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 2011

Financial Highlights

- Financial results for the year impacted by the Group's one-off inventory repurchase programme, control of trade orders, provision for impairment of inventories and available-for-sale financial assets.
- Group sales decreased by 35.7% to RMB2,742 million
- Gross profit (before provision for impairment of inventories) decreased by 40.8% to RMB1,507 million
- Profit attributable to the equity holders decreased by 93.0% to RMB102 million
- Strong cash and bank position of RMB3,775 million and without bank borrowings

CHAIRMAN'S STATEMENT

Dear Shareholders,

The golden rule to success is to have a positive mindset and develop perseverance in the face of adversities. In 2011, the consolidation in the PRC sportswear industry has deepened with emerging problems including moderated market growth, intensified competition and inventory accumulation. Amidst all challenges, the Group is readjusting itself with endeavors to improve its internal operations. I myself have also exerted greater dedication in the Group's operation in the hope of capturing more market opportunities with each and every member of our staff, distributors, consumers and shareholders. Together, we will create a better future for the Group.

From the macro-economy standpoint, China was able to maintain a steady economic growth during the year under review despite a sluggish global economic situation. However, pressure rising from inflation and soaring asset prices as a result of economic growth is not to be overlooked. The impact brought about by the adjustment in the macro-economy and the tighter monetary policy implemented by the PRC government has lowered the consumer sentiment of the PRC citizens to a certain extent in the short term period. On the other hand, local retailers are also facing greater operational pressure due to rent and labour costs growth. From the overall apparel industry standpoint, the entire business environment of the industry has been more competitive than ever for both casual and sportswear brands. To briefly summarize, the industry remains challenging. However, with the recovery of global economic and rising domestic consumption power in the near mid to long term future, we are still confident in the overall macro-environment. We also believe that through the deep consolidation of the industry and through self-innovation, sportswear industry will embrace a brighter future.

2011 marks the ninth anniversary of China Dongxiang's establishment. The young China Dongxiang has experienced a lot of challenges under the dismal macroeconomic atmosphere and market conditions, crossing a few "first-time" hurdles that came along the Group's course of development since establishment.

For the first time, the Group recorded a decline in both its revenue and profit. During the year, under the influence of inventory repurchase and control of trade orders from distributors, the Group recorded revenue of RMB2,742 million for the year ended 31 December 2011, representing a year-on-year decrease of 35.7%. Profit of the year attributable to the equity holders was approximately RMB102 million, representing a drop of 93.0% as compared to the last year, mainly due to exceptional items including additional provision for impairment of inventories and available-for-sale financial assets. Basic earnings per share was RMB1.82 cents, decreasing by 93.0% as compared to 2010.

A "first-time" negative growth was recorded in the Group's number of retail stores. The total number of retail stores decreased from 3,751 as at 31 December 2010 to 3,119 as at 31 December 2011 as planned. The Group agreed our distributors to close down retail stores with unsatisfactory profitability due to uneven resource allocation under its policy to integrate its distribution network. In order to optimize its sales network, improve overall sales efficiency and enhance the profitability of distributors, the Group will concentrate its resources on retail stores with better performance.

For the first time, the Group announced a one-off repurchase of inventories from distributors to ease their inventory pressure. It is the Group's intention to undergo difficult times together with its distributors and to foster closer relationships. The Group also offered more support to our major customers in order to increase sales channel efficiency, reduce pressure on inventory accumulation and enhance profitability. During the reporting period, the Group has completed the repurchase of inventories of RMB1.45 billion at tag price, and re-sold the products are being re-sold through factory outlets and e-commerce platforms.

Even in such defining moment, every member of our staff remained dedicated and devoted to the Group's future development. As the founder of the Group, I am ready to step up and lead the Group to face adversities. Hence, I have once again set my hands on the management of the Group's operation. For the Group's development and the interests of shareholders, we are determined to combine the efforts of each and every member of our staff to deliver high-quality products that suit consumer needs by adopting a pragmatic approach in ways that are simple yet effective. At the Group, we believe that this shared philosophy will be adhered to by each and every member of our staff.

"Difficulties contribute to great successes." As the founder and helmsman of an enterprise, I have always believed that a short period of adversity in the Group's course of development is the best opportunity to improve its operation ability and tenacity. It is necessary for a young company such as China Dongxiang to undergo obstacles and setbacks in order to become a mature enterprise. The Group adopts a "pragmatic, innovative, passionate" approach as its corporate culture. We firmly believe that by means of pragmatic approaches, innovative thinking and being passionate about our own work in the various stages of the Group's development will ensure us to overcome challenges and progress to a new stage. In addition, the Group is gifted with ample resources. With our abundant cash on hand and long-term strategic cooperation with Mai Sheng Yue He Group, we will work together on creating a new "brand + retail" model to improve efficiency in sales channels. In conjunction with our strong design and R&D ability in Japan, I am fully confident in leading our team through this period of adversity bearing a pragmatic attitude.

"Sports, fashion, sexiness and style" have always been the values we uphold and they have also set direction for the Group's product development. In order to strengthen our brand image, we have reorganized our design team and brought back designers who had successfully helped transformed the Kappa brand in the past. Leveraging on the acute insight, familiarity towards market pulse and innovation of our international design team, we are confident that the Group shall be able to deliver eye-catching products that emphasize our brand DNA and would be sought-after by trend setters. During the year, Kappa launched two new product series — "Curves" series which features female sports shoes that brings together science and aesthetics of human bodies, as well as "C19" series featuring young sports apparel for street cycling. The two new series has enriched Kappa's product portfolio. Together with the trendy Robe di Kappa series and functional Phenix products, we have provided a comprehensive product offering for our customers that cover "sports, fashion, sexiness and style".

Last but not least, I would like to take this opportunity to express my gratitude towards my distributors, business partners, all staff members and shareholders for their unceasing support for the Group. I would like to draw reference from an old Chinese poem — "As if the flowers are blooming, as if coming to a new era returning to the true nature and reviving the Spring" to portray my hope for another bright future of the Group.

Chen Yihong
Chairman

Hong Kong, 27 March 2012

ANNUAL RESULTS

The board of directors (the "Board") of China Dongxiang (Group) Co., Ltd. (the "Company") hereby announces the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2011, together with the comparative figures for 2010, as follows:

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2011

		Year ended 31 December	
		2011	2010
	Note	***RMB'000***	*RMB'000*
Revenue	3	**2,741,826**	4,261,605
Cost of goods sold	5	**(1,234,840)**	(1,715,900)
Provision for impairment of inventories	5	**(215,878)**	(13,844)
Gross profit		**1,291,108**	2,531,861
Other gains, net	4	**113,644**	226,050
Provision for impairment of available-for-sale financial assets	11	**(238,313)**	—
Distribution costs	5	**(779,765)**	(797,400)
Administrative expenses	5	**(287,992)**	(219,127)
Operating profit		**98,682**	1,741,384
Finance income, net	6	**129,261**	93,806
Share of profits of jointly controlled entities and associated companies, net	10	**135**	2,249
Profit before income tax		**228,078**	1,837,439
Income tax expense	7	**(122,421)**	(373,479)
Profit for the year		**105,657**	1,463,960
Profit attributable to:			
Owners of the Company		**102,186**	1,463,692
Non-controlling interests		**3,471**	268
		105,657	1,463,960
Earnings per share attributable to owners of the Company during the year *(expressed in RMB cents per share)*			
— Basic earnings per share	8	**1.82**	25.83
— Diluted earnings per share	8	**1.82**	25.82
Dividends	14	**157,526**	1,024,485

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

	Year ended 31 December	
	2011	2010
	RMB'000	*RMB'000*
Profit for the year	**105,657**	1,463,960
Other comprehensive income:		
— Fair value change on available-for-sale financial assets, net of tax	**(4,237)**	4,237
— Foreign currency translation differences	**(67,480)**	(16,350)
Other comprehensive income for the year, net of tax	**(71,717)**	(12,113)
Total comprehensive income for the year	**33,940**	1,451,847
Attributable to:		
— Owners of the Company	**30,469**	1,451,579
— Non-controlling interests	**3,471**	268
Total comprehensive income for the year	**33,940**	1,451,847

CONSOLIDATED BALANCE SHEET
As at 31 December 2011

		As at 31 December	
		2011	2010
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**116,614**	132,807
Lease prepayments		**12,788**	25,690
Intangible assets	9	**289,111**	302,861
Interests in jointly controlled entities	10	**18,909**	19,142
Available-for-sale financial assets	11	**973,398**	213,938
Deferred income tax assets		**112,542**	57,448
Prepayments, deposits and other receivables — non-current portion		**33,706**	45,397
Other financial assets — non-current portion		**—**	153,211
		1,557,068	950,494
Current assets			
Inventories		**403,656**	255,702
Trade receivables	12	**547,621**	694,508
Prepayments, deposits and other receivables		**100,338**	94,348
Other financial assets		**1,068,255**	1,369,286
Cash and bank balances		**3,774,868**	5,027,870
		5,894,738	7,441,714
Total assets		**7,451,806**	8,392,208

CONSOLIDATED BALANCE SHEET (continued)

As at 31 December 2011

		As at 31 December	
		2011	2010
	Note	***RMB'000***	*RMB'000*
EQUITY			
Equity attributable to owners of the Company			
Share capital		**54,562**	54,810
Share premium account		**2,135,560**	2,889,096
Reserves		**4,605,050**	4,571,071
		6,795,172	7,514,977
Non-controlling interests		**4,739**	268
Total equity		**6,799,911**	7,515,245
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**30,922**	5,453
		30,922	5,453
Current liabilities			
Trade payables	13	**275,734**	368,953
Accruals and other payables		**309,372**	235,626
Provisions		**27,184**	188,526
Current income tax liabilities		**8,683**	78,405
		620,973	871,510
Total liabilities		**651,895**	876,963
Total equity and liabilities		**7,451,806**	8,392,208
Net current assets		**5,273,765**	6,570,204
Total assets less current liabilities		**6,830,833**	7,520,698

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 27 March 2012.

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 available-for-sale financial assets, and 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.

The Group previously disclosed provision for impairment of inventories within "Administrative expenses". Management believes that separate presentation in consolidated income statement is a fairer representation of the Group's activities for year 2011. Accordingly, the comparative figure for year 2010 was presented separately.

Changes in accounting policies and disclosures

(a) New and amended standards effective for year beginning 1 January 2011

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2011 that would be expected to have no impact on the Group.

- IAS 24 (Revised), "Related Party Disclosures" is effective for annual period beginning on or after January 2011. It introduces an exemption from all of the disclosure requirements of IAS 24 for transactions among government related entities and the government. Those disclosures are replaced with a requirement to disclose:
  - The name of the government and the nature of their relationship;

- The nature and amount of any individually significant transactions; and
- The extent of any collectively-significant transactions qualitatively or quantitatively.

It also clarifies and simplifies the definition of a related party.

(b) *New and amended standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted by the Group.*

The Group's and parent entity's assessment of the impact of these new and amended standards is set out below.

- IFRS 9, 'Financial instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

- IFRS 10 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2013.

- IFRS 11 'Joint arrangements' is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.

- IFRS 12 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

- IFRS 13 'Fair value measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.

The Group is yet to assess the above IFRS's full impact and intends to adopt them upon their effective date in future years, which is for the accounting period beginning on or after 1 January 2013.

3 REVENUE AND SEGMENT INFORMATION

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns, value added taxes and after eliminating sales within the Group.

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 *RMB'000*	Japan *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Year ended 31 December 2011				
Total revenue before inter-segment elimination	**2,142,707**	**625,771**	**—**	**2,768,478**
Inter-segment revenue	**(21,182)**	**(5,470)**	**—**	**(26,652)**
Revenue from external customers	**2,121,525**	**620,301**	**—**	**2,741,826**
Cost of goods sold	**(880,291)**	**(354,549)**	**—**	**(1,234,840)**
Provision for impairment of inventories	**(198,191)**	**(17,687)**	**—**	**(215,878)**
Segment gross profit	**1,043,043**	**248,065**	**—**	**1,291,108**
Segment operating profit *(Note (a))*	**204,269**	**5,021**	**(110,608)**	**98,682**
Interest income	**81,733**	**4**	**7,127**	**88,864**
Interest expenses and others, net	**13,298**	**12,750**	**14,349**	**40,397**
Share of profits of jointly controlled entities	**—**	**135**	**—**	**135**
Profit before income tax	**299,300**	**17,910**	**(89,132)**	**228,078**
Income tax expense	**(121,388)**	**(1,033)**	**—**	**(122,421)**
Profit for the year	**177,912**	**16,877**	**(89,132)**	**105,657**
Material items of income and expense				
Depreciation and amortisation	**29,069**	**9,754**		**38,823**
Provision for impairment losses of available-for-sale financial assets	**238,313**	**—**		**238,313**
Provision for/(reversal of) impairment losses of trade and other receivables	**40,000**	**(1,167)**		**38,833**

	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)
Provision for impairment of inventories	(15,306)	1,462	—	(13,844)
Segment gross profit	2,262,045	269,816	—	2,531,861
Segment operating profit *(Note (a))*	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 amortisation	25,915	7,435		33,350
Provision for impairment losses of trade and other receivables	96	1,771		1,867

Notes:

(a) The expense reported under "unallocated segment operating profit" relates to the cost of design and product development of KAPPA brand incurred by the Technical Centre which was established for both China and Japan.

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

	2011	2010
	RMB'000	*RMB'000*
China		
— Distribution of Kappa Brand products	**2,094,365**	3,632,511
— International business, RDK and others	**27,160**	17,371
	2,121,525	3,649,882
Japan		
— Distribution and retail of Kappa Brand products	**198,214**	218,598
— Distribution and retail of Phenix Brand products	**417,230**	393,055
— Distribution and retail of products of other brands	**4,857**	70
	620,301	611,723
	2,741,826	4,261,605

During the year ended 31 December 2011, there was no customer from whom the revenue amounted to 10% or more of the Group's revenue (2010: revenue of RMB558,203,000 was derived from one single customer).

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

	China	**Japan**	**Unallocated**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
As at 31 December 2011				
Total assets before inter-segment elimination	**6,160,743**	**524,782**	**895,036**	**7,580,561**
Inter-segment elimination	**(19,682)**	**(22,977)**	**(86,096)**	**(128,755)**
Total assets	**6,141,061**	**501,805**	**808,940**	**7,451,806**
Interests in jointly controlled entities	**—**	**(18,909)**	**—**	**(18,909)**
Available-for-sale financial assets	**(973,398)**	**—**	**—**	**(973,398)**
Deferred income tax assets	**(112,542)**	**—**	**—**	**(112,542)**
Segment assets	**5,055,121**	**482,896**	**808,940**	**6,346,957**
Total liabilities before inter-segment elimination	**485,422**	**209,034**	**40,723**	**735,179**
Inter-segment elimination	**(22,977)**	**(19,584)**	**(40,723)**	**(83,284)**
Total liabilities	**462,445**	**189,450**	**—**	**651,895**
Deferred income tax liabilities	**(27,000)**	**(3,922)**	**—**	**(30,922)**
Current income tax liabilities	**(6,823)**	**(1,860)**	**—**	**(8,683)**
Segment liabilities	**428,622**	**183,668**	**—**	**612,290**

	China	Japan	Unallocated	Total
	RMB'000	*RMB'000*	*RMB'000*	*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
Interests in jointly controlled entities	—	(19,142)	—	(19,142)
Interests in associated companies	(213,938)	—	—	(213,938)
Deferred income tax assets	(57,448)	—	—	(57,448)
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

As at 31 December 2011, the total non-current assets other than financial instruments and deferred tax assets located in the PRC amounted to RMB128,863,000 (31 December 2010: RMB159,947,000) and the total of these non-current assets located in other countries and places amounted to RMB342,265,000 (31 December 2010: RMB365,951,000).

During the year ended 31 December 2011, additions to total non-current assets other than financial instruments and deferred tax assets in China amounted to RMB18,027,000 (2010: RMB77,425,000), and no addition in Japan segment (2010: RMB6,390,000).

4 OTHER GAINS, NET

	2011	2010
	RMB'000	*RMB'000*
Government subsidy income	**120,183**	199,104
Others	**(6,539)**	26,946
	113,644	226,050

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.

5 EXPENSES BY NATURE

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

	2011	2010
	RMB'000	*RMB'000*
Cost of inventories recognised as cost of goods sold and distribution costs	**1,215,093**	1,671,160
Depreciation of property, plant and equipment	**18,424**	14,743
Amortisation of lease prepayments	**285**	285
Amortisation of intangible assets	**20,114**	18,322
Advertising and marketing expenses	**379,815**	397,990
Employee salary and benefit expenses	**226,848**	196,141
Withholding business tax on license fees payable for an overseas subsidiary	**7,777**	13,980
Design and product development expenses	**110,608**	121,137
Legal and consulting expenses	**30,929**	11,817
Operating lease in respect of buildings	**55,924**	54,714
Logistic fees	**93,256**	92,047
Provision for impairment losses of inventories	**215,878**	13,844
Provision for impairment losses of trade and other receivables	**38,833**	1,867
Reversal of impairment of property, plant and equipment	**—**	(45)
Travelling expenses	**33,573**	32,497
Auditors' remuneration	**5,019**	5,005
Others	**66,099**	100,767
Total of cost of goods sold, distribution costs and administrative expenses	**2,518,475**	2,746,271

6 FINANCE INCOME, NET

	2011	2010
	RMB'000	*RMB'000*
Finance income:		
— Interest income from bank deposits	**88,864**	84,243
— Income from treasury bonds and treasury products	**44,383**	30,932
	133,247	115,175
Finance cost:		
— Foreign exchange gains/(losses), net	**970**	(16,621)
— Others	**(4,956)**	(4,748)
	(3,986)	(21,369)
Finance income, net	**129,261**	93,806

7 INCOME TAX EXPENSE

	2011	2010
	RMB'000	*RMB'000*
Current income tax		
— PRC enterprise income tax ("EIT")	**149,482**	413,544
— Taxation in Japan	**1,152**	561
Deferred income tax	**(28,213)**	(40,626)
	122,421	373,479

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 2011 (2010: 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, distribution of profits earned by PRC companies since 1 January 2008 to foreign investors is subject to withholding tax of 5% to 10% depending on the country of incorporation of the foreign investor. Should the Group's PRC subsidiaries distribute dividends to overseas-incorporated entities within the Group, the Group should accrue the withholding tax. During the year ended 31 December 2011, the Group provided for a deferred withholding tax liability of RMB27,000,000 in relation to the profit of the PRC subsidiaries that will be distributed.

The subsidiary incorporated in Japan is subject to income tax and local inhabitant tax. The corporate income tax rate for the year ended 31 December 2011 applicable to the subsidiary is 30% (2010:30%) based on the assessable profit. The inhabitant tax is determined based on rates on the income tax payable, subject to a certain minimum payment. As there was no assessable profit derived during the year ended 31 December 2011 (2010: nil), the subsidiary was subject to the minimum inhabitant tax payments.

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

	2011	2010
	RMB'000	*RMB'000*
Profit before income tax	**228,078**	1,837,439
Tax calculated at the statutory tax rate of 25% (2010: 25%)	**57,020**	459,360
Tax effects of:		
— Tax losses for which no deferred income tax asset was recognised	**61,164**	—
— Preferential tax rates on the profits of certain subsidiaries	**(20,056)**	(76,747)
— Income not subject to tax	**(4,477)**	(10,225)
— Expenses not deductible for tax purpose	**3,389**	2,803
Withholding taxation on the profits of PRC Subsidiaries to be distributed to foreign investors	**27,000**	—
Others	**(1,619)**	(1,712)
Income tax expense	**122,421**	373,479

8 EARNINGS PER SHARE

(a) Basic

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

	2011	2010
Profit attributable to owners of the Company *(RMB'000)*	**102,186**	1,463,692
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme *(thousands)*	**5,623,497**	5,666,053
Basic earnings per share *(RMB cents per share)*	**1.82**	25.83

(b) Diluted

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding assuming conversion of all dilutive potential ordinary shares. As at 31 December 2011, there was no potential diluted ordinary share.

	2011	2010
Profit attributable to owners of the Company *(RMB'000)*	**102,186**	1,463,692
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme *(thousands)*	**5,623,497**	5,666,053
Adjustment for share options *(thousands)*	**—**	3,000
Weighted average number of ordinary shares in issue for diluted earnings per share *(thousands)*	**5,623,497**	5,669,053
Diluted earnings per share *(RMB cents per share)*	**1.82**	25.82

9 INTANGIBLE ASSETS — GROUP

	KAPPA trademarks *RMB'000*	**Phenix trademark and others** *RMB'000*	**Computer software** *RMB'000*	**Total** *RMB'000*
At 31 December 2010				
Net book amount	268,782	8,032	26,047	302,861
At 31 December 2011				
Net book amount	261,041	7,817	20,253	289,111

10 INTERESTS IN JOINTLY CONTROLLED ENTITIES — GROUP

	2011 *RMB'000*	2010 *RMB'000*
At 1 January	**19,142**	19,442
Share of profits/(losses)	**135**	(403)
Exchange differences	**(368)**	103
At 31 December, share of net assets	**18,909**	19,142

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	
	2011	2010
	RMB'000	*RMB'000*
Total assets	**23,395**	22,801
Total liabilities	**(4,486)**	(3,659)

	Year ended 31 December	
	2011	2010
	RMB'000	*RMB'000*
Revenue	**23,581**	21,412
Gains/(losses) after income tax for the year	**135**	(403)

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.

11 AVAILABLE-FOR-SALE FINANCIAL ASSETS — GROUP

	2011	2010
	RMB'000	*RMB'000*
At 1 January	**213,938**	—
Exchange differences	**(12,953)**	—
Additions during the year	**1,016,375**	208,289
Fair value gain transferred (from)/to equity	**(5,649)**	5,649
Impairment losses *(Note (e))*	**(238,313)**	—
At 31 December	**973,398**	213,938

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

	2011	2010
	RMB'000	*RMB'000*
Unlisted equity securities in the PRC		
— MSYH Group *(Note (a))*	**130,000**	192,938
— Yunfeng Fund *(Note (b))*	**630,090**	—
— CITIC Mezzanine Fund I *(Note (c))*	**150,000**	—
— Other investment	**21,000**	21,000
Listed equity securities in the US		
— Mecox Lane *(Note (d))*	**42,308**	—
	973,398	213,938
Market value of listed securities	**42,308**	—

Notes:

(a) This represents the Group's holding of 22.05% equity interests in Mai Sheng Yue He Sporting Goods Co., Limited ("MSYH") which wholly owns various companies engaging in the distribution and retail of sport-related products in various provinces in the PRC ("MSYH Group"). The Group started the investments in the companies now comprising the MSYH Group in 2009; by then the companies were regarded as associated companies of the Group. Pursuant to a re-organization in August 2010, the Group ceased to have significant influence over the MSYH Group, accordingly, the Group's interests in associated companies were transferred to available-for-sale financial assets in August 2010.

As at 31 December 2011, the fair value of the investment in MSYH Group was estimated to be RMB130,000,000 and a provision of RMB57,289,000 was made. The fair values of investments in MSYH Group as at each balance sheet date are determined with reference to a valuation model based on estimated discounted cash flows.

(b) On 22 September, 2011, through a subsidiary of the Company, the Group entered into subscription and limited partnership agreements with Yunfeng E-commerce funds ("Yunfeng Funds"), pursuant to which the Group subscribed for limited partnership interests with a total capital commitment of USD100,000,000 (equivalent to RMB638,080,000). The Yunfeng Funds are established for the purpose of making investments in Alibaba Group Holding Limited, a leading group in the Chinese e-commerce industry.

As at 31 December 2011, the Group has fully paid the capital commitment of USD100,000,000, and the investment was stated at fair value which was determined to be the same as the cost of investment which is equivalent to RMB630,090,000 (excluding the exchange losses of RMB7,990,000) given the short period of investment and no significant changes in market conditions.

(c) On 1 September 2011, through a subsidiary of the Company, the Group entered into subscription agreements and limited partnership agreements, pursuant to which the Group subscribed for limited partnership interests with a total capital commitment of RMB300,000,000 in CITIC Mezzanine Fund I. The CITIC Mezzanine Fund I is a limited partnership established for the purpose of making equity and debt investments in the PRC. As at 31 December 2011, the Group has paid RMB150,000,000, being 50% of the capital commitment, and the investment was stated at fair value which was determined to be the same as the cost of investment given the short period of investment and no significant changes in market conditions.

(d) On 2 March 2011, the Group entered into a share purchase agreement with two shareholders of Mecox Lane Limited ("Mecox Lane"), a company listed on NASDAQ in the United States of America ("USA") and engaged in sales of apparel and accessories on online platforms in the PRC. Pursuant to the share purchase agreement, the Group purchased 40,519,225 ordinary shares of Mecox Lane, representing approximately 10% of the issued shares of Mecox Lane, at a price of US$0.8571 per share, totaling USD 34,729,000 (equivalent to approximately RMB228,295,000). The Group is subject to a one-year lock-up period, starting from the closing date of the share purchase on 25 March 2011. In addition, the Group has options to purchase up to 18,306,117 ordinary shares of Mecox Lane at an exercise price of USD1.1429 per ordinary share during a two-years period starting from 25 March 2011.

As at 31 December 2011, the investment was stated at fair value of RMB42,308,000 which was determined with reference to the quoted price of the listed shares of Mecox Lane. The decline in fair values of the investment was considered significant, accordingly, the Group recognised a loss of RMB181,024,000 (excluded exchange losses of RMB4,963,000) in respect of provision for impairment of this investment.

(e) Changes in the fair values of the investments are recognised in other comprehensive income while the impairment losses are charged to the income statement. As at 31 December 2011, the declines in relation to the fair value of investments in MSYH and Mecox Lane were considered significant, the Group recognised losses of RMB57,289,000 and RMB181,024,000 for the two investments respectively.

12 TRADE RECEIVABLES — GROUP

	2011	2010
	RMB'000	*RMB'000*
Trade receivables		
— Third parties	**416,926**	524,461
— Related parties	**188,724**	188,816
	605,650	713,277
Less: provision for impairment	**(58,029)**	(18,769)
Trade receivables, net	**547,621**	694,508

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 2011 and 2010 was as follows:

	2011	2010
	RMB'000	*RMB'000*
Current	**290,345**	571,110
Within 30 days	**154,226**	116,985
31 to 120 days	**147,989**	24,880
Over 120 days	**13,090**	302
	605,650	713,277

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 2011, trade receivables of RMB315,305,000 (2010: RMB142,167,000) were past due, of which RMB58,029,000 (2010: RMB18,769,000) 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:

	2011	2010
	RMB'000	*RMB'000*
At 1 January	**18,769**	15,722
Provision for impairment losses of receivables	**38,833**	1,867
Exchange difference	**427**	1,180
At 31 December	**58,029**	18,769

13 TRADE PAYABLES — GROUP

The ageing analysis of trade payables as at 31 December 2011 and 2010 was as follows:

	2011	2010
	RMB'000	*RMB'000*
Current	**267,291**	367,251
Within 30 days	**4,599**	670
31 to 120 days	**3,770**	178
Over 120 days	**74**	854
	275,734	368,953

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.

14 DIVIDENDS

	2011	2010
	RMB'000	*RMB'000*
Interim dividend paid of RMB1.19 cents (2010: 4.16 cents) per share	**67,430**	235,722
Interim special dividend paid of RMB1.59 cents (2010: 4.16 cents) per share	**90,096**	235,722
No proposed final dividend for 2011 (2010: 3.59 cents per share)	**—**	203,424
No proposed final special dividend for 2011 (2010: 6.17 cents per share)	**—**	349,617
	157,526	1,024,485

The dividends paid in 2011 amounted to RMB710,567,000 or RMB12.54 cents per share (2010: RMB1,205,243,000, or RMB21.27 cents per share), comprising 2010 final dividends of RMB553,041,000 (2010: 2009 final dividends of RMB733,799,000) and 2011 interim dividends of RMB157,526,000 (2010: 2010 interim dividends of RMB471,444,000). The dividends of RMB3,743,000 were paid to the share held for Restricted Share Award Scheme.

Pursuant to a resolution passed on 27 March 2012, the board of directors of the Company does not propose a final dividend for the year ended 31 December 2011.

The aggregate amounts of the dividends paid during 2011 and 2010 have been disclosed in the consolidated income statement in accordance with the Hong Kong Companies Ordinance.

MANAGEMENT DISCUSSION AND ANALYSIS

Macro-economic Review

The global economic situation was filled with uncertainties and complications in 2011. The worsening European sovereign debt crisis, moderate economic recovery in the United States and normalize growth in emerging markets led to the continual sluggish performance in the global economy. In spite of the external instabilities and inflation, China was able to maintain a steady economic growth with the implementation of various measures to promote domestic demand. The National Gross Domestic Product (GDP) in 2011 amounted to RMB47,156 billion, representing a year-on-year increase of 9.2%.

In addition, rapid urbanization contributes to the continuous increase in the average per capita disposable income of residents. According to the National Bureau of Statistics, in 2011, urban population in China exceeded 50% of the overall population for the first time; the average per capita disposable income of urban residents was RMB21,810. Excluding price factor, a growth rate of 8.4% was recorded year-on-year. As China undergoes its Twelfth Five-year Plan with accelerated speed in urbanization development, tremendous consumption power shall be unleashed, creating significant market opportunities that appeals to both domestic and foreign retail enterprises, each competing to gain greater market share through expansion.

Industry Review

Growth in the Chinese sportswear industry has reached a certain level of maturity and has entered a phase of stabilized growth after a period of rapid expansion with growth rate reaching 30%. As a result, urban cities including higher-tier cities have become mildly saturated. Rising household income and urbanization continued to be the locomotive fueling the Chinese sportswear market. The steady rise of affluent and middle-class population in lower-tier cities sparks a stronger consumption demand than that in the higher-tier cities, in particular, their demand for higher-end consumption.

Meanwhile, the market competition continues to intensify as both sports performance brands and casual brands strive to expand into the Chinese market. However, the overall sportswear consumption in China remains relatively low against the global market, indicating significant opportunities in the retail market. In addition, a rising trend of apparel combining sports, fashion and function is expected to lead the sportswear industry into an era of diversification as the demand from Chinese consumers continues to evolve and improve.

On the other hand, the sluggish European and American markets caused international sportswear brands to seek opportunities in emerging markets, with China being the main focus. Riding on the market opportunities that urbanization brings along, a number of international sportswear brands are increasing their efforts in the expansion into second- and third-tier cities by introducing products with price levels suitable for such markets, resulting in direct competition with local sportswear brands and diversifying the consumer demand.

In addition to the challenging market conditions, the overall sportswear industry also faces the pressure of increasing labour and rental costs, which leads to a decline in the profitability of retail stores. Various brands have dedicated efforts in reorganizing sales channels and improving the operating efficiency of retail stores.

Although the Chinese sportswear industry is facing numerous challenges, sportswear brands with clear brand positioning, effective sales management and product differentiation will be able to seize market opportunities amidst this adjustment period and strive to be the market leader.

Business Review

2011 was a year of adjustment for both the Chinese sportswear industry and China Dongxiang. During the year, the Group equipped itself by endeavoring in brand promotion, enriching product portfolio and optimizing sales channels in order to capture future growth opportunities.

Brand Promotion

Sports Event Sponsorship

The Group continues to reinforce the brand positioning of "sports, fashion, sexiness and style" through sponsorship on high profile sports events advocating the lifestyle of "sports fashion and stylish sportswear".

— China Open

2011 marked the fifth consecutive year of Kappa's cooperation with China Open as its Platinum Sponsor. Kappa's tennis apparel brought vitality to every player on the court. Referees, caddies and cheerleaders all put on apparel sponsored by Kappa, which spiced up every details of the event with vibrant colours and trendiness.

Kappa also organized a special match for the press covering the China Open to experience playing alongside first-tier tennis players and enhance the positive image of China Open and Kappa among the press.

— HSBC Golf Championship

Kappa GOLF has become the official sponsor for the most renowned golf event in China — HSBC Golf Championship, for the third consecutive year. Kappa provided graceful, fashionable and functional apparel. Through on-site media events and media fun day, as well as advertorial and celebrity promotion, the professional image of Kappa GOLF was successfully enhanced.

Sports Team Sponsorships

In 2011, Kappa continued to be the official co-sponsor of MARUSSIA, Virgin Racing F1 Team uniform and also sponsored German Bundesliga Borussia Dortmund's team uniform to enhance brand awareness.

— Virgin Racing F1 Team

Kappa specially designed uniform with distinctive cutting and fabric for the Virgin Racing F1 Team, combining fashion and functionalities that team players require in high-speed events, demonstrating a perfect blending of sports and fashion.

— German Bundesliga Borussia Champion Dortmund Soccer Team

Kappa continued to be the team uniform sponsor of Borussia Dortmund with the goal of promoting its brand as a perfect combination of "sports, fashion, sexiness and style" to the fans in the world-class German Bundesliga matches.

— Co-sponsorship of Italian Serie A Club AS Roma

Thematic Events — "Back to the Mainstream of Fashion"

Kappa organized a series of "Back to the Mainstream of Fashion" activities with the theme of retro fashion during the year. Through various above-the-line and below-the-line activities, Kappa connected fashionistas from all walks of life. "Online Call for Creative Works" leveraged on Kappa's official website and websites including www.weibo.com, www.kaixin100.com, etc. to call for environmentally-friendly retro artworks from visitors. In the first week of launch alone, more than 300,000 visitors had submitted their creative pieces. "DIY of The Fashion Bunny" allowed visitors to design their own "Fashion Bunnies" with different backgrounds and graffiti drawing tools. Winners were awarded pieces from Kappa's trendy collection. "Telling Your Story of Fashion" on www.weibo.com encouraged the sharing of fashion opinions and experiences with incentives for participants.

Combined with a number of above-the-line activities, the "Caravan Art Tour" organized an art tour in eight representative cities, namely Beijing, Shanghai, Guangzhou, Shenzhen, Tianjin, Hangzhou, Chengdu and Shenyang, to promote a new way of retro lifestyle. Driving the "retro" caravan, Kappa visited the famous meet-up points of fashionistas, the plaza outside of Dayuecheng, a shopping mall in Shanghai. The event attracted many stylish youngsters and successfully created noise for the re-creation of classic fashion elements.

Expansion of Product Portfolio

Kappa Products

C19 Series

Targeting a popular street sport, Fixed Gear, the C19 series was a key new product launch of Kappa in 2011. The series incorporates the needs of cyclists and trendy style. It complies with Kappa's brand DNA of "sports, fashion, sexiness and style". The series was officially launched in July 2011 and was well-received by the market.

In order to promote the C19 series, Kappa launched a city cycling tour named "Discovering Fixed Gear Culture While Integrating Trendy Cultures". F.E.S.S. (Far East Smotin Skidders), the cycling team from Tokyo, Japan, passed through fashion cities including Beijing, Chengdu, Guangzhou, Hangzhou, Harbin and Shanghai, to interact with and introduced the C19 series to young local cyclists.

Curves Series

Kappa launched the new sports shoes series Kappa Curves in Summer 2011, which denotes contours of the human body. The unique design of the dual curvy sole can activate leg muscles and helps burn more energy from each step, presenting an idea of bodybuilding while working, shopping or strolling to city girls.

Kappa Soccer Series

Kappa launched its Spring/Summer Soccer Series for this long-lasting sports culture in May 2011. The series comprised professional performance lines and soccer-fan-culture lines targeted for the young crowd. The series was designed to cater for different tastes and easy mix-and-match. Footwear is designed with a multi-functional concept to enhance its value-for-money ratio and environmental awareness. Kappa also sponsored the German Bundesliga Borussia Dortmund Soccer Team and launched a press conference with the theme "A Sexy Shout-out" for soccer fans to enjoy the fascination of soccer.

Kappa P-A.C Series

Kappa continued to design the P-A.C series with the theme of "back to basics". During the year, the new Kappa P-A.C series was launched comprising knitwear, Polo shirts, T-Shirts, jackets, shorts and sneakers. Bright colour mix showcases the stylish and dynamic senses in the metropolis. Product weight was trimmed by applying lightweight fabric, while hollow fiber used also made the products more permeable, more washable and anti-wrinkle, thus achieving "back to basics" via easy steps in apparel care. Kappa cooperated with print media including Hotpot, Trends Health and Modern Weekly to launch a series of marketing campaigns introducing the philosophy and characteristics of this series to consumers.

Robe Di Kappa Business

The Robe Di Kappa (RDK) brand developed rapidly in 2011. RDK introduced three product series in the "2012 Spring/Summer Product Launch" held in December 2011, which included the stylish "Image" series, easy daily casual wear "Trendy" series and multi-functional "Classics" series. The enriched product portfolio carried through the continuous exploration of RDK on humanities, arts and creativity, demonstrating the "inner beauty of sports" to customers.

To promote the RDK brand and products, the Group leveraged on the emerging online media platform — www.weibo.com, to broadcast its new products live. This served as the most cost-efficient means to bring target customers closer to the products. As of end of December 2011, there were 24 RDK stores. The Group will continue to promote the brand awareness and image of RDK through different marketing and promotion methods.

Phenix Business

The Phenix brand underwent rapid expansion in China in 2011. Its outdoor product series was popularly welcomed by the market. As of 31 December 2011, there were 18 Phenix stores. During the year, Phenix stepped up its effort in product and brand promotion, publishing 38 advertisement insertions in 15 nationwide print magazines, with readership totaling 9.91 million. Phenix also placed promotional campaigns via advertisements on television, outdoor screen display, bus shelters, skiing facilities etc., as well as new media including www.weibo.com and online video platforms.

Other brands

Apart from the three major brands sold in China, the Group also owns X-nix, a snowboard sportswear brand, and Inhabitant, a sportswear brand with products covering various extreme sports. All these contribute to a diversified product portfolio for the Group.

Design and Development

The Group upholds its brand DNA of "sports, fashion, sexiness and style". To strengthen its brand positioning, the Group re-invited the renowned Korean designer, who had successfully transformed Kappa brand in the past, and his team to monitor the design of the Group's products with their acute fashion sense and creativity to best interpret Kappa brand DNA. The Group also cooperated with its Japanese design talents and famous design workshops in the United States and Europe to develop more creative and functional products.

The Kappa P-A.C series continued to create crossover projects with Michael Michalsky in 2011 for a new product series inspired by rock-climbing and street dancing. The "Culture" series was derived from the trendy street culture and the "K-" series was a cooperation with University of the Arts London. Both supplemented Kappa's product portfolio with diversity and impact. The Japanese design workshop actively developed new design techniques, including the Japanese-patented curvy zipper and 3D supersonic stitching. In addition, Phenix has become the official team uniform sponsor for the Norway team in the 2012 London Olympics and related new product designs are underway.

Optimize Sales Channels

The Group continued to optimize its sales channels during the year. Under the initiative of sales network consolidation, the Group closed retail stores that recorded unsatisfactory profitability, as a result the total number of retail stores totaled 3,119 as at 31 December 2011 compared with 3,751 as at 31 December 2010 as planned, which were operated directly or indirectly by 40 distributors. The distribution of retail stores covered all major provincial cities and other major urban areas and towns in China.

The Group will continue to focus on the profitability of retail stores by analyzing retail environment through products performance and further consolidate retail store operation and managements. The Group will also leverage on the long-term cooperation with MSYH Group to work on a "brand + retail" model to improve sales channel efficiency. Moreover, apart from traditional sales network by retail stores, the Group will make better use of the online sales platform so that customers can easily purchase Kappa products online and reduce inventory.

Business Review in Japan

Looking back at the business performance in Japan during the year, the most important event had to be the major earthquake that happened on 11 March. During that period, our Phenix Tokyo office and Niigata technical centre were paralysed, but luckily none of the staff was injured. Due to structural destructions of Phenix stores, Phenix's product sales was impaired as well.

Nevertheless, business performance recorded a sharp decrease shortly after the earthquake. Under the combined efforts of all staff, the overall sales revenue recorded an encouraging growth. Among which, products designed for use in natural calamities were particularly popular. However, the sales of outdoor hiking products was less satisfactory, and a year-on-year decline was recorded in the sales of golf products in shopping malls.

During the year, Phenix launched a new functional product series with EPIC Extreme as its core element comprising hiking and outdoor camping products which combine functionality with fashion. Phenix cooperated with famous Japanese image designer, Okabe Bungen, and launched innovative products with new mix-and-match styles welcomed by Japanese customers, which stimulated growth in sales.

Kappa launched a new multi-functional product series named Libero and received positive feedback from the market. With regard to soccer apparel, Kappa signed contract with Mitsuo Ogasawara of Kashima Antlers, thus enhancing Kappa's influence in Japanese football. Kappa GOLF sponsored famous golf player Oyama Shiho who won her championship in the women's match in Masters Golf Club. The Kappa GOLF apparel that she wore was favored by golf fans.

Financial Review

Our sales for the year ended 31 December 2011 was RMB2,742 million, decreased by 35.7% as compared to that for the year ended 31 December 2010. Profit attributable to equity holders of the Company for the year ended 31 December 2011 was RMB102 million, decreased by 93.0% as compared to RMB1,464 million for the year ended 31 December 2010.

Key Financial Performance by Segments

		Group *(Note 3)* **Year ended 31 December**			**China Segment** *(Note 1)* **Year ended 31 December**			**Japan Segment** *(Note 2)* **Year ended 31 December**		
		2011	2010	**change**	**2011**	2010	**change**	**2011**	2010	**change**
	Note	***RMB million***	*RMB million*		***RMB million***	*RMB million*		***RMB million***	*RMB million*	
Key items of consolidated income statement										
Sales		**2,742**	4,262	-35.7%	**2,122**	3,650	-41.9%	**620**	612	1.3%
Gross profit (before provision for impairment of inventories)	4	**1,507**	2,546	-40.8%	**1,241**	2,278	-45.5%	**266**	268	-0.7%
Operating profit	3	**99**	1,741	-94.3%						
Profit attributable to equity holders of the Company	3	**102**	1,464	-93.0%						
		%	%	**%pt**	**%**	%	**%pt**	**%**	%	**%pt**
Profitability ratios										
Gross profit margin (before provision for impairment of inventories)	4	**55.0**	59.7	-4.7	**58.5**	62.4	-3.9	**42.9**	43.9	-1.0
Operating profit margin		**3.6**	40.9	-37.3						
Effective tax rate		**53.7**	20.3	33.4						
Net profit margin		**3.7**	34.3	-30.6						
Key operating expenses ratios (as percentage of sales)										
Advertising and marketing expenses		**13.9**	9.3	4.6	**15.3**	9.5	5.8	**8.9**	8.3	0.6
Employee salary and benefit expenses		**8.3**	4.6	3.7	**7.6**	3.6	4.0	**10.5**	10.5	0.0
Design and product development expenses	3	**4.0**	2.8	1.2						
		in days	*in days*	*in days*	***in days***	*in days*	*in days*	***in days***	*in days*	*in days*
Working capital efficiency ratios										
Average trade receivable turnover days	5	**88**	47	41	**81**	37	44	**111**	109	2
Average trade payable turnover days	6	**95**	72	23	**91**	65	26	**106**	100	6
Average inventory turnover days	7	**144**	60	84	**145**	45	100	**143**	121	22

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. On 8 July 2011, the Group announced that the Group took initiative to repurchase of inventory from our distributors to the extent of RMB1.6 billion (tag price). As at 31 December 2011 the repurchase has been completed and a total amount of RMB1.45 billion (tag price) of inventory has been repurchased. In view of the current market environment, the Group decided to make provision of RMB216 million (2010: RMB14 million) for impairment of inventories held by us as at 31 December 2011. According to IFRS, the inventory provision has been included in cost of goods sold. For the purpose of analysis, the Group considers that it is more meaningful to compare the gross profits before provision for impairment of inventories.

5. 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.

6. 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.

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

Sales Analysis

Sales analyzed by geographical segments, business segments and product categories

	Year ended 31 December						
	2011			2010			
	RMB million	**% of product/ brand mix**	**% of Group sales**	RMB million	% of product/ brand mix	% of Group sales	**change**
CHINA SEGMENT							
Kappa Brand							
Apparel	**1,507**	**71.9%**	**55.0%**	2,718	74.8%	63.8%	-44.6%
Footwear	**515**	**24.6%**	**18.8%**	791	21.8%	18.5%	-34.9%
Accessories	**73**	**3.5%**	**2.7%**	124	3.4%	2.9%	-41.1%
Kappa Brand total	**2,095**	**100.0%**	**76.5%**	3,633	100.0%	85.2%	-42.3%
International business, RDK and others	**27**		**1.0%**	17		0.4%	58.8%
CHINA SEGMENT TOTAL	**2,122**		**77.5%**	3,650		85.6%	-41.9%
JAPAN SEGMENT							
Phenix Brand	**417**	**67.3%**	**15.2%**	393	64.3%	9.2%	6.1%
Kappa Brand	**198**	**31.9%**	**7.2%**	219	35.7%	5.2%	-9.6%
Others	**5**	**0.8%**	**0.1%**	—	0.0%	0.0%	N/A
JAPAN SEGMENT TOTAL	**620**	**100.0%**	**22.5%**	612	100.0%	14.4%	1.3%
THE GROUP TOTAL	**2,742**		**100.0%**	4,262		100.0%	-35.7%

China Segment

Kappa Brand

Total sales from the Kappa Brand business, the core business of the Group, for the year ended 31 December 2011 was RMB2,095 million, decreased by RMB1,538 million from RMB3,633 million for the year ended 31 December 2010. Such decrease was principally due to our initiative to alleviate the problem of accumulation of inventory faced by our distributors by reducing their volume of sales orders in 2011 as well as making a one-off inventory repurchase offer to distributors, in a bid to scale their inventory back to normal level for laying a good foundation for subsequent healthy growth.

Apparel was the major product of the Kappa Brand in China and its sales represented 71.9% (2010: 74.8%) of the brand's total sales. During the year, sales of footwear constituted 24.6% of total revenue of the brand, representing an increase of 2.8 percentage points as compared to 21.8% in 2010. Substantial increase in sales percentage of Kappa Brand footwear was mainly due to our gradual expanded efforts in research, development and design of footwear since 2010 to responsively fulfill customers' demand.

International Business, RDK and Others

Sales from international business, RDK and other brands increased by RMB10 million to RMB27 million for the year ended 31 December 2011 from RMB17 million for the year ended 31 December 2010. Such increase was mainly due to the growth in sales of RDK.

Japan Segment

Sales from Japan segment for the year ended 31 December 2011 marginally increased by RMB8 million to RMB620 million from RMB612 million for the year ended 31 December 2010. In spite of the impact of 9.0-magnitude Japan earthquake on the Japan economy this year, our sales from Japan segment remained stable and saw marginal increase, primarily due to the combined positive effects of channels development, branding and sales promotion by Phenix. As a result, the market share has been secured.

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

	Year ended 31 December					
	2011		2010		**Change**	
	ASP ***RMB***	**Total units sold** ***in '000***	ASP *RMB*	Total units sold *in '000*	**ASP**	**Total units sold**
Apparel	**161**	**8,451**	157	18,407	2.5%	-54.1%
Footwear	**178**	**2,595**	184	4,582	-3.3%	-43.4%

Notes:

1. Average selling price represent the sales for the year, before adjusting 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 average selling price per unit. We believe that the average selling price per unit analysis of this product category is not meaningful.

Average selling price per unit for apparel products in 2011 went up marginally to RMB161 from RMB157 in 2010, primarily due to product improvements and innovations achieved this year following an introduction of a new design and planning team by the Group since 2011 and pricing structure has been optimized. Additionally, we focused on developing channels for obsolete inventory clearance in 2011, of which e-commerce was one of the most efficient channels with rapid growth in sales. Given the impact of the inventory clearance, significant increases in sales discount and customer support offered by the Group, the increase in average selling price has been limited.

Average selling price per unit for footwear products dropped to RMB178 for the year ended 31 December 2011 from RMB184 for the year ended 31 December 2010, primarily due to the combined impact of obsolete inventory clearance and increased discount offer.

Total units sold for apparel and footwear products in 2011 significantly fell by 54.1% and 43.4%, respectively, as compared to last year, which was primarily due to our initiative to control the distributors' volume of sales orders as well as making a one-off inventory repurchase offer to our distributors in 2011.

Cost of Goods Sold and Gross Profit

Cost of goods sold before provision for impairment of inventories has dropped by RMB481 million, or 28.0%, to RMB1,235 million for the year ended 31 December 2011 from RMB1,716 million for the year ended 31 December 2010, which was impacted by our strategic reduction in sales orders from the distributors as well as inventory repurchase in the year. Gross profit before provision for impairment of inventories was RMB1,507 million (2010: RMB2,546 million), representing a decrease of RMB1,039 million (or 40.8%). Overall gross profit margin before provision for impairment of inventories fell by 4.7 percentage points to 55.0% for the year ended 31 December 2011 from 59.7% for the year ended 31 December 2010.

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

	Year ended 31 December		
	2011	2010	**Change**
	Gross profit margin*	Gross profit margin*	% pt
China segment			
Kappa Brand:			
Apparel	**60.2%**	64.4%	-4.2
Footwear	**54.3%**	55.4%	-1.1
Accessories	**61.6%**	64.8%	-3.2
Kappa Brand overall	**58.8%**	62.4%	-3.6
International business, RDK and others	**36.3%**	55.3%	-19.0
China segment overall	**58.5%**	62.4%	-3.9
Japan segment	**42.9%**	43.9%	-1.0
Group overall	**55.0%**	59.7%	-4.7

* Before provision for impairment of inventories

Gross profit margin of Kappa Brand in China segment for the year ended 31 December 2011 dropped by 3.6 percentage points to 58.8% from 62.4% for the year ended 31 December 2010. Such fall was due to evident rise in cost of production, provision of further support to our distributors by the Group as well as obsolete stock clearance through e-commerce, in particular for apparel products. As a result, increase in sales discount has dragged down the gross profit margin to a certain extent.

Gross profit margin of Japan segment for the year ended 31 December 2011 was 42.9%, marginally dropped by a percentage point as compared to 43.9% for the year ended 31 December 2010.

Other Gains, Net

Other gains for the year ended 31 December 2011 mainly represented subsidy income from the government for China segment amounted to RMB120 million (2010: RMB199 million).

Provision for impairment of available-for-sale financial assets

During the year, the Group made fair value assessment on its available-for-sale financial assets in accordance with its accounting policy. As a consequence, the Group has made provision for impairment of RMB238 million, representing the provision of Group's investment in Mecox Lane, a company engaged in sales of apparel and accessories on online platforms, of RMB181 million and investment in MSYH Group, a company engaged in the distribution and retail of sport-related products in mainland China, of RMB57 million.

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. Total distribution costs and administrative expenses for the year ended 31 December 2011 grew by RMB51 million to RMB1,068 million as compared to RMB1,017 million for the year ended 31 December 2010, constituting 38.9% of the Group's total sales.

During the year, the Group has recruited experienced senior management talent with capabilities in international management for enhancement on strategies of retail management as well as support for execution of our 5-year strategic plan, leading to an increase in staff costs of the Group by RMB31 million to RMB227 million for the year ended 31 December 2011 from RMB196 million for the year ended 31 December 2010. Consulting fees increased by RMB19 million to RMB31 million for the year ended 31 December 2011 from RMB12 million for the year ended 31 December 2010, mainly due to the launch of consulting projects on strategic planning, human resources and internal management upgrade. Advertising and marketing expenses reduced by RMB18 million to RMB380 million for the year ended 31 December 2011 from RMB398 million in 2010, and the strategic focus on marketing has shifted from brand promotion to retail promotion activities which better accommodate the retail market. Our logistic fees of RMB93 million in 2011 remained stable as compared with RMB92 million in 2010. Design and product development expenses for the Group in 2011 was RMB111 million (2010: RMB121 million).

Operating Profit

For the year ended 31 December 2011, operating profit of the Group was RMB99 million (2010: RMB1,741 million). The operating profit margin was 3.6% for the year ended 31 December 2011 (2010: 40.9%). The drastic decline in the operating profit margin was mainly due to a drop in gross profit margin before provision for impairment of inventories by 4.7

percentage points, an increase in expense ratio by 15.0 percentage points, a decrease in other net gains by RMB112 million and provision for impairment of inventories and available-for-sale financial assets.

Finance income, Net

For the year ended 31 December 2011, finance income mainly comprised interest income of RMB89 million (2010: RMB84 million), and income derived from investment in treasury bonds and treasury products of RMB44 million (2010: RMB31 million), as well as a foreign exchange gains of RMB1 million (2010: exchange loss of RMB17 million).

Taxation

For the year ended 31 December 2011, income tax expense of the Group amounted to RMB122 million (2010: RMB373 million). The effective tax rate was 53.7% (2010: 20.3%). Drastic increase in effective tax rate was primarily due to: 1) the increase in income tax rate of our major operating subsidiaries established in the Shanghai Pudong New Area from 22% for 2010 to 24% for 2011; 2) a 5% to 10% withholding tax rate was imposed on dividends paid to a non-resident company by a resident company in accordance with the new PRC Enterprise Income Tax Law promulgated in 2008, accordingly withholding income tax of RMB27 million has been provided based on management estimation on future dividend payment to offshore subsidiary; 3) provision for impairment in investments in Mecox Lane and MSYH Group of RMB238 million, which have no tax benefits to the Group. Since the two investments were operated by a tax-exempt subsidiary incorporated outside PRC and a PRC-incorporated subsidiary with no taxable income respectively, as a result, no deferred income tax has been provided for impairment in investments.

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 24% in 2011 (2010: 22%).

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 2011 was RMB102 million (2010: RMB1,464 million), and net profit margin of the Group was 3.7% (2010: 34.3%).

Earnings Per Share

The basic and diluted earnings per share were RMB1.82 cents (2010: RMB25.83 cents) and RMB1.82 cents (2010: RMB25.82 cents) for the year ended 31 December 2011, respectively.

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

Final Dividend

The Company has paid an interim and interim special dividend for the six months ended 30 June 2011 of RMB1.19 cents and RMB1.59 cents per ordinary share, respectively, with a total amount of RMB158 million, representing approximately 153% of profit attributable to equity holders of the Company for the year ended 31 December 2011. Therefore, the Board of the Company does not recommend the payment of final dividend for the year ended 31 December 2011.

Financial Position

Working capital efficiency ratios

China Segment

Average trade receivable turnover days for the years ended 31 December 2011 and 2010 were 81 days and 37 days, respectively, average trade receivable turnover days in 2011 increased significantly as compared with 2010. Such increase was primarily as decline in revenue resulting from inventory repurchase and trade orders control. Additionally, in view of the general market environment, credit terms have been moderately extended in order to enhance our support to our distributors.

Average trade payable turnover days for years ended 31 December 2011 and 2010 were 91 days and 65 days respectively. Increase in average trade payable turnover days was primarily due to decrease in cost of goods sold.

Average inventory turnover days for the years ended 31 December 2011 and 2010 were 145 days and 45 days respectively. Drastic increase in average inventory turnover days was primarily due to increase in inventory balance resulting from inventory repurchase as well as remarkable drop in cost of good sold resulting from decrease in revenue.

Japan Segment

Average trade receivable turnover days and average trade payable turnover days were 111 days and 106 days, respectively for the year ended 31 December 2011 as compared to 109 days and 100 days, respectively for the year ended 31 December 2010. As Phenix's management policies on procurement and sales remained unchanged with effective implementation, the above turnover days have maintained substantially stable. Average inventory turnover days for the year ended 31 December 2011 were 143 days as compared to 121 days for the year ended 31 December 2010. Such increase was primarily due to increase in stock level of spring/summer 2011 caused by the earthquake in Japan in March 2011.

Liquidity and financial resources

As at 31 December 2011, cash and bank balances (including long term bank deposits) of the Group amounted to RMB3,775 million, a decrease of RMB1,253 million compared to a balance of RMB5,028 million as of 31 December 2010. This decrease mainly due to 1)an investment in CITIC Mezzanine Fund I of RMB150 million and an investment in Yunfeng E-commerce Fund of equivalent to approximately RMB638 million; 2) an investment in Mecox Lane of equivalent to approximately RMB228 million; 3) payment of 2010 final and final special dividends as well as 2011 interim and interim special dividends for an aggregate amount of RMB707 million; 4) payment of share repurchase of equivalent to approximately RMB43 million; and 5) collection principal and gains of treasury bonds and capital guaranteed treasury products issued by commercial bank approximately RMB454 million.

As at 31 December 2011, net assets attributable to our equity holders was RMB6,795 million (31 December 2010: RMB7,515 million). The Group's current assets exceeded current liabilities by RMB5,274 million (31 December 2010: RMB6,570 million). The Group also had a very strong liquidity position. The current ratio as of 31 December 2011 was 9.5 times (31 December 2010: 8.5 times).

As at 31 December 2011, the Group had no outstanding bank loans or other borrowings.

Pledge of assets

As at 31 December 2011, the Group had approximately RMB137 million (31 December 2010: RMB36 million) were held in banks as deposits of advertising fee payable to our business partner who is a third party as well as guarantee deposit for the issue of letters of credit for our business.

Capital commitments and contingencies

According to a limited partnership agreement, the Group shall pay a capital contribution of RMB300 million for investment in CITIC Mezzanine Fund I. As at 31 December 2011, the Group has already paid RMB150 million of the capital contribution, with the remaining balance of RMB150 million as capital commitments.

Foreign exchange risk

The functional currency of the Company is US Dollars owing to the fact that its business is transacted in US Dollars. During the Global Offering in October 2007, the Company received its proceeds in HK Dollars. The proceeds were either deposited in bank accounts denominated in HK Dollars or converted into US Dollars and deposited in bank accounts denominated in US Dollars. As a result, the exchange differences arising from appreciation or depreciation of the US Dollars against the Company's HK Dollars bank deposits, were 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.

Significant investments and acquisitions

On 2 March 2011, the Group entered into a share purchase agreement with two shareholders of Mecox Lane Limited, a company listed on NASDAQ and engaged in sales of apparel and accessories on online platforms. Under the share purchase agreement, the Group purchased 40,519,225 ordinary shares of Mecox Lane representing approximately 10% of the issued and outstanding shares of Mecox Lane at a price of US$0.8571 per share, totaling approximately US$35 million (equivalent to approximately RMB228 million). The Group was subject to a one-year lock-up period, starting from the closing date of the share purchases. In addition, the vendor also agreed to grant to the Group options to purchase 18,306,117 ordinary shares of Mecox Lane. The options are exercisable during a two-year period starting from the closing date of the above share purchases and the exercise price is US$1.1429 per ordinary share.

On 1 September 2011, the Group, through its wholly-owned subsidiary, entered into a limited partnership agreement pursuant to which the Group, as a limited partner, agreed to make a capital commitment of RMB300 million in CITIC Mezzanine Fund I. As at 31 December 2011, the Group has paid RMB150 million of the capital commitment.

On 22 September 2011, the Group, through its wholly-owned subsidiary, entered into a limited partnership agreement with Yunfeng E-commerce Funds, pursuant to which the Group, as a limited partner, agreed to make a capital commitment of US$100 million (approximately RMB638 million). As at 31 December 2011, the Group fully paid up the capital commitment.

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 2011.

Outlook

Though the Chinese economy is expected to grow at a steady speed in year 2012, the overall tone of the retail market remains static. Accumulated inventory at retail end remains a key issue. Coupled with intensifying market competition from international brands expanding more aggressively into the Chinese market, further integration of the sportswear industry is expected going forward. In order to capture any future opportunities that may arise, the Group will overcome these challenges pragmatically and through perseverance in the face of a difficult market environment.

In terms of product development, Kappa will continue to enrich its product portfolio while reinforcing its brand positioning of "sports, fashion, sexiness and style". Leveraging on our design resources in Japan, the Group is confident that the reorganized design team will be able to deliver more eye-catching products that not only attract consumers and stimulate sales, but also emphasizes our brand DNA.

To sell a quality product, an effective sales channel is required. The Group will continue to optimize its distribution network and sales efficiency in 2012, with priority set on reducing accumulated retail inventories, so as to make way for more new products. First, the Group will put greater efforts on cooperating with our key customers by reorganizing our sales team and re-allocate our resource, through customer-oriented management to enhance profitability. Last but not least, the Group will continue to place emphasis on retail sales performance by working closely with distributors in monitoring store efficiency and offering timely support and adjustments.

Furthermore, the Group will fully utilize on our internal resources, including our abundant cash on hand and the R&D capabilities of our Japan team, to optimize our internal operation, enhance brand image and product design. The Group will also leverage on our long-term strategic cooperation with MSYH Group to work together on creating a new "brand + retail" model to improve sales channel efficiency. Apart from traditional retail outlets, the Group will also place more focus on online sales channels and making use of the platform as a key channel for inventory clearance.

In the year ahead, the Group will look into refining every process of our operation management to lay the groundwork for a more solid foundation for future growth. We believe that enterprises with clear positioning, innovative and excellent executions are well-poised to capture promising opportunities in the future.

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 2011, except one deviation from code provision A.2.1 of the CG Code. Provision A.2.1 of the Code provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Our Company deviates from this provision because Mr. Chen Yihong performs both the roles of chairman and chief executive officer since 20 October 2011. Mr. Chen is the founder of our Group and has extensive experience in sporting goods industry in China. The Board believes that vesting the two roles in the same person provides our Company with strong and consistent leadership and facilitates the implementation and execution of our Group's business strategies. We shall nevertheless review the structure from time to time in light of the prevailing circumstances.

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 2011.

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 2011.

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 2011, the Audit Committee had held three meetings in 2011.

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 2011.

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

For the year ended 31 December 2011, the Company repurchased a total of 30,000,000 shares of par value HK$0.01 each of the Company at an aggregate purchase price of approximately HK$52,137,988.16 on the Hong Kong Stock Exchange.

As at the date of this announcement, all the 30,000,000 ordinary shares repurchased during the year ended 31 December 2011 had been cancelled and the issued share capital of the Company was reduced by the par value thereof accordingly. The above repurchases were effected by the Directors, pursuant to the mandate from Shareholders, with a view to benefiting Shareholders as a whole in enhancing the net assets and/or earnings per share of the Company.

Saved as disclosed above, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of any listed securities of the Company for the year ended 31 December 2011.

Annual General Meeting ("AGM")

The AGM of the Company will be held in Hong Kong on 15 May 2012. Notice of the AGM will be issued and disseminated to shareholders in due course.

To ascertain shareholders' eligibility to attend and vote at the annual general meeting, the register of members will be closed from Thursday, 10 May 2012 to Tuesday, 15 May 2012 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify to attend and vote at the annual general meeting, all transfers 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, no later than 4:30 p.m. on Wednesday, 9 May 2012.

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, 27 March 2012

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