— Co-sponsorship of Italian Serie A Club AS Roma

— Co-sponsorship of German Bundesliga Club Borussia Dortmund

— Official sponsorship of team clothing for Virgin Racing F1 Team

2010 Kappa Golf

The Kappa Brand launched a series of TV campaigns and sponsorships under "Kappa Golf" during 2010. One of the major events was the "Hole in One Kappa" golf day organized in August 2010. The golf games featured different celebrities and Kappa organized a product launch show for the Kappa Golf series. Kappa also offered its full support to the HSBC Golf Championship, which was held in Shanghai, China in November 2010.

Expanding Brand Portfolio

Robe Di Kappa Business

Apart from developing the Kappa Brand, the Group continues to enrich its brand portfolio. Its efforts included the introduction of Robe Di Kappa ("RDK"), Kappa's sister brand in China. Robe Di Kappa brings a new attitude and perspective towards sports and leisure to the world — the inner beauty of sports, with its artistically innovative line of products. The first Robe Di Kappa outlet was officially opened in Beijing in February 2010. The number of outlets had grown to 20 by the end of 2010.

Brand image of Robe Di Kappa was built by communicating with consumers through a series of artistic marketing activities, including the "2010 Fall/Winter Fashion Collection" and music performances, as well as the introduction of a special selection CD, "The Choice of RDK", in September.

Other Brands and Markets

During the year, the Group engaged in the active preparation of the introduction of Japanese ski and outdoor brand, Phenix, to China. Phenix, Japan's largest ski brand by market share, has gained strong recognition internationally. Its products have been distributed to countries in Europe and North America. In order to mitigate the effects of the high seasonality of ski, Phenix has expanded into the outdoor segment, a move which is highly suitable for its development in the China market.

Furthermore, the Group also owns X-nix, a snowboard sportswear brand, and Inhabitant, a sportswear brand with products covering various extreme sports.

Sales Network

In the China market, the Group has adopted an "exclusive 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 designated geographical market. We believe that such a policy effectively reduces disorderly competition within the same area among distributors selling the same brand, while enhancing the profitability and loyalty of distributors. It also enables the Group to engage in tighter cooperation with local retailers. As of 31 December 2010, the Group had 38 distributors who directly or indirectly operated 3,751 retail outlets selling Kappa Brand products in China. This represented a net increase of 240 retail outlets compared with 3,511 retail outlets as of 31 December 2009. In addition, the number of retail outlets selling Robe Di Kappa reached 20. The distribution of retail outlets covered all major provincial cities and other large urban areas and towns in China.

Apart from traditional sales in retail outlets, the Group placed increased emphasis on internet sales. Through joint efforts with www.taobao.com, the leader of e-commerce in China, consumers are able to purchase Kappa products over the internet. Online sales of Kappa products grew by over 300% in 2010. The Group believes that online sales can complement physical retail outlets and serve as an effective platform for brand promotion. The Group aims to devote its efforts to the establishment of an integrated online sales platform while at the same time tapping into multiple popular internet channels to promote sales. On 11 November 2010, also known as "Singles Day" in China, Kappa's daily internet retail sales reached approximately RMB 11.0 million, with the number of visitors to the Group's online store hitting 1.5 million.

Design and Development

The Group believes that product differentiation has always been one of the most important factors contributing to our success. The Group developed and launched several new product lines by leveraging on Phenix's strengths in product design and R&D, featuring in-house as well as freelance designers of different nationalities.

The Group worked with renowned designer Mr. Michael Michalsky to develop Kappa P-A.C and launched the first collection in July 2010, targeting young consumers (age 20-30) in central urban areas of first-tier cities. The concept of P-A.C — "pack away concept" originated from designer Mr. Michalsky's observation of youngsters around the world. Nowadays, urban youth are fond of carrying various portable gadgets (e.g. MP3s, mobile phones, PSPs, make-up kits etc.) for convenient use at anytime. With this in mind, Mr. Michael Michalsky's design team created the latest Kappa P-A.C series to cater to the needs of these customers. Applying a simple and fashionable design that harmonizes with light and soft materials, the Kappa P-A.C series demonstrates the Group's determination in advocating a diversified product portfolio and its marketing strategies.

Phenix Co., Ltd., our subsidiary in Japan, developed a number of new technologies during the year, including curve zippers and embossment patterns, which added various new elements to the Group's up-and-coming products. Leveraging on R & D personnel and softwares of Phenix Co., Ltd., advanced technologies used in sportswear production have been transferred from Japan to our R & D center in Taicang, Jiangsu, the PRC. The exchange of personnel within the two technical centres enabled the Group to leverage on synergies related to the design and R&D of its products.

Financial Review

Our sales in 2010 was RMB 4,261.6 million, representing a growth of 7.3% from 2009. Profit attributable to equity holders for the year ended 31 December 2010 reached RMB 1,463.7 million, representing a 0.3% growth compared with RMB 1,459.8 million for the year ended 31 December 2009.

Key Financial Performance by Segments

		Group *(Note 3)*			China Segment *(Note 1)*			Japan Segment *(Note 2)*		
		Year ended 31 December			**Year ended 31 December**			**Year ended 31 December**		
		2010	2009	**change**	**2010**	2009	**change**	**2010**	2009	**change**
	Note	***RMB million***	*RMB million*		***RMB million***	*RMB million*		***RMB million***	*RMB million*	
Key items of consolidated income statement										
Sales		**4,261.6**	3,970.4	7.3%	**3,649.9**	3,403.1	7.3%	**611.7**	567.3	7.8%
Gross profit		**2,545.7**	2,399.4	6.1%	**2,277.3**	2,143.2	6.3%	**268.4**	256.2	4.8%
Operating profit	3	**1,741.4**	1,697.3	2.6%						
Profit attributable to equity holders of the Company	3	**1,463.7**	1,459.8	0.3%						
		RMB cents	RMB cents							
Basic earnings per share		**25.83**	25.76	0.3%						
Diluted earnings per share		**25.82**	25.76	0.2%						
Profitability ratios										
Gross profit margin		**59.7%**	60.4%	-0.7% pt	**62.4%**	63.0%	-0.6% pt	**43.9%**	45.2%	-1.3% pts
Operating profit margin		**40.9%**	42.7%	-1.8% pts						
Effective tax rate		**20.3%**	18.7%	1.6% pts						
Net profit margin		**34.3%**	36.8%	-2.5% pts						
Key operating expenses ratios (as percentage of sales)										
Advertising and marketing expenses		**9.3%**	7.4%	1.9% pts	**9.5%**	7.1%	2.4% pts	**8.3%**	9.3%	-1.0% pt
Employee salary and benefit expenses		**4.6%**	4.6%	0.0% pt	**3.6%**	3.3%	0.3% pt	**10.5%**	12.3%	-1.8% pts
Design and product development expenses	3	**2.8%**	2.3%	0.5% pt						
		in days	*in days*	*in days*	***in days***	*in days*	*in days*	***in days***	*in days*	*in days*
Working capital efficiency ratios										
Average trade receivable turnover days	4	**47**	36	11	**37**	24	13	**109**	107	2
Average trade payable turnover days	5	**72**	70	2	**65**	61	4	**100**	107	-7
Average inventory turnover days	6	**60**	61	-1	**45**	44	1	**121**	129	-8
Asset ratios										
Current ratio	7	**8.5 times**	12.8 times		**8.5 times**	10.9 times		**2.0 times**	2.0 times	

Notes:

1. The China segment is principally engaged in the wholesale of sport-related products under Kappa Brand in the PRC and Macau. It is also engaged in international business under Kappa Brand as well as domestic businesses under the Phenix brand and RDK brand.

2. The Japan segment is principally engaged in sales of sport-related products under the Kappa, Phenix and other brands in Japan.

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

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

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

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

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

Sales

Sales analyzed by geographical segments, business segments and product categories

	Year ended 31 December						
	2010			2009			
	RMB million	**% of product/ brand mix**	**% of Group sales**	*RMB million*	% of product/ brand mix	% of Group sales	**Change**
CHINA SEGMENT							
Kappa Brand							
Apparel	**2,718.1**	**74.8%**	**63.8%**	2,577.6	75.9%	64.9%	5.5%
Footwear	**790.9**	**21.8%**	**18.5%**	682.8	20.1%	17.2%	15.8%
Accessories	**123.5**	**3.4%**	**2.9%**	133.9	4.0%	3.4%	-7.8%
Kappa Brand total	**3,632.5**	**100.0%**	**85.2%**	3,394.3	100.0%	85.5%	7.0%
International business and others	**17.4**		**0.4%**	8.8		0.2%	97.7%
CHINA SEGMENT TOTAL	**3,649.9**		**85.6%**	3,403.1		85.7%	7.3%
JAPAN SEGMENT							
Phenix Brand	**393.0**	**64.3%**	**9.2%**	375.4	66.2%	9.5%	4.7%
Kappa Brand	**218.6**	**35.7%**	**5.2%**	191.0	33.7%	4.8%	14.5%
Others	**0.1**	**0.0%**	**0.0%**	0.9	0.1%	0.0%	-88.9%
JAPAN SEGMENT TOTAL	**611.7**	**100.0%**	**14.4%**	567.3	100.0%	14.3%	7.8%
THE GROUP TOTAL	**4,261.6**		**100.0%**	3,970.4		100.0%	7.3%

China Segment

Kappa Brand

The Kappa Brand business, the core business of the Group, accounted for 85.2% (2009: 85.5%) of the Group's total sales for the year ended 31 December 2010. The sales of Kappa Brand products increased by RMB 238.2 million compared with the year ended 31 December 2009. Such increase was mainly driven by 5.5% and 15.8% growth in sales of apparel and footwear product, respectively. Increase in sales of footwear was mainly due to the introduction of new concepts, such as lightweight running shoes and casual footwear, by the Group in the financial year. In addition, the number of Kappa Brand retail outlets directly or indirectly operated by the Group's distributors increased from 3,511 as of 31 December 2009 to 3,751 as of 31 December 2010, a net increase of 240.

Apparel was the major product of the Kappa Brand in China and its sales represented 74.8% (2009: 75.9%) of the brand's total sales. The proportion of footwear and accessories amounted to 21.8% (2009: 20.1%) and 3.4% (2009: 4.0%), respectively.

International Business and Others

As of 31 December 2010, the international sourcing and Rukka distribution business had been terminated completely.

During the year, the international business of the Group involved selling of Kappa Brand products designed, developed and manufactured by the Group to the Kappa licensees outside the PRC, Macau and Japan under the license granted by BasicNet.

RDK products were launched in the first half of 2010. As of 31 December 2010, distributors of the Group opened 20 retail outlets in the PRC. At present, we are seeking other sales channels and markets for further development.

Japan Segment

The sales in the Japan segment for the year ended 31 December 2010 increased by RMB 44.4 million (or 7.8%) to RMB 611.7 million from RMB 567.3 million for the year ended 31 December 2009. The growth was mainly due to the combined effects of channels development, branding and sales promotion by Phenix, despite an overall slowdown of the Japanese economy in 2010. As a result, the market share has been secured and even expanded.

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

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

	Year ended 31 December					
	2010		2009		**Change**	
	ASP	**total units sold**	ASP	total units sold	**ASP**	**total units sold**
	RMB	***in '000***	*RMB*	*in '000*		
Apparel	**157**	**18,407**	160	16,117	-1.9%	14.2%
Footwear	**184**	**4,582**	179	3,814	2.8%	20.1%

Notes:

1. ASP represent the sales for the year, before deduction of provisions for sales return, divided by the total units sold for the year.

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

As a result of our additional support and discount provided by the Group to our distributors as well as the effect of product mix, the ASP for apparel products for the year ended 31 December 2010 dropped slightly to RMB 157 from RMB 160 for the year ended 31 December 2009.

The ASP of footwear products increased from RMB 179 for the year ended 31 December 2009 to RMB 184 for the year ended 31 December 2010, a growth of 2.8%, which was largely driven by our continuous effort in improving design as well as research and development of footwear products this year.

In addition, total footwear product units sold recorded 20.1% year-on-year growth as compared to the year ended 31 December 2009. Its robust growth in volume as well as in ASP demonstrate that our footwear products are well received by our customers. As a result, the proportion of the sales of footwear to our Kappa Brand products has been increased to 21.8% (2009: 20.1%).

Cost of Goods Sold and Gross Profit

For the year ended 31 December 2010, the cost of goods sold by the Group amounted to RMB 1,715.9 million (2009: RMB 1,571.0 million), which represented an increase of RMB 144.9 million (or 9.2%). The gross profit of the Group was RMB 2,545.7 million (2009: RMB 2,399.4 million), representing an increase of RMB 146.3 million (or 6.1%). The overall gross profit margin of the Group for the year ended 31 December 2010 was 59.7% (2009: 60.4%), representing a decrease of 0.7 percentage point.

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

	Year ended 31 December		
	2010 gross profit margin	2009 gross profit margin	**Change** % pts
China segment			
Kappa Brand:			
Apparel	**64.4%**	65.3%	-0.9
Footwear	**55.4%**	54.5%	0.9
Accessories	**64.8%**	63.9%	0.9
Kappa Brand overall	**62.4%**	63.1%	-0.7
International business and others	**55.3%**	24.5%	30.8
China segment overall	**62.4%**	63.0%	-0.6
Japan segment	**43.9%**	45.2%	-1.3
Group overall	**59.7%**	60.4%	-0.7

China

The gross profit margin of Kappa Brand in China segment were 62.4% and 63.1% for the years ended 31 December 2010 and 2009, respectively, representing a drop of 0.7 percentage point. Such decrease was mainly due to our further support and discount provided to our distributors this year as the Group further emphasized on the importance of a healthy development of the retail sales channel. With this objective, the Group has taken proactive actions to assist them to clear their inventory. As such, for this year, the Group has made a stock return provision of RMB 155.1 million. In addition, starting from second half of the year, our production cost for apparel was under greater pressure from escalating costs of raw materials and labor in the PRC.

The gross profit margins of footwear products and accessories increased to 55.4% (2009: 54.5%) and 64.8% (2009: 63.9%), respectively. The increase was mainly driven by increase in product prices as well as effective cost control.

Japan

The gross profit margin in Japan segment for the year ended 31 December 2010 was 43.9%, which was lower than 45.2% for the year ended 31 December 2009. The drop was mainly due to the impact of stock clearance, the increase in production cost resulting from the rise in costs of raw materials and labor as well as higher discount provided for our distributors and customers.

Other Gains, Net

Other gains for the year ended 31 December 2010 mainly represented subsidy income from the government amounted to RMB 199.1 million (2009: RMB 109.1 million), and dividend income from investment in GX Group of RMB 19.4 million (2009: nil).

Distribution Costs and Administrative Expenses

Distribution costs and administrative expenses mainly comprised advertising and marketing expenses, employee salaries and benefit expenses, design and product development expenses, legal and consulting expenses as well as logistic fees. For the year ended 31 December 2010, total distribution costs and administrative expenses amounted to RMB 1,030.4 million (2009: RMB 815.8 million), accounted for 24.2% (2009: 20.5%) of the Group's total sales. The increase was primarily due to expanded efforts in advertising and marketing, product design and development.

Advertising and marketing expenses as a percentage of sales was 9.3% (2009: 7.4%). Further to the "We Are One" slogan campaign launched last year, the Group has launched its Winter Olympics and World Cup advertising campaigns as well as its first television commercial to further promote our brand. In addition, further emphasis has been placed on our well-built marketing strategies, such as China Open and entertainment marketing, in association with the effective promotion campaign for P-A.C. Series with "Pack-away Concept", thus the advertising and marketing expenses went up significantly.

Design and product development expenses as a percentage of sales for the year was 2.8% (2009: 2.3%). The increase was mainly due to the ongoing development of the Kappa P-A.C series jointly designed and developed with Mr. Michael Michalsky, the former global creative director of Adidas, since the second half of 2009. Meanwhile, closer collaboration with University of the Arts of London has been fostered by introducing additional overseas design teams.

Our logistic fees represented 2.2% (2009: 1.6%) of the Group's total sales for the year ended 31 December 2010. Such increase was mainly due to increase in rental rate as well as area expansion of our warehouses in the PRC.

Operating Profit

For the year ended 31 December 2010, operating profit of the Group was RMB 1,741.4 million, an increase of RMB 44.1 million (or 2.6%) compared with RMB 1,697.3 million for the year ended 31 December 2009. The operating profit margin was 40.9% for the year ended 31 December 2010 compared with 42.7% for the year ended 31 December 2009, a drop of 1.8 percentage points. The change in the operating profit margin was mainly due to a drop in gross profit margin and an increase in expense ratio, partially offset by an increase in other gains.

Finance Income, Net

For the year ended 31 December 2010, net finance income mainly comprised interest income of RMB 84.2 million (2009: RMB 107.3 million), and income derived from investment in treasury bonds and treasury products of RMB 30.9 million (2009: RMB 1.9 million) partially offset by a foreign exchange losses of RMB 16.6 million (2009: exchange gains of RMB 0.8 million).

Share of Profits/(Losses) of Jointly Controlled Entities and Associated Companies

For the year ended 31 December 2010, share of net profit of jointly controlled entities and associated companies amounted to RMB 2.2 million (2009: losses of RMB 10.6 million). This mainly represented the share of profits of the six joint ventures with our distributors amounted to RMB 2.7 million (2009: losses of RMB 10.6 million) under equity method of accounting.

Taxation

For the year ended 31 December 2010, income tax expense of the Group amounted to RMB 373.5 million (2009: RMB 336.4 million). The effective tax rate was 20.3% (2009: 18.7%). Such change was primarily due to the increase in income tax rate of our major operating subsidiaries established in the Shanghai Pudong New Area from 20% for 2009 to 22% for 2010.

Effective from 1 January 2008, the subsidiaries of the Group incorporated in the PRC are subject to corporate income tax at the rate of 25% in accordance with the Corporate Income Tax Law of the PRC (the "New EIT Law") as approved by the National People's Congress on 16 March 2007. The EIT rate applicable to subsidiaries of the Group established in the PRC is reduced to 25% for those with original applicable EIT rates higher than 25%, or gradually increase to 25% over a 5-year period from 2008 to 2012 for those with original applicable EIT rates lower than 25%, where appropriate. The major operating subsidiaries of the Group established in the Shanghai Pudong New Area are entitled to preferential income tax rate of 22% in 2010 (2009: 20%).

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 2010 was RMB 1,463.7 million (2009: RMB 1,459.8 million), and net profit margin of the Group was 34.3% (2009: 36.8%).

Final Dividend and Final Special Dividend

The Company's normal dividend policy is distribution of 30% of the Group's net profits available for distribution for the relevant period. After taking into consideration of the Group's profitability in 2010 and strong cash position, we would like to distribute an additional 40% in order to enhance shareholders value.

The Company has paid an interim and interim special dividend for the six months ended 30 June 2010 of RMB 4.16 cents and RMB 4.16 cents per ordinary share, respectively, with a total amount of RMB 471.5 million.

The Board of the Company has recommended the distribution of a final dividend and a final special dividend of RMB 3.59 cents and RMB 6.17 cents per ordinary share, respectively (totaling RMB 9.76 cents per ordinary share) for the year ended 31 December 2010.

The final dividend and final special dividend, subject to approval by the shareholders of the Company at the annual general meeting to be held on 12 May 2011, will be paid in Hong Kong Dollars based on the rate of HKD 1.00 = RMB 0.8415 being the official exchange rate of Hong Kong dollars against Renminbi as quoted by the People's Bank of China on 21 March 2011. The dividend will be paid on or about 19 May 2011 to shareholders whose names appear on the register of members of the Company on 12 May 2011.

FINANCIAL POSITION

Working capital efficiency ratios

China Segment

The average trade receivable turnover days for the years ended 31 December 2010 and 2009 were 37 days and 24 days, respectively, average debtors' turnover in 2010 increased by 13 days from 2009. During the year, we have extended credit limit and credit terms to support our major distributors whose working capital has been affected by the retail market. The Group will continue to implement a sound credit management policy, review and adjust such credit policy, when necessary, to adapt to industry environment.

The average trade payable turnover days for years ended 31 December 2010 and 2009 were 65 days and 61 days respectively. This was in line with the Group's major policy to repay trade debts to its suppliers and manufacturers within 60 to 90 days.

As the Group has maintained a consistent inventory management system, the average inventory turnover days for the years ended 31 December 2010 and 2009 were 45 days and 44 days respectively.

Japan Segment

The average trade receivable turnover days, average trade payable turnover days and average inventory turnover days were 109 days, 100 days and 121 days, respectively for the year ended 31 December 2010 as compared to 107 days, 107 days and 129 days, respectively for the year ended 31 December 2009. As our management policies on procurement and sales remained unchanged with effective implementation, the above turnover days have maintained substantially constant.

Liquidity and financial resources

As at 31 December 2010, cash and bank balances (including long term bank deposits) of the Group amounted to RMB 5,027.9 million, a decrease of RMB 1,099.5 million compared with a balance of RMB 6,127.4 million as of 31 December 2009. This decrease mainly due to (1) investments in the treasury bonds issued by the Ministry of Finance of the PRC and investments in capital guaranteed treasury products offered by PRC commercial banks amounting to RMB 1,089.6 million, (2) payment of 2009 total final dividends, 2010 total interim dividends for an aggregate amount of RMB 1,205.2 million, (3) equity investments in GX Group and an entity totalling RMB 103.7 million, (4) share repurchase for setting up an employee restricted share award scheme totaling RMB 87.1 million, and (5) partially offset by the net cash generated from operating activities of RMB 1,443.6 million for the year.

As at 31 December 2010, net assets attributable to our equity holders was RMB 7,515.0 million (31 December 2009: RMB 7,354.2 million). The Group's current assets exceeded current liabilities by RMB 6,570.2 million (31 December 2009: RMB 6,521.3 million). The Group also had a very strong liquidity position. The current ratio as of 31 December 2010 was 8.5 times (2009: 12.8 times), such change was primarily due to provisions for sales return in accordance with prevailing market condition as well as deposits prepaid by our distributors were higher than those as of 31 December 2009. As at 31 December 2010, the Group had no outstanding bank loans or other borrowings.

Pledge of assets

As at 31 December 2010, the Group had approximately RMB 36.1 million (31 December 2009: RMB 37.3 million) were held in banks as guarantee deposit for the issue of letters of credit for our business in Japan market.

Capital commitments and contingencies

As at 31 December 2010, the Group had capital commitment for contracted but not provided for of RMB 8.4 million (2009: nil).

As at 31 December 2010, the Group had no contingent liabilities.

Foreign exchange risk

The functional currency of the Company is US Dollars owing to the fact that its business is transacted in US Dollars. During the Global Offering in October 2007, the Company received its proceeds in HK Dollars. The proceeds were either deposited in bank accounts denominated in HK Dollars or converted into US Dollars and deposited in bank accounts denominated in US Dollars. As a result, the exchange differences arising from appreciation or depreciation of the US Dollars against the Company's HK Dollars bank deposits, were recognized as exchange gains or losses in the Company's income statement. The exchange gains or losses were not significant because HK Dollars are pegged to US Dollars. The Company's financial statements expressed in US Dollars were translated into Renminbi for the Group's reporting and consolidation purposes. The foreign exchange differences from the translation of financial statements is not recognised in the income statement. Instead, it should be recognised as a separate component of equity of the Group.

The major operations of the Group were mainly carried out in the PRC and transacted in Renminbi. Except for foreign exchanges losses for the year mainly derived from our unutilized capital in foreign currencies in the PRC, the exchange rate risk of the Group was insignificant.

Nevertheless, we continue to monitor the foreign exchange exposures and, if necessary, will take prudent measures such as hedging to minimize our potential exposures.

Significant investments and acquisitions

For the year ended 31 December 2009, the Group acquired a 30.0% equity interest in each of the six joint ventures in the PRC for a total consideration of RMB 169.5 million. 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.

In 2010, the Group entered a reorganization agreement with Han Bo Jia Ye (Beijing) Company Limited ("Han Bo Jia Ye"), our associate in Beijing, other five associates and our distributors in Sichuan and Chongqing. Upon completion of such reorganization, 100.0% of equity interests in other five associates and those distributors in Sichuan and Chongqing were directly held by Han Bo Jia Ye, in turn, the Group acquired 22.05% of equity interests in Han Bo Jia Ye through transfer of 30.0% of equity interests in other five associates and further capital injection of RMB 82.7 million by the Group into Han Bo Jia Ye.

In October 2010, the Group acquired 3.0% of equity interests in one of our key distributors at a cash consideration of RMB 21.0 million.

Except as mentioned above, the Group has made no significant investment or any material acquisition or disposal of subsidiaries during the year ended 31 December 2010.

Application of net Global Offering proceeds

The net proceeds after deduction of related expenses from Global Offerings in October 2007 were approximately HKD 5,176.9 million (equivalent to RMB 5,013.9 million). As of 31 December 2010, 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	247.3	2,496.5
Expand and improve distribution network	1,294.2	389.1	905.1
Enhance design and development capabilities	258.8	258.8	—
Establish new operating headquarter	258.8	6.1	252.7
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	1,522.6	3,654.3

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

Human Resources

As of 31 December 2010, the Group had approximately 507 employees throughout the PRC (As of 31 December 2009 : 460 employees). Phenix Co., Ltd. had approximately 250 employees in Japan (As of 31 December 2009 : 247 employees). In order to cope with our business expansion, the Group still has to recruit more talented employees in all departments.

The Group deployed a work-value and performance based remuneration scheme to its employees under which 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. In addition, the Group will further implement new long-term benefit plan so as to motivate and reward those employees for their long-term contribution to our growth.

Outlook

Notwithstanding the challenges faced by sportswear brand operators resulting from market competition and pressure on operating costs, the growth trend of the Chinese economy is expected to continue in the foreseeable future. Under the macro environment of accelerated urbanization and a persistent rise in personal incomes, the Group is confident in the ability of the market to develop in the mid- to long-term and in prospects for business growth.

The Group aims to strengthen its brand identity and further benefit from its differentiation to supply the market with a greater variety of products. The Group will extend its product range to cover more market segments and seek to strengthen its sports performance product range by focusing on the areas of soccer, tennis and training. The Group will also extend its style and fashion product range while rejuvenating its existing core casual range by adopting a new approach to the design of logos and national themes.

The Group is also targeting expansion in its footwear products, notably through the introduction of "Curves", a footwear line designed especially for women and meant to help shape women's bodies when they walk and wear Curves in daily life. It is inspired by women's body curves and the latest body-building trends. This footwear series balances function with fashion.

The Group will also optimize on its product creation by strengthening R&D efforts. It will further leverage its resources at the technical centre in Japan.

To raise awareness of end-user needs, the Group will shift its focus from sell-in to sell-through by providing stronger support to distributors and from visual merchandising and training to assortment. This new approach will enable the Group get closer to the market pulse and tighten partnerships with retailers. Among other things, the Group is expanding its DRP system to cover a larger number of stores in order to collaborate more tightly with retailers. The Group aims to enhance its brand experience at its point of sales through the provision of direct training to distributors on both management issues and the management of store fronts. In this respect, the Group will leverage its partnership with GX, a sport retail group in which the Group holds a 22.05% share. The Group will also implement systematic action to consolidate sub-distribution and tighten retail management to ensure service quality and enhance retailers' profitability.

At the same time, the Group will review its store portfolio in close partnership with distributors in order to reallocate resources to best-performing stores to boost sales and efficiency and to develop systematic identification of areas for store portfolio growth. The Group will also look into further segmentation of its retail outlets and explore opportunities in casual locations, especially in department stores.

Apart from traditional sales outlets, the Group will also actively explore the development of online sales platforms. For e-commerce, the Group will expand Kappa's official online store to a greater number of Internet channels. The Group will also work on the establishment of the iKappa website. Not only will it serve as a self-operated online sales channel, it will also serve as a multi-purpose platform covering marketing, customer service, brand education, feedback on new products and a forum for Kappa fans. The Group will also leverage on its investment in Mecox Lane Limited (Nasdaq:MCOX), which operates one of China's leading online platforms for apparel and accessories, to expand its online sales business. We believe that the launch of these e-commerce platforms will facilitate us in reaching our target customers in an efficient and cost-effective way.

Following the opening of the first RDK store in Beijing in 2010, the RDK series was popularly welcomed by the public and achieved satisfactory results. Looking ahead, the Group will further promote the RDK series through various marketing campaigns. The Group expects to open no less than 50 RDK stores in China in 2011.

After the acquisition of Phenix, a Japanese outdoor and ski brand, in 2008, the Group will officially introduce the brand to the Chinese market in 2011.

OTHER INFORMATION

Compliance with the Code on Corporate Governance Practices (the "CG Code")

The Company is committed to ensuring high standards of corporate governance in the interests of shareholders and devotes considerable effort to identifying and formalising best practices. The Company has complied with the code provisions set out in the CG Code contained in Appendix 14 of The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") for the year ended 31 December 2010, except one deviation from code provision E.1.2 of the CG Code. The chairman and executive director, Mr. Chen Yihong could not attend the annual general meeting of the Company held on 12 May 2010 due to business engagement at the Company's trade fair in Beijing. The former chief executive officer, the non-executive director and the company secretary attended the annual general meeting to ensure effective communication with the shareholders of the Company.

Details of the Company's corporate governance practices can be found in the Corporate Governance Report set out in the Company's annual report for the year ended 31 December 2010.

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

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the standard for securities transactions by directors. The Company has made enquiries of all the directors and all the directors confirmed that they have complied with the required standards for the year ended 31 December 2010.

Audit Committee

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

Members of the Audit Committee comprise Mr. Xu Yudi (Chairman), Dr. Xiang Bing and Mr. Jin Zhi Guo. The Audit Committee consists solely of independent non-executive directors, all of whom have extensive financial experience. Up to 31 December 2010, the Audit Committee had held three meetings in 2010.

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the financial statements for the year ended 31 December 2010.

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

For the year ended 31 December 2010, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

Books Closure

The Register of Members of the Company will be closed from 6 May 2011 to 12 May 2011, both days inclusive, for the purpose of determining shareholders' entitlements to the 2010 final dividend and final special dividend. In order to qualify for the 2010 final dividend and final special dividend and the right to attend and vote at the meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 5 May 2011 at 4:30 p.m..

Annual General Meeting ("AGM")

The AGM of the Company will be held in Hong Kong on 12 May 2011. Notice of the AGM will be issued and disseminated to shareholders in due course.

Publication of Results Announcement

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

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

Hong Kong, 22 March 2011

As at the date of this announcement, the executive directors of the Company are Mr. Chen Yihong, Mr. Qin Dazhong and Ms. Sandrine, Suzanne, Eléonore, Agar Zerbib, the non-executive director of the Company is Mr. Gao Yu, and the independent non-executive directors of the Company are Mr. Xu Yudi, Dr. Xiang Bing and Mr. Jin Zhi Guo.