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 2012

Financial Highlights:

- Group sales decreased by 35.4% to RMB1,772 million
- Gross profit margin (before provision for impairment of inventories) decreased by 7.5%pts to 47.5%
- Operating profit decreased by 30.3% to RMB69 million
- Profit attributable to the equity holders increased by 73.5% to RMB177 million
- Strong cash and bank position (including bank issued treasury products) of RMB4,974 million
- Recommend a final dividend of RMB0.43 cent per share and a final special dividend of RMB0.57 cent per share, totally of RMB1.00 cent per share. Together with the total interim and interim special dividends paid on 18 September 2012, the total dividends payout represents 70% of the Group's profit attributable to the equity holders in 2012.

CHAIRMAN STATEMENT

Dear Shareholders,

2012 marks the 10th anniversary of China Dongxiang. In the past decade, China Dongxiang experienced drastic changes of the Chinese sportswear market, from a prosperous spring with robust growth to a severe winter with tough challenges. Being the founder and helmsman of China Dongxiang, I have held my unwavering promise and vision on the Company despite all the turbulences that it has undergone. A review of China Dongxiang's course of development over the years enables us to have a clearer vision for success in the Group's future development.

Looking back at 2012, brand operators in the sportswear industry continued to struggle with the clearance of excessive inventories accumulated in the market and competition intensified. Coupled with recession in the macro economy, growth in retail sales also witnessed a decline, which presented China Dongxiang with unprecedented defiance. Nevertheless, amidst all the challenges, we enhanced our operational efficiency by reasonably utilizing our available resources. The Group also successfully sustained its solid financial position, which strengthened the Group's foundation for long-term growth.

The sales for the year ended 31 December 2012 of the Group was RMB1,772 million, decreased by 35.4% than last year. The Group's net profit attributable to equity holders for the year ended 31 December 2012 reached RMB177 million, representing a year-on-year increase of 73.5%. Basic earnings per share were RMB3.19 cents, an increase of 75.3% compared to last year. As at 31 December 2012, cash and bank balance and treasury products of the Group reached RMB4,974 million, allowing the Group greater flexibility in the implementation of long-term development strategies. According to the Group's general dividend policy, we recommend the distribution of 30% of the Group's net profit attributable to equity holders for the year ended 31 December 2012 as the general dividend. In addition, taking into consideration the solid cash position of the Group, the Board recommends the additional payment of 40% of the Group's net profit attributable to equity holders for the year ended 31 December 2012 as special dividend. As a result, the overall dividend payout ratio for the year ended 31 December 2012 is 70%.

Pragmatism, innovation and passion are the core values of China Dongxiang. During the year, the Group cleared inventories totaling RMB1.3 billion in terms of tag price as planned by means of e-commerce, factory outlets and distribution channel. The Group also effectively managed the supply chain by making assessments on actual market situations and establishing a conservative sales order target. Although we recorded a net closure of retail outlets, the establishment of our local retail branch office in Hunan achieved satisfactory performance, which laid a solid foundation for the future development of the Group's "brand + retail" business model.

Confronted by adversities, the Group never ceased endeavoring in improving operations, and enhancing efficiency. Amidst this tough environment, China Dongxiang proactively reviewed the company structure and strengthened financial monitoring, which significantly reduced expenditures during the year. The Group adopted smart marketing, reinforced the integration of above-the-line brand promotion and below-the-line product sales, while further expanded cooperation among various online platforms to strengthen interaction between the brand and its customers for an enhanced brand influence. Such measures enabled the Group to achieve maximum efficiency in the promotion activities with minimal resource input.

Product innovation not only serves as a brand operator's driver for sustainable development, but it is also a key factor for a brand operator to stand out among its peers in a market suffering from product homogeneity. In 2012, China Dongxiang significantly shortened its product development cycle from product design and development to product launch. The Group launched new products in the third and fourth quarters in 2012 after making adjustments of design directions. The products were well-received by the market and achieved encouraging retail sales performance.

Looking into 2013, it is expected that the tough situation will persist in both the macro economy and the industry in general, and significant improvement will be unlikely to occur in the overall operating environment. The Group will execute prudent development strategies to strike for better performance whilst riding on our solid financial foundation. It is expected that in 2013, the Group will continue with inventory clearance in order to reduce inventories to a normal level. We will also step up our operating philosophy of "brand + retail" by leveraging on our business partner on the retail end — Mai Sheng Yue He Group, to further expand our management to the retail level so as to obtain a thorough understanding and cater to customers' needs across different regions.

In the future, China Dongxiang will continue to be market-driven and launch more innovative products based on the fondness and needs of customers. We will also strengthen the positioning of our Taicang R&D center and increase its ratio of new product development. Meanwhile, the Group will optimise the supply chain to enhance production flexibility and accommodate the business model of pre-orders and prop orders. The Group will also effectively utilise promotional resources by adopting smart marketing for steady development under a challenging market condition.

China Dongxiang has grown up strong and sturdy after a decennium of undulating business cycles. The decade-long experience nurtured an unconquerable determination within the Group. Despite the anticipated tough market environment in 2013 which will impose short-term pressure and challenge to the Group's business, we will overcome difficulties and capture business opportunities arising from revival of the market and operating environment. This will be achieved with our clear goals and united spirit, as well as our core values of pragmatism, innovation and passion.

Finally, I would like to take this opportunity to express my heartfelt gratitude to our employees, shareholders, distributors and business partners for standing by China Dongxiang no matter how the market condition prevails. Blessed with all your support, China Dongxiang will strive for better performance under a changing environment as our token of appreciation.

Chen Yihong
Chairman

20 March 2013, Hong Kong

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 2012, together with the comparative figures for 2011, as follows:

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2012

		Year ended 31 December	
		2012	2011
	Note	***RMB'000***	*RMB'000*
Revenue	3	**1,771,817**	2,741,826
Cost of goods sold	5	**(930,179)**	(1,234,840)
Reversal of/(provision for) impairment of inventories	5	**55,226**	(215,878)
Gross profit		**896,864**	1,291,108
Other gains, net	4	**50,869**	113,644
Provision for impairment of available-for-sale financial assets	11	**(82,221)**	(238,313)
Distribution and selling expenses	5	**(580,484)**	(779,765)
Administrative expenses	5	**(215,851)**	(287,992)
Operating profit		**69,177**	98,682
Finance income, net	6	**183,163**	129,261
Share of (losses)/profits of jointly controlled entities	10	**(771)**	135
Investment income from available-for-sale financial assets		**19,385**	—
Profit before income tax		**270,954**	228,078
Income tax expense	7	**(77,150)**	(122,421)
Profit for the year		**193,804**	105,657
Profit attributable to:			
Owners of the Company		**176,719**	102,186
Non-controlling interests		**17,085**	3,471
		193,804	105,657
Earnings per share attributable to owners of the Company during the year *(expressed in RMB cents per share)*			
— Basic earnings per share	8	**3.19**	1.82
— Diluted earnings per share	8	**3.19**	1.82
Dividends	14	**123,462**	157,526

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

		Year ended 31 December	
		2012	2011
	Note	***RMB'000***	*RMB'000*
Profit for the year		**193,804**	105,657
Other comprehensive income:			
— Fair value change on available-for-sale financial assets, net of tax		**137,194**	(4,237)
— Foreign currency translation differences		**(35,076)**	(67,480)
Other comprehensive income for the year, net of tax		**102,118**	(71,717)
Total comprehensive income for the year		**295,922**	33,940
Attributable to:			
— Owners of the Company		**278,837**	30,469
— Non-controlling interests		**17,085**	3,471
Total comprehensive income for the year		**295,922**	33,940

CONSOLIDATED BALANCE SHEET

As at 31 December 2012

		As at 31 December	
		2012	2011
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**101,201**	116,614
Lease prepayments		**12,293**	12,788
Intangible assets	9	**272,027**	289,111
Interests in jointly controlled entities	10	**15,562**	18,909
Available-for-sale financial assets	11	**1,026,587**	973,398
Deferred income tax assets		**93,665**	112,542
Prepayments, deposits and other receivables — non-current portion		**43,886**	33,706
		1,565,221	1,557,068
Current assets			
Inventories		**287,325**	403,656
Trade receivables	12	**414,124**	547,621
Prepayments, deposits and other receivables		**88,276**	100,338
Other financial assets		**2,261,137**	1,068,255
Cash and bank balances		**2,712,996**	3,774,868
		5,763,858	5,894,738
Total assets		**7,329,079**	7,451,806

CONSOLIDATED BALANCE SHEET (continued)
As at 31 December 2012

		As at 31 December	
		2012	2011
	Note	***RMB'000***	*RMB'000*
EQUITY			
Equity attributable to owners of the Company			
Share capital		**53,589**	54,562
Share premium account		**1,984,059**	2,135,560
Reserves		**4,884,974**	4,605,050
		6,922,622	6,795,172
Non-controlling interests		**21,824**	4,739
Total equity		**6,944,446**	6,799,911
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**24,162**	30,922
		24,162	30,922
Current liabilities			
Trade payables	13	**124,032**	275,734
Accruals and other payables		**210,518**	309,372
Provisions		**22,771**	27,184
Current income tax liabilities		**3,150**	8,683
		360,471	620,973
Total liabilities		**384,633**	651,895
Total equity and liabilities		**7,329,079**	7,451,806
Net current assets		**5,403,387**	5,273,765
Total assets less current liabilities		**6,968,608**	6,830,833

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 20 March 2013.

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.

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.

Changes in accounting policies and disclosures

(a) New and amended standards effective for year beginning 1 January 2012

- IFRS 7, 'Financial instruments: Disclosures' on transfer of financial assets. These amendments are as part the IASBs comprehensive review of off balance sheet activities. The amendments promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial asset. There's no transfer of financial assets for the year ended 31 December 2012.

- The IASB has amended IAS 12, 'Income taxes', to introduce an exception to the principle for the measurement of deferred tax assets or liabilities arising on an investment property measured at fair value. IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. The amendment introduces a rebuttable presumption that an investment property measured at fair value is recovered entirely by sale. The amendment does not have a material impact on the Group.

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to existing standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the followings:

- Amendment to IAS, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.

- IAS 28, 'Associates and joint ventures'(revised 2011), includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

- 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 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, which are largely aligned between IFRSs and US GAAP, 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 or US GAAP.

- IAS 19, 'Employee benefits', was amended in June 2011. The impact on the Group will be as follows: to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). The Group is yet to assess the full impact of the amendments.

- IFRS 7, 'Financial instruments: Disclosures' on asset and liability offsetting. The amendments also require new disclosure requirements which focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset.

- 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. The Group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015. The Group will also consider the impact of the remaining phases of IFRS 9 when completed by the Board.

- 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.

- IAS 27, 'Separate financial statements' (revised 2011), includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.

- 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. The Group is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

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 — includes distribution and retail of sport apparel under Kappa Brand and other brands and international business which includes the provision of Kappa Brand products for other Kappa licensees in other countries. The investments in available-for-sale financial assets are also included since the underlying operations of the investee companies are in China.

- Japan — includes distribution and retail of sport apparel 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 2012				
Total revenue before inter-segment elimination	**1,176,897**	**618,985**	**—**	**1,795,882**
Inter-segment revenue	**(12,035)**	**(12,030)**	**—**	**(24,065)**
Revenue from external customers	**1,164,862**	**606,955**	**—**	**1,771,817**
Cost of goods sold	**(570,047)**	**(360,132)**	**—**	**(930,179)**
Reversal of/(provision for) impairment of inventories	**59,318**	**(4,092)**	**—**	**55,226**
Segment gross profit	**654,133**	**242,731**	**—**	**896,864**
Segment operating profit	**138,980**	**18,859**	**(88,662)**	**69,177**
Interest income	**164,716**	**6**	**13,127**	**177,849**
Interest expenses and others, net	**(2,318)**	**5,723**	**1,909**	**5,314**
Share of losses of jointly controlled entities	**—**	**(771)**	**—**	**(771)**
Investment income from available-for-sale financial assets	**19,385**	**—**	**—**	**19,385**
Profit before income tax	**320,763**	**23,817**	**(73,626)**	**270,954**
Income tax expense	**(75,888)**	**(1,262)**	**—**	**(77,150)**
Profit for the year	**244,875**	**22,555**	**(73,626)**	**193,804**
Material items of income and expense				
Depreciation and amortisation	**26,622**	**10,028**		**36,650**
Provision for impairment losses of available-for-sale financial assets	**82,221**	**—**		**82,221**
Provision for/(reversal of) impairment losses of trade and other receivables	**26,362**	**(2,232)**		**24,130**

	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	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

The expenses of RMB88,662,000 (2011: RMB110,608,000) reported under "unallocated segment operating profit" comprised the cost of design and product development of Kappa Brand products incurred by the technical centre of the Group established for product development for both China and Japan markets.

A further analysis of sales by brands and activities in China and Japan segments is set out below:

	2012	2011
	RMB'000	*RMB'000*
China		
— Distribution of Kappa Brand products	**1,057,825**	2,057,914
— Retail of Kappa Brand products	**70,863**	36,451
— International business and others	**36,174**	27,160
	1,164,862	2,121,525
Japan		
— Distribution and retail of Kappa Brand products	**209,796**	198,214
— Distribution and retail of Phenix Brand products	**397,159**	417,230
— Distribution and retail of products of other brands	**—**	4,857
	606,955	620,301
	1,771,817	2,741,826

During the year ended 31 December 2012, there was no customer from whom the revenue amounted to 10% or more of the Group's revenue (2011: nil).

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 2012				
Total assets before inter-segment elimination	**6,504,203**	**454,841**	**484,313**	**7,443,357**
Inter-segment elimination	**(8,424)**	**(13,749)**	**(92,105)**	**(114,278)**
Total assets	**6,495,779**	**441,092**	**392,208**	**7,329,079**
Interests in jointly controlled entities	**—**	**(15,562)**	**—**	**(15,562)**
Available-for-sale financial assets	**(1,026,587)**	**—**	**—**	**(1,026,587)**
Deferred income tax assets	**(93,665)**	**—**	**—**	**(93,665)**
Segment assets	**5,375,527**	**425,530**	**392,208**	**6,193,265**
Total liabilities before inter-segment elimination	**258,947**	**147,904**	**36,343**	**443,194**
Inter-segment elimination	**(14,371)**	**(7,847)**	**(36,343)**	**(58,561)**
Total liabilities	**244,576**	**140,057**	**—**	**384,633**
Deferred income tax liabilities	**(20,436)**	**(3,726)**	**—**	**(24,162)**
Current income tax liabilities	**(1,751)**	**(1,399)**	**—**	**(3,150)**
Segment liabilities	**222,389**	**134,932**	**—**	**357,321**

	China *RMB'000*	Japan *RMB'000*	Unallocated *RMB'000*	Total *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

As at 31 December 2012, the total non-current assets other than financial instruments and deferred tax assets located in the PRC amounted to RMB326,715,000 (2011: RMB128,863,000) and the total of these non-current assets located in other countries and places amounted to RMB74,368,000 (2011: RMB342,265,000).

During the year ended 31 December 2012, additions to total non-current assets other than financial instruments and deferred tax assets in China segment amounted to RMB6,318,000 (2011: RMB18,027,000), and the addition in Japan segment amount to RMB5,192,000 (2011: nil).

4 OTHER GAINS, NET

	2012 ***RMB'000***	2011 *RMB'000*
Government subsidy income	**45,794**	120,183
Disposal of shares in jointly controlled entities *(Note 10)*	**(438)**	—
Others	**5,513**	(6,539)
	50,869	113,644

Government subsidy income represents grants from the local finance bureaus as encouragement to the Company's subsidiaries' investments and are mainly calculated with reference to taxes paid by the subsidiaries. The income is recognised when there is a reasonable assurance that the subsidy will be received.

5 EXPENSES BY NATURE

The expenses included in cost of goods sold, reversal of/(provision for) impairment of inventories, distribution and selling expenses and administrative expenses are analysed as follows:

	2012	2011
	RMB'000	*RMB'000*
Cost of inventories recognised as cost of goods sold	**913,823**	1,215,093
Depreciation of property, plant and equipment	**18,526**	18,424
Amortisation of lease prepayments	**288**	285
Amortisation of intangible assets	**17,836**	20,114
Advertising and marketing expenses	**106,589**	180,959
Sales expenses	**143,023**	198,856
Employee salary and benefit expenses	**187,772**	226,848
Design and product development expenses	**88,662**	110,608
Legal and consulting expenses	**7,293**	30,929
Operating lease in respect of buildings	**40,709**	55,924
Logistic fees	**90,301**	93,256
(Reversal of)/provision for impairment losses of inventories	**(55,226)**	215,878
Provision for impairment losses of trade and other receivables *(Note 12)*	**24,130**	38,833
Travelling expenses	**28,899**	33,573
Auditors' remuneration	**4,469**	5,019
Others	**54,194**	73,876
Total of cost of goods sold, reversal of/(provision for) impairment of inventories, distribution and selling expenses and administrative expenses	**1,671,288**	2,518,475

6 FINANCE INCOME, NET

	2012	2011
	RMB'000	*RMB'000*
Finance income:		
— Interest income from bank deposits	**100,228**	88,864
— Income from other financial assets	**77,621**	44,383
	177,849	133,247
Finance cost:		
— Foreign exchange gains, net	**11,171**	970
— Others	**(5,857)**	(4,956)
	5,314	(3,986)
Finance income, net	**183,163**	129,261

7 INCOME TAX EXPENSE

	2012 *RMB'000*	2011 *RMB'000*
Current income tax		
— PRC corporate income tax ("CIT")	**63,575**	149,482
— Taxation in Japan	**1,458**	1,152
Deferred income tax	**12,117**	(28,213)
	77,150	122,421

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 2012 (2011: 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 CIT Law") as approved by the National People's Congress on 16 March 2007. The CIT rate applicable to subsidiaries of the Group established in the PRC has been gradual increased to 25% over a 5-year period from 2008 to 2012.

According to the New CIT Law, distribution of profits earned by PRC companies since 1 January 2008 to foreign investors is subject to withholding tax of 5% or 10%, depending on the country of incorporation of the foreign investor, upon the distribution of profits to overseas-incorporated immediate holding companies. During the year, the major operating subsidiary of the Group obtained approval from tax bureau on 5% withholding income tax rate. Accordingly, the Group reversed partly the provision for withholding income tax made in previous years at 10%, resulted in a credit to income tax expense during the year ended 31 December 2012. As at 31 December 2012, the Group had accumulated a deferred withholding tax liability of RMB20,436,000 (2011: 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 2012 applicable to the subsidiary is 30% (2011:30%) of 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 2012 (2011: 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:

	2012	2011
	RMB'000	*RMB'000*
Profit before income tax	**270,954**	228,078
Tax calculated at the statutory tax rate of 25% (2011: 25%) from PRC operating subsidiaries	**67,739**	57,020
Tax effects of:		
— Utilisation of previous unrecognised tax losses	**(1,862)**	—
— Tax losses for which no deferred income tax asset was recognised	**24,544**	61,164
— Preferential tax rates on the profits of certain subsidiaries	**(5,896)**	(20,056)
— Income not subject to tax	**(1,827)**	(4,477)
— Expenses not deductible for tax purpose	**1,915**	3,389
Withholding income tax on the profits of PRC Subsidiaries to be distributed to foreign investors	**(6,564)**	27,000
Others	**(899)**	(1,619)
Income tax expense	**77,150**	122,421

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.

	2012	2011
Profit attributable to owners of the Company *(RMB'000)*	**176,719**	102,186
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme *(thousands)*	**5,538,588**	5,623,497
Basic earnings per share *(RMB cents per share)*	**3.19**	1.82

(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 2012, there was no potential diluted ordinary share and therefore no diluted earnings per share is presented.

9 INTANGIBLE ASSETS — GROUP

	KAPPA trademarks	Phenix trademark and others	Computer software	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2011				
Net book amount	261,041	7,817	20,253	289,111
At 31 December 2012				
Net book amount	251,207	7,602	13,218	272,027

10 INTERESTS IN JOINTLY CONTROLLED ENTITIES — GROUP

	2012	2011
	RMB'000	*RMB'000*
At 1 January	**18,909**	19,142
Disposal of equity interest in a jointly controlled entity	**(438)**	—
Share of (losses)/profits	**(771)**	135
Exchange differences	**(2,138)**	(368)
At 31 December, share of net assets	**15,562**	18,909

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	
	2012	2011
	RMB'000	*RMB'000*
Total assets	**19,593**	23,395
Total liabilities	**(4,031)**	(4,486)

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Revenue	**20,644**	23,581
Share of (losses)/gains after income tax for the year	**(771)**	135

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.

In 2012, the Group terminated its investment in Shanghai Fengda Garment Co., Ltd. (上海鳳達服裝有限公司) upon expiry of the joint venture arrangement, and resulted in a loss of RMB438,000.

11 AVAILABLE-FOR-SALE FINANCIAL ASSETS — GROUP

	2012	2011
	RMB'000	*RMB'000*
At 1 January	**973,398**	213,938
Exchange differences	**(1,784)**	(12,953)
Additions during the year	**—**	1,016,375
Fair value gain transferred to/(from) equity	**137,194**	(5,649)
Impairment losses	**(82,221)**	(238,313)
At 31 December	**1,026,587**	973,398

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

	2012	2011
	RMB'000	*RMB'000*
Unlisted equity securities in the PRC		
— MSYH Group *(Note (a))*	**70,000**	130,000
— Yunfeng Fund *(Note (b))*	**765,576**	630,090
— CITIC Mezzanine Fund I *(Note (c))*	**150,000**	150,000
— Other investment	**21,000**	21,000
Listed equity securities in the US		
— Mecox Lane *(Note (d))*	**20,011**	42,308
	1,026,587	973,398
Market value of listed securities	**20,011**	42,308

Notes:

(a) The represents the Group's holding of 22.05% equity interests in Mai Sheng Yue He Sporting Goods Co., Limited which owns various companies engaging in the distribution and retail of sport-related products in various provinces in the "PRC ("MSYH "Group"). As at 31 December 2012, the fair value of the investment in MSYH Group was estimated to be RMB70,000,000 and a provision of RMB60,000,000 for impairment in the investment was made during the year. The fair value of the investment in MSYH Group as at the balance sheet date is determined with reference to a valuation model based on estimated discounted cash flows.

(b) In September, 2011, 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), which had been fully paid as at 31 December 2012. 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 2012, the investment was stated at fair value, and an unrealised fair value increment of RMB137,194,000 was charged to other comprehensive income.

(c) In September 2011, 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 2012, the Group has paid RMB150,000,000, being 50% of the capital commitment, and the investment was stated at fair value.

(d) In March 2011, the Group entered into a share purchase agreement with two shareholders of Mecox Lane, a company listed on NASDAQ in the United States of America 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 USD34,729,000 (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. No disposal or further purchase of Mecox Lanes shares has been made since March 2011.

As at 31 December 2012, the investment was stated at fair value of RMB20,011,000 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 RMB22,221,000 in respect of provision for impairment of this investment.

12 TRADE RECEIVABLES — GROUP

	2012	2011
	RMB'000	*RMB'000*
Trade receivables		
— Third parties	**364,092**	416,926
— Related parties	**131,720**	188,724
	495,812	605,650
Less: provision for impairment	**(81,688)**	(58,029)
Trade receivables, net	**414,124**	547,621

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 2012 and 2011 was as follows:

	2012	2011
	RMB'000	*RMB'000*
Current	**201,497**	290,345
Within 30 days	**75,717**	154,226
31 to 120 days	**98,717**	147,989
Over 120 days	**119,881**	13,090
	495,812	605,650

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

As at 31 December 2012, trade receivables of RMB294,315,000 (2011: RMB315,305,000) were past due, of which RMB81,688,000 (2011: RMB58,029,000) 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 in provision for impairment of trade receivables are as follows:

	2012	2011
	RMB'000	*RMB'000*
At 1 January	**58,029**	18,769
Provision for impairment losses of receivables	**24,130**	38,833
Exchange difference	**(471)**	427
At 31 December	**81,688**	58,029

13 TRADE PAYABLES — GROUP

The ageing analysis of trade payables as at 31 December 2012 and 2011 was as follows:

	2012	2011
	RMB'000	*RMB'000*
Current	**115,878**	267,291
Within 30 days	**1,543**	4,599
31 to 120 days	**21**	3,770
Over 120 days	**6,590**	74
	124,032	275,734

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

	2012	2011
	RMB'000	*RMB'000*
Interim dividend paid of RMB0.53 cent (2011: 1.19 cents) per share	**29,343**	67,430
Interim special dividend paid of RMB0.70 cent (2011: 1.59 cents) per share	**38,755**	90,096
Proposed final dividend of RMB0.43 cent (2011: nil) per share	**23,807**	—
Proposed final special dividend of RMB0.57 cent (2011: nil) per share	**31,557**	—
	123,462	157,526

The dividends paid in 2012 amounted to RMB68,098,000 or RMB1.23 cents per share (2011: RMB710,567,000 or RMB12.54 cents per share), comprising 2012 interim dividends of RMB68,098,000 (2011: 2010 final dividends of RMB553,041,000 and 2011 interim dividends of RMB157,526,000). The dividends of RMB371,000 (2011: RMB2,743,000) were paid to the shares held for Restricted Share Award Scheme.

Pursuant to a resolution passed on 20 March 2013, the board of directors of the Company proposed a final dividend and final special dividend of RMB0.43 cent and RMB0.57 cent per ordinary share of the Company, amounting to RMB23,807,000 and RMB31,557,000 for the year ended 31 December 2012 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 15 May 2013.

The aggregate amounts of the dividends paid during 2012 and 2011 have been disclosed in the consolidated income statement in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

MANAGEMENT DISCUSSION AND ANALYSIS

Macroeconomic Review

The global economic environment remained sluggish during 2012. While the European debt crisis continued to be unsettling, the US economy also failed to show signs of turning around. Economies of the Asian and emerging markets also witnessed gradual moderation, causing central banks of various countries to enhance liquidity in order to stimulate economic growth. China has abstained from its target of reaching an 8.0% annual increase in its GDP since 2005. The People's Bank of China repeatedly lowered interest rates and reduced the deposit reserve ratio in an effort to stimulate its economic growth through the easing of currency policies. Despite a slight increase in economic growth rate in the fourth quarter, the annual growth for the overall Chinese economy was 7.8% only, representing an evident drop as compared to 9.2% in 2011. The overall economic foundation remained uncertain which posted a negative impact towards consumption. During the year, social retail goods in China recorded a nominal growth of 14.3% year on year, declining by 2.8 percentage points as compared to the same period in 2011.

Industry Review

The sportswear industry in China was inevitably pressurised under this feeble economic environment. Excessive inventories caused by moderated market demands have yet to be cleared, thus continued to post tremendous pressure on brands and retailers. To solve the problem of excessive inventories, brands opted to provide deeper product discounts to distributors and, at the same time, endeavored to clear excessive inventories through various channels including internet platforms. Apart from competition among international and local sportswear brands, the aggressive expansion of fast fashion brands in China also intensified the competitive landscape in the overall apparel industry, thus squeezing the market share of the sportswear segment. Meanwhile, soaring labor costs and rentals caused the sportswear industry to suffer from greater pressure and was faced with unprecedented challenges in their operations.

Brand operators strived to increase operational efficiency while exerting greater sales efforts in order to survive in this demanding industry. The business model of grasping market share through rapid network expansion was no longer valid. Brand operators have to reverse the issue of product homogeneity, emphasise their brand equities and product innovations in order to stand out in the industry.

It is expected that the challenging operation environment at present will linger for a while. During this trough, brand operators and retailers must lay out comprehensive reforms to optimise sales channels and supply chains, while introducing innovative products that accentuate brand equities to grasp opportunities that may come along as the market rebounds.

Business Review

2012 marks the 10th anniversary of China Dongxiang. Despite the low ebb that the sportswear industry is undergoing, the Group continued to uphold its goals and strategies and achieved satisfactory performance, thus laying a solid foundation for the Group's long-term development.

Brand Promotion

Kappa Brand

During the year under review, the Group continued to adopt "smart marketing" which included the usage of social networks, online drama series, micro-movies and talk-of-the-town topics, and infuse Kappa into consumers' daily lives. During the year, the Group continued its cooperation with Bazaar to convey Kappa's mix-and-match brand philosophy via videos, online forums, and photo galleries with captions on various platforms, strengthening the integration of above-the-line brand promotion and below-the-line retail sales. Meanwhile, the Group placed advertorials in a number of selected fashion and lifestyle magazines and websites that target customers usually access, in order to promote different product series and demonstrate the trendy image of Kappa. Such magazines and websites include a travel and sports magazine "Golf Trip", fashion magazine "1626", as well as fashion and lifestyle magazines such as "Modern Weekly" and "Sports Illustrated".

In addition, Kappa also sponsored various major sports events to enhance its brand awareness. During the year, the Group launched several major brand promotion campaigns for different product series in the PRC which included:

Play with Style Trends Sports Game

"Play with Style" is the manifesto and philosophy of Kappa in 2012. To tie in with this theme, Kappa fully supported fashion media group in the organisation of this fashion carnival. Kappa fully demonstrated its brand charisma of "stylish fashion in motion", launching new apparel series including the "Office series", "Street series", "Party Queen series", etc., which successfully combined the two worlds of fashion and sports, enabling consumers to demonstrate their own individualities.

HSBC Golf Championship

In 2012, Kappa GOLF has become the official sponsor for the most renowned golf event in China — HSBC Golf Championship, for the fourth consecutive year and provided functional apparel to all staff, judges, guests and volunteers. The apparel is designed by Kappa's Japanese designer team, with professional functions including drying and UV protection, and design is tailor-made for the striking action while playing golf.

DreamBoat Soccer Team UEFA Participation

Kappa cooperated with DreamBoat Soccer Team once again in organizing the grand event of watching UEFA match with fans to enjoy the UEFA-frenzy. During the activity, DreamBoat Soccer Team members wore the latest summer apparel of Kappa brand including the latest football jersey, the colourful "Coolour" series checkered shorts, and the functional OUTDOOR-AQUA GRIP footwear, showing the bold and fun mix-and-match style of each and every DreamBoat Soccer Team member.

China Open

In 2012, Kappa continued to be the Platinum Sponsor of China Open for the fifth consecutive year, supplying apparel and gear for this top tennis event in China. Apparel for the China Open emphasises sports function and fashion taste through the use of pure colours and clean combination to highlight the elegance of tennis. After years of development, the Kappa tennis series has become the favourite tennis apparel among professional tennis players benchmarking the tennis fashion, and receiving popular market response.

In the Japanese market, Kappa sponsored both the Ichihara JEF United and Consadole Sapporo. Kappa also organised the "big jersey • project" which received great attention on Weibo. Moreover, Kappa cooperated with RunGirl Group, a company that covers media, fashion and beauty, in the organisation of "RunGirl Night" marathon event with a theme of "Fulfilling Ladies' Lives through Running".

Phenix Business

Phenix sponsored the Norway National Alpine Ski Team and was also the sole sponsor of the Norway National Team in the 2012 London Olympics, sponsoring gear for the Woman Handball Team, which was the Gold Medalist in the London Olympics, sufficiently demonstrating the brand image of Phenix in the Olympics sports arena.

Moreover, Phenix also co-organised a Norway ski trip with the "Fotomen" magazine, as well as a charity tournament on Mount Kailash. The activities demonstrated Phenix's professional outdoor brand image while advocating the reducing of wastes and environmental protection.

Research and Development ("R&D")

The Group's product R&D work gained significant achievement in 2012. Ever since Mr. Chen Yihong took his office as the Group's CEO, stepping up product R&D efforts has been his major priority. The Group fully utilised its Korean, Japanese and Chinese local design teams' abilities for different product design styles.

Integrating design resources enabled the fast and efficient development of new products. It only took the Group four months' time from October 2011 to March 2012 to develop new products for the third quarter of 2012, which enabled the Group to quickly answer to market demands. This represented a significantly shorter period as compared to the timeline of approximately 12 to 14 months for product development in previous seasons.

The new products launched in the third quarter of 2012 were trendy with a vibrant appearance that received lots of positive comments from the market. Among which, key products in the *Kappa Essential* series recorded a high sold out rate.

The Group further strengthened its design and R&D foundation. The Group's Regional Technical Center ("RTC") in Taicang, Jiangsu, has introduced the craftsmanship from Technical Center in Niigata, Japan, and Japanese technicians were brought in for technical training and consultation. This greatly elevated Taicang RTC's product development quantity and quality. Its product development ability in the early stages was also strengthened, so that it is able to create products that require intricate craftsmanship for Kappa, RDK and Phenix products.

Kappa Products

Kappa Essential series products are must-have items in every metropolitan man and woman's wardrobe. The 2012 Fall and Winter series Essential and Essential+ collection focused on the theme of "clean, easy mix-and-match and trendy" which paid great attention to the matching of pure colours and design details.

Kappa Polka Dots series was inspired by Eve's red apple in bible story and the image was manifested in the form of dynamic and retro-style polka dots for a bold mix-and-match image.

Kappa Graphic Tee series was inspired by the Kappa sports DNA and London culture. Designers from Germany, Britain and young designers in China presented their own interpretation of London through intense street art on tee shirts, showing the unique British style and tied it up with the London Olympics theme.

Kappa SCIROCCO series was designed by renowned Japanese designer, Sayaka. The series was infused with fresh vitality, revealing the bold concept of "Traveller in Metropolis" and thus representing the latest mix-and-match style of youngsters in metropolis.

Kappa Trail Running footwear series represented a perfect combination of the strict design requirements for professional sports protection gear, with a dynamic fashion appearance and the characteristics of ergonomics, providing the most natural and comfortable fitting to customers.

Phenix Products

Since its launch in 2011, Phenix brand products underwent stable development in both the Chinese and Japanese markets. Its products were popularly received by the market:

The *Levec* series developed internally adopted the use of high efficiency waterproof material with water pressure resistance reaching 20,000 mm. The series also possesses windproof and breathable qualities, providing highest level of protection to the human body even under the most challenging outdoor environment. The Epic Extreme series adopted the use of complete waterproof materials which enables the human body to stay dry. Together with its simple design, the series continued to be the signature products of Phenix brand. The Down Apparel series was the splendor of Phenix's 60th anniversary. Its design caters to the human body needs under different temperatures and uses down of the highest quality for the production of the best products.

Inspired by Norwegian skier Aksel Lund Svindal, the Japanese Phenix branch developed RACING SUITS that are produced with uneven fabric which reduce air friction. Since skiers' body shapes change from time to time, the RACING SUITS are made to fit their body shapes at times of competitions, tailor-made according to the measurements of the individuals with zero friction with air and wrinkle-free. When sufficient air pressure is exerted, the RACING SUIT limits muscle vibration which thus reduces fatigue and muscle injuries. In addition, by exerting pressure on different body parts in different phases facilitates blood circulation and reduces the accumulation of substances that cause fatigue.

Robe Di Kappa Business

Robe Di Kappa ("RDK") brand products developed steadily in 2012. During the year, RDK organised charity sales activity with "nostalgia" as its theme and sponsored movie production to promote the brand.

Retail Network

During the period under review, the Group continued to optimise its sales network distribution and store efficiency, assessed its store network and made adjustments to it. As at 31 December 2012, the Group had a total of 2,009 Kappa retail stores operated directly or indirectly by 33 distributors in the China segment. The distribution of retail stores covered all major provincial cities and other major urban areas and towns in China.

Apart from the traditional sales in retail outlets, the Group also placed great emphasis on online sales. An e-commerce platform not only provides an efficient channel to clear accumulated inventories, but also enabled customers to purchase Kappa products more conveniently as demonstrated by the Group's cooperation with Taobao.com. The Group will brush up its efforts in building an integrated Internet sales platform and promote online sales by tapping into multiple popular e-commerce channels.

Financial Review

The sales for the year ended 31 December 2012 of the Group was RMB1,772 million, decreased by 35.4% as compared to RMB2,742 million for the year ended 31 December 2011. Profit attributable to equity holders for the year ended 31 December 2012 was RMB177 million, increased by 73.5% as compared to RMB102 million for the year ended 31 December 2011.

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**		
		2012	2011		**2012**	2011		**2012**	2011	
	Note	***RMB million***	***RMB million***	*change*	***RMB million***	***RMB million***	*change*	***RMB million***	***RMB million***	*change*
Key items of consolidated income statement										
Sales		**1,772**	2,742	-35.4%	**1,165**	2,122	-45.1%	**607**	620	-2.1%
Gross profit (before provision for impairment of inventories)	4	**842**	1,507	-44.1%	**595**	1,241	-52.1%	**247**	266	-7.1%
Operating profit	3	**69**	99	-30.3%						
Profit attributable to equity holders of the Company	3	**177**	102	73.5%						
		RMB cents	*RMB cents*							
Basic earnings per share		**3.19**	1.82	75.3%						
Diluted earnings per share		**3.19**	1.82	75.3%						
		%	*%*	*%pts*	**%**	*%*	*%pts*	**%**	*%*	*%pts*
Profitability ratios										
Gross profit margin (before provision for impairment of inventories)	4	**47.5**	55.0	-7.5	**51.1**	58.5	-7.4	**40.7**	42.9	-2.2
Operating profit margin		**3.9**	3.6	0.3						
Effective tax rate		**28.5**	53.7	-25.2						
Net profit margin		**10.0**	3.7	6.3						
Key operating expenses ratios (as percentage of sales)										
Sales expenses		**8.1**	7.3	0.8	**8.2**	7.6	0.6	**7.8**	6.0	1.8
Advertising and marketing expenses		**6.0**	6.6	-0.6	**7.7**	7.7	—	**2.8**	2.9	-0.1
Employee salary and benefit expenses		**10.6**	8.3	2.3	**11.0**	7.6	3.4	**9.9**	10.5	-0.6
Design and product development expenses	3	**5.0**	4.0	1.0						
		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	**114**	88	26	**121**	81	40	**101**	111	-10
Average trade payable turnover days	6	**79**	95	-16	**72**	91	-19	**89**	106	-17
Average inventory turnover days	7	**229**	144	85	**277**	145	132	**153**	143	10

Notes:

1. The China segment is principally refered to the wholesale of sport-related products under Kappa Brand in the Mainland China and Macau. It also refered to the 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. For the year ended 31 December 2011, the Group repurchased a total amount of RMB1.45 billion (tag price) of off-season inventories from distributors. On the basis of reasonable analysis, the Group made provision of RMB216 million (2010: RMB14 million) for a impairment of inventories held by us as at 31 December 2011. In 2012, the Group proactively conducted stock clearance as planned, resulting in a significant decrease in the balance of inventory at the end of the year. Thus, reversal of inventory impairment of approximately RMB55 million was recognised as at 31 December 2012 based on the reasonable estimate by the management. 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						
	2012			2011			
	RMB million	***% of product brand mix***	***% of Group sales***	*RMB million*	*% of product brand mix*	*% of Group sales*	*change*
CHINA SEGMENT							
Kappa Brand							
Apparel	**789**	**69.9%**	**44.5%**	1,507	71.9%	55.0%	-47.6%
Footwear	**300**	**26.6%**	**16.9%**	515	24.6%	18.8%	-41.7%
Accessories	**40**	**3.5%**	**2.3%**	73	3.5%	2.7%	-45.2%
Kappa Brand total	**1,129**	**100.0%**	**63.7%**	2,095	100.0%	76.5%	-46.1%
International business, RDK and others	**36**		**2.0%**	27		1.0%	33.3%
CHINA SEGMENT TOTAL	**1,165**		**65.7%**	2,122		77.5%	-45.1%
JAPAN SEGMENT							
Phenix Brand	**397**	**65.4%**	**22.4%**	417	67.3%	15.2%	-4.8%
Kappa Brand	**210**	**34.6%**	**11.9%**	198	31.9%	7.2%	6.1%
Others	**—**	**0.0%**	**0.0%**	5	0.8%	0.1%	-100.0%
JAPAN SEGMENT TOTAL	**607**	**100.0%**	**34.3%**	620	100.0%	22.5%	-2.1%
THE GROUP TOTAL	**1,772**		**100.0%**	2,742		100.0%	-35.4%

China Segment

Kappa Brand

Total sales from the Kappa Brand business, the core business of the Group, for the year ended 31 December 2012 was RMB1,129 million, decreased by RMB966 million from RMB2,095 million for the year ended 31 December 2011. Such decrease was principally due to 1) the competition within the sportswear industry in China continued to intensify and the distributors of Kappa brand faced with dual pressure from rise in costs of retail operations and excess inventory in 2012. Taking into account the brand development and sustainable cooperation with the distributors, the Group has offered further support to the distributors in terms of product discounts; 2) in addition, we have reduced the distributors' volume of sales order significantly and optimised our stock replenishment process, so as to address market demand by our existing stock on the basis of sufficient market feedback on the design of our new products as well as adequate analysis on retail data; 3) strategic closedown of certain retail stores that recorded unsatisfactory profitability for further optimizing sales channels and enhancing profitability per store. The total number of Kappa Brand retail stores operated, directly or indirectly, by our distributors decreased to 2,009 as at 31 December 2012 from 3,119 as at 31 December 2011, representing net decrease of 1,110.

International Business, RDK and Others

Sales from international business, RDK and other brands increased by RMB9 million to RMB36 million for the year ended 31 December 2012 from RMB27 million for the year ended 31 December 2011. Such increase was mainly due to the growth in sales of Phenix and RDK.

Japan Segment

Sales from Japan segment for the year ended 31 December 2012 decreased by RMB13 million to RMB607 million from RMB620 million for the year ended 31 December 2011. Japan segment, indeed, has recorded a steady growth in sales, but sales in RMB upon currency conversion of financial statements has declined as affected by the depreciation of Japanese Yen against RMB. Our sales in Japan segment remained stable and saw increase, primarily due to the gradual recovery of the market in Japan from earthquake, the combined positive effects of channels development, branding and sales promotion by Phenix. As a result, our market share has been secured.

Sales of Kappa brand products in China segment analyzed by sales channels

	Year ended 31 December				
	2012		2011		**Change**
	Sales *RMB million*	**% of sales of Kappa brand products**	Sales *RMB million*	% of sales of Kappa brand products	
Wholesale business	**1,058**	**93.7%**	2,059	98.3%	-48.6%
Retail business	**71**	**6.3%**	36	1.7%	97.2%
Total of Kappa brand	**1,129**	**100.0%**	2,095	100.0%	-46.1%

Sales of Kappa brand products via wholesale channel in China segment decreased by RMB1,001 million to RMB1,058 million for the year ended 31 December 2012 from RMB2,059 million for the year ended 31 December 2011, representing 93.7% of the total sales of Kappa brand in China segment in 2012 as compared with 98.3% in 2011. Since the commencement of retail business of Kappa brand in China segment in 2011, sales of Kappa brand products via retail channel increased by RMB35 million to RMB71 million for the year ended 31 December 2012 from RMB36 million for the year ended 31 December 2011, representing 6.3% of the total sales of Kappa brand in China segment in 2012 (2011: 1.7%).

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

	Year ended 31 December					
	2012		2011		**Change**	
	ASP *RMB*	**Total units sold** *in '000*	ASP *RMB*	Total units sold *in '000*	ASP	**Total units sold**
Apparel	**125**	**5,944**	161	8,451	-22.4%	-29.7%
Footwear	**159**	**1,783**	178	2,595	-10.7%	-31.3%

Notes:

1. Average selling price represent the sales for the year 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.

In 2012 and 2011, average selling prices per unit for apparel products were RMB125 and RMB161 respectively, average selling prices per units for footwear products were RMB159 and RMB178 respectively. Decreases in average selling prices for apparel and footwear products were mainly due to increased discount offer of off-season products for accelerating inventory clearance as well as further discount offer to our distributors by adjusting our sales policies.

Total units sold for apparel and footwear products in the year fell, to a greater degree, by 29.7% and 31.3%, respectively, as compared to last year, which were primarily due to our initiative to decrease the distributors' target of sales orders for easing their inventory pressure in 2012.

Cost of Goods Sold and Gross Profit

Cost of goods sold of the Group has dropped by RMB305 million, or 24.7%, to RMB930 million for the year ended 31 December 2012 (2011: RMB1,235 million).

For the year ended 31 December 2012, our gross profit before provision for impairment of inventories has dropped by RMB665 million, or 44.1% to RMB842 million (2011: RMB1,507 million). Our overall gross profit margin before provision for impairment of inventories for the year ended 31 December 2012 fell by 7.5 percentage points to 47.5% from 55.0% for the year ended 31 December 2011.

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

	Year ended 31 December		
	2012	2011	**Change**
	Gross profit margin*	*Gross profit margin**	*% pts*
China segment			
Kappa Brand:			
Apparel	**53.3%**	60.2%	-6.9
Footwear	**47.0%**	54.3%	-7.3
Accessories	**55.4%**	61.6%	-6.2
Kappa Brand overall	**51.7%**	58.8%	-7.1
International business and others	**31.5%**	36.3%	-4.8
China segment overall	**51.1%**	58.5%	-7.4
Japan segment	**40.7%**	42.9%	-2.2
Group overall	**47.5%**	55.0%	-7.5

* *Before provision for impairment of inventories*

Gross profit margin of Kappa Brand in China segment for the year ended 31 December 2012 dropped by 7.1 percentage points to 51.7% from 58.8% for the year ended 31 December 2011. Such fall was mainly due to increased discount offer of off-season products for accelerating inventory clearance, further discount offer to our distributors by adjusting our supply policies as well as, to a certain extent, rise in cost of production.

Gross profit margin of Japan segment for the year ended 31 December 2012 was 40.7%, dropped by 2.2 percentage points as compared to 42.9% for the year ended 31 December 2011. Such decrease was mainly due to increase in production costs and increased discount offer for off-season inventory clearance.

Other Gains, Net

Other gains for the year ended 31 December 2012 was RMB51 million (2011: RMB114 million), of which RMB46 million (2011: RMB120 million) was subsidy income from the government for China segment, and the balance was other incomes, such as the license fee received in Japan.

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 RMB82 million, representing the provision of Group's investment in Mecox Lane of RMB22 million (2011: RMB181 million) and investment in MSYH Group of RMB60 million (2011: RMB57 million).

Distribution and Selling Expenses and Administrative Expenses

Distribution and selling expenses and administrative expenses mainly comprised advertising and marketing expenses, sales expenses, employee salaries and benefit expenses, design and product development expenses, legal and consulting expenses as well as logistic fees. Total distribution and selling expenses and administrative expenses for the year ended 31 December 2012 dropped by RMB272 million to RMB796 million as compared to RMB1,068 million in 2011, constituting 44.9% of the Group's total sales. As our further business adjustment is conducted in 2012, the Group has further optimised resources allocation and adjusted cost structure, in a bid to enhance production efficiency subject to reasonable cost control.

In response to deteriorating market environment and our shrinking business scale, the Group has implemented streamlined strategies for making necessary adjustments in internal organisational structure and human resources. Our overall staff costs substantially decreased to RMB188 million in 2012 from RMB227 million in 2011. Since the adjustment of our operation model in 2012, retail business involvement and management needs have further been increasing on the principles of "Sales Channel plus Retail". To precisely report expenses for management for retail operations, cost of retail operations has been separated individually from advertising and marketing expenses as "sales expenses". Advertising and marketing expenses decreased by RMB74 million to RMB107 million for the year ended 31 December 2012 from RMB181 million for the year ended 31 December 2011. The advertising and marketing expenses focused on implementing strategies on maintaining and protecting existing brand image, while investing in our core projects with advantages and terminating certain sponsorship and promotion activities in which large amount of investment required with limited promotion effectiveness. Sales expenses declined by RMB56 million to RMB143 million for the year ended 31 December 2012 from RMB199 million for the year ended 31 December 2011, such decline was mainly due to decrease in product display costs attributable to decrease in number of sales channels as well as optimisation and termination of certain projects, such as the termination of leaseback arrangement of our flagship store;

Despite the increase in storage fees for inventory pile-up by inventory repurchase in 2011, the fall in sales orders in 2012 has slightly decreased our logistic fees by RMB3 million to RMB90 million in 2012 as compared with that in 2011;

In 2011, our legal and consulting expenses substantially increased by the launch of consulting projects on strategic planning, human resources and internal management upgrade, but we have rationalised those projects deemed to be unnecessary in 2012, resulting in decrease in our legal and consulting expenses to RMB7 million in 2012 from RMB31 million in 2011;

For product development, the Group continued to maintain a high level of investment in 2012, but the strategies on product development have been adjusted by shifting our collaborative partners from European designers to Japanese and Korean designers whose aesthetic designs are more suitable for Chinese customers as well as strengthening the cooperation between our regional training centre RTC and the research centre in Japan, in a bid to enhance fashion taste and quality of our products in terms of design and production. In 2012, our design and product development expenses were RMB89 million (2011: RMB111 million).

Operating Profit

For the year ended 31 December 2012, operating profit of the Group was RMB69 million (2011: RMB99 million). The operating profit margin was 3.9% for the year ended 31 December 2012 (2011: 3.6%).

Finance income, Net

For the year ended 31 December 2012, finance income mainly comprised interest income of RMB100 million (2011: RMB89 million), and income derived from investment in capital guaranteed treasury products of RMB78 million (2011: RMB44 million), as well as a foreign exchange gains of RMB11 million (2011: RMB1 million).

Taxation

For the year ended 31 December 2012, income tax expense of the Group amounted to RMB77 million (2011: RMB122 million). The effective tax rate was 28.5% (2011: 53.7%). Remarkable fluctuation of effective tax rate was primarily due to: 1) 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 subsidiary incorporated in the PRC with no taxable income respectively, as a result, no deferred income tax has been provided for impairment in investments and tax rate has increased significantly in 2011, but provision for impairment in such investments in 2012 was merely RMB82 million, having much less effects on our income tax rate; 2) the increase in income tax rate of our major operating subsidiaries established in the Shanghai Pudong New Area from 24% for 2011 to 25% for 2012; and 3) 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, as we have been qualified to enjoy 5% preferential withholding tax rate on future dividend payment to offshore subsidiary, provision of withholding tax made in previous period has been reversed in 2012.

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 subject to income tax at a standard rate of 25% in 2012 (2011: 24%).

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 2012 was RMB177 million (2011: RMB102 million), and net profit margin of the Group was 10.0% (2011: 3.7%).

Earnings Per Share

The basic and diluted earnings per share were RMB3.19 cents and RMB3.19 cents for the year ended 31 December 2012, respectively, increases by 75.3% and 75.3% against the basic and diluted earnings per share of RMB1.82 cents and RMB1.82 cents for the year ended 31 December 2011, respectively.

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

Final Dividend and Final Special Dividend

The Company has paid an interim dividend and interim special dividend for the six months ended 30 June 2012 of RMB0.53 cents and RMB0.70 cents per ordinary share, respectively, with a total amount of RMB68 million.

The Board of the Company has recommended the distribution of a final dividend and a final special dividend of RMB0.43 cent and RMB0.57 cent per ordinary share, respectively (totaling RMB1.00 cent per ordinary share) for the year ended 31 December 2012.

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 15 May 2013, will be paid in Hong Kong Dollars based on the rate of HKD 1.00 = RMB0.8086 being the official exchange rate of Hong Kong dollars against Renminbi as quoted by the People's Bank of China on 19 March 2013. The dividend will be paid on or about 31 May 2013 to shareholders whose names appear on the register of members of the Company on 24 May 2013.

Closure of Register of Members for the Entitlement of Final Dividend and Final Special Dividend

The Register of Members of the Company will be closed from 22 May 2013 to 24 May 2013 (both days inclusive), for the purpose of determining shareholders' entitlements to the 2012 final dividend and final special dividend. In order to qualify for the 2012 final dividend and final special dividend, 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 4:30 p.m. on 21 May 2013.

Financial Position

Working capital efficiency ratios

China Segment

Average trade receivable turnover days for the year ended 31 December 2012 and 2011 were 121 days and 81 days, respectively. Despite the fact that the Group has exerted further efforts on credit control in 2012, contributing to a significant decrease in the closing balance of receivables of China Segment as compared with the opening balance, our average trade receivable turnover days in 2012 increased as compared with that in 2011 as a result of decline in our revenue as well as caused by extending credit terms granted to our corporate clients with strong financial positions for supporting them to address the current market situation during the year.

Average trade payable turnover days for the year ended 31 December 2012 and 2011 were 72 days and 91 days respectively. Remarkable decrease in average trade payable turnover days was primarily due to settlement procedure being promptly followed by our major suppliers during the year for ensuring that our trade payables were settled in due course in accordance with the Group's policy.

Average inventory turnover days for the year ended 31 December 2012 and 2011 were 277 days and 145 days respectively. Drastic increase in average inventory turnover days was due to our proactive stock clearance for off-season products via various channels as planned, resulting in significant decline in closing balance of inventory in China Segment as compared with the opening balance, though revenue shrinkage has increased the inventory turnover days.

Japan Segment

Average trade receivable turnover days and average trade payable turnover days were 101 days and 111 days, respectively for the year ended 31 December 2012 as compared to 89 days and 106 days, respectively for the year ended 31 December 2011, representing decreases in the above turnover days. Average inventory turnover days were 153 days for the year ended 31 December 2012 as compared to 143 days for the year ended 31 December 2011, such increase was mainly due to relatively higher stock level at the beginning of 2012.

Liquidity and financial resources

As at 31 December 2012, cash and bank balances (including long term bank deposits) of the Group amounted to RMB2,713 million, a decrease of RMB1,062 million compared to a balance of RMB3,775 million as of 31 December 2011. This decrease mainly due to 1) an investment in capital guaranteed treasury products issued by banks of RMB1,193 million; 2) payment of share repurchase of approximately RMB84 million; 3) payment of 2012 interim dividend and special interim dividend for an aggregate amount of RMB68 million; 4) cash inflow from operating activities of RMB273 million; 5) investment income from CITIC Mezzanine Fund of RMB19 million.

As at 31 December 2012, net assets attributable to our equity holders was RMB6,923 million (31 December 2011: RMB6,795 million). The Group's current assets exceeded current liabilities by RMB5,404 million (31 December 2011: RMB5,274 million). The Group also had a very strong liquidity position. The current ratio as of 31 December 2012 was 16 times (31 December 2011: 9.5 times).

As at 31 December 2012, the Group had no outstanding bank loans or other borrowings.

Pledge of assets

As at 31 December 2012, the Group had approximately RMB137 million (31 December 2011: RMB137 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 with CITICPE, the Group shall pay a capital contribution of RMB300 million for investment. As at 31 December 2012, the Group has paid RMB150 million as 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 recognised 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 are 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 (gains) for the period under review mainly derived from our unutilised capital in foreign currencies in the PRC, the exchange rate risk of the Group was insignificant.

Significant investments and acquisitions

The Group has made no significant investment or any material acquisition or disposal of subsidiaries during the year ended 31 December 2012.

Outlook

The sportswear sector is faced with a challenging situation in the macro economy and operating environment, which is unlikely to turnaround for the better in the near future. Looking at the near term, the Group's performance is likely to undergo prevailing pressure. Nevertheless, leveraging on the determination and clear vision of China Dongxiang, we are confident to weather through and embrace a new growth era with our core values of pragmatism, innovation and passion under the belt.

On the inventory clearance front, the Group shall continue to clear excessive inventories and we expect the inventory level to resume to a reasonable level. The stock clearance experience since 2011 has enabled the Group to establish an effective routine on clearance channels. While managing the inventory problem, the Group will also lay out a prudent order strategy and ensure the sell-through rate of retail outlets by replenishing the channels with prop orders so as to cope with the demand for new products.

Looking at product innovation and branding, the Group will continue to integrate design resources from various countries, including Italy, Japan and Korea. Simultaneously, the Group will strengthen the capabilities of Taicang R&D Center by increasing its technology development ratio and endeavoring to launch innovative sports fashion products that would be well-received by the market. The Group will also emphasise product details and product differentiation, as well as the mix-and-matching of multiple product series to provide a unique product experience to customers and enhance the brand positioning.

With regards to sales channels, the Group will continue to promote the "brand + retail" business model to improve infiltration of retail outlets. Apart from the close cooperation with MSYH Group, the Group will also look into the possibility of recreating the Group's success in the Hunan subsidiary with an aim to strengthen the Group's control and management over sales channels through local retail branches. The Group will also optimise the interactive relationship between branding and retail operations, so as to grasp the latest trends of the end market and consumers' needs. Looking ahead, we will continue to optimise our supply chain by improving its flexibility and establish a supply chain platform with swift response.

Leveraging on the experience and enthusiasm of China Dongxiang in the Chinese sportswear industry, the Group's strong financial position and clear vision and strategies, the Group shall seize opportunities arising from the recovery of the industry and bring about lucrative returns for its shareholders.

OTHER INFORMATION

Compliance with the Corporate Governance Code (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 Code on Corporate Governance (effective until 31 March 2012) the Corporate Governance Code (effective from 1 April 2012) as contained in Appendix 14 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") except for the following deviations:

(i) Provision A.2.1 of the CG 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.

(ii) Provision A.6.7 of the CG Code provides that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholder. Mr. Jin Zhi Guo (independent non-executive director) and Dr. Xiang Bing (independent non-executive director) could not attend the annual general meeting of the Company held on 15 May 2012 due to important business appointments. However, the chairman, chief operating officer, the other independent non-executive director and 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 2012.

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 2012.

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 2012, the Audit Committee had held three meetings in 2012.

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 2012.

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

For the year ended 31 December 2012, the Company repurchased a total of 100,000,000 shares of par value HK$0.01 each of the Company at an aggregate purchase price of approximately HK$104,208,698.05 on The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange").

As at the date of this announcement, all the 100,000,000 ordinary shares repurchased during the year ended 31 December 2012 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 2012.

Annual General Meeting ("AGM")

The AGM of the Company will be held in Hong Kong on 15 May 2013. 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 10 May 2013 to 15 May 2013 (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 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, no later than 4:30 p.m. on 9 May 2013.

Publication of Results Announcement

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

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

Hong Kong, 20 March 2013

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.