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 2013

RESULTS HIGHLIGHTS

For the year ended 31 December

	2013 **(RMB million)**	2012 (RMB million)	Change
Revenue	**1,414**	1,772	–20.2%
Gross profit (before provision for impairment of inventories)	**681**	842	–19.1%
Gross profit margin (before provision for impairment of inventories)	**48.2%**	47.5%	0.7%pts
Operating profit	**84**	89	–5.6%
Net profit for the year attributable to equity holders of the Company	**210**	177	18.6%
	(RMB cents)	*(RMB cents)*	
Basic earnings per share	**3.82**	3.19	19.7%
Final dividend and final special dividend per share	**1.49**	1.00	49.0%

Together with the total interim and interim special dividend paid on 18 September 2013, the total dividends payout represents 70% of the Group's profit attributable to the equity holders in 2013.

CHAIRMAN'S STATEMENT

Dear Shareholders,

In 2013, we experienced a warm winter all across China, from North to South, which was an extremely rare phenomenon in our country. For the sporting goods industry, though, the ongoing austere conditions have yet to come to an end. In a nutshell, conditions in the sporting goods industry during the past year were volatile and challenging. While general destocking and closedown of outlets and different levels of setback in business results were plain for all to see, more complicated and thorny "new" issues, such as drastic changes in the distribution channels, disorderly market competition, and the upgrade of consumers' tastes and habits, were taking place at a more subtle level.

Against such a backdrop, the Group reported a 18.6% year-on-year growth in net profit attributable to equity holders for the 12 months ended 31 December 2013 to RMB210 million. Basic earnings per share improved 19.7%, year-on-year, to RMB3.82 cents. As at 31 December 2013, cash and bank balance and treasury products amounted to RMB4,648 million, providing the financial conditions and flexibility required for the implementation of strategic measures for long-term development. In line with the Group's usual dividend policy, we have proposed to distribute 30% of the net profit attributable to equity holders for the year ended 31 December 2013 as final dividend. In view of the sound financial position of the Group, the Board of Directors has further proposed to distribute 40% of the net profit attributable to equity holders for the year ended 31 December 2013 as special dividend. Therefore, the overall dividend payout ratio for the year ended 31 December 2013 is 70%.

In view of the baffling changes, which sometimes represented radical or revolutionary transformation, taking place in the past year, the customary mindset from the past is no longer valid. New issues and challenges require to be solved by new ideas and approaches. As China Dongxiang welcomed its 12th year in operation, we had been thinking and investigating how an "old" enterprise could embrace changes and gleam with a youthful vigor that would remain fresh and grow in sophistication as the years go by. With that thinking in mind, China Dongxiang implemented the following important measures in 2013.

In terms of sales channels, we have evolved from a system comprising authorised dealers only to a mixture of "self-owned retail outlets + dealership + franchise chain." These three formats were effectively combined according to the characteristics and needs of different regions for maximum market development, better business control and the building of a solid and sound network. In 2013, the Group established 7 subsidiaries operating self-owned retail outlets to bring the total number of self-owned outlets to 272 supported by close to 800 staff. These outlets have made sizeable contributions in terms of business revenue, market development and brand image. From a strategic point of view, this crucial step will have profound significance for the future transformation and development of the Group. Leveraging its diversified portfolio of sales channels, the Group further reduced and optimised its inventory in 2013 to dispose of off-season inventory with a total worth of over RMB1 billion in terms of tag price. The Group did not neglect the protection of its brand image and the ongoing development of new channels in the course of destocking, which substantially alleviated the pressure on future operations.

We are convinced that products always speak the loudest in corporate marketing. As a label in sports fashion, the needs of end-users have always represented a primary concern for us, who are committed to innovation and ongoing improvement and for which mediocrity and inflexibility are not an option. Instead, we strive to provide to consumers products with character and unique styles. The "Kappa

KOMBAT" series, including new product lines such as KOMBAT hoodie and KOMBAT down feather jackets in addition to the popular KOMBAT pants, was met with enthusiastic market response and recognition upon its official launch in 2013.

In terms of brand promotion, we launched publicity campaigns in sophisticated style, but not necessarily massive scale. The "LOVE•KOMBAT" product launch presentation for the "KOMBAT" series held in 2013, for example, showcased Kappa as a subtle brand with exceptional style by cleverly combining the impact of the media, celebrities, designers, distributors and consumers. In the meantime, through various forms of cooperation with different media groups such as Trends Media Group, Mahua Funage Play, Music Radio and CCTV5, we succeeded in effectively marketing the brand in a fashionable manner and with precision to impart in consumers a more distinctive, affable and characteristic image for Kappa.

The strategy of "Brand + Retail" can only be successful if rolled out on all fronts in an integrated and well-balanced manner. In 2013, the Group's supply chain and logistics systems were substantially upgraded and optimised. The rolling order system of the supply chain, the incorporation of technologies from Japan, as well as B2C-based fast logistical distribution, have afforded strong support for front-desk business development.

If the aforesaid represent a somewhat staggering move in our new beginnings, major strides forward by China Dongxiang should be expected in 2014 on the road to reform. We will continue to develop the business setup of "self-owned retail + dealership + franchise chain" in greater depth, striving to restore our channel network to a more healthy and efficient state sooner. We will also seek to respond to the high expectations from customers and consumers for Kappa as a sporting fashion by offering products with a greater design tone and fashion sense. Meanwhile, we will increase efforts in the development of our brand image, supply chain system, logistics system and e-commerce platform.

On behalf of China Dongxiang Group, I would like to take this opportunity to express sincere appreciation to our shareholders and partners for their longstanding trust and support. "Every present state of a simple substance is naturally a consequence of its preceding state, so its present is pregnant with its future," says Leibniz the great philosopher. We firmly believe that, with constant reflections, swift actions and the boldness to reform, there is no doubt that China Dongxiang, which has delivered illustrious track records in the past, will develop a path with broad prospects that remains fresh and grows in sophistication as the years go by.

Chen Yihong
Chairman

18 March 2014

ANNUAL RESULT

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 2013, together with the comparative figures for 2012, as follows:

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2013

		Year ended 31 December	
		2013	2012
	Note	***RMB'000***	*RMB'000*
Revenue	3	**1,413,692**	1,771,817
Cost of goods sold	4	**(733,184)**	(930,179)
Reversal of impairment losses of inventories	4	**30,665**	55,226
Gross profit		**711,173**	896,864
Distribution expenses	4	**(412,567)**	(580,484)
Administrative expenses	4	**(240,246)**	(215,851)
Other gains, net	5	**52,683**	70,254
Provision for impairment losses of available-for-sale financial assets	11	**(27,118)**	(82,221)
Operating profit		**83,925**	88,562
Finance income, net	6	**190,799**	183,163
Share of profits/(losses) of jointly controlled entities	10	**287**	(771)
Profit before income tax		**275,011**	270,954
Income tax expense	7	**(71,943)**	(77,150)
Profit for the year		**203,068**	193,804
Profit attributable to:			
— Owners of the Company		**210,266**	176,719
— Non-controlling interests		**(7,198)**	17,085
		203,068	193,804
Earnings per share attributable to owners of the Company during the year *(expressed in RMB cents per share)*			
— Basic earnings per share	8	**3.82**	3.19
— Diluted earnings per share	8	**3.82**	3.19
Dividends	14	**147,268**	123,462

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2013

	Note	Year ended 31 December 2013 RMB'000	2012 RMB'000
Profit for the year		**203,068**	193,804
Other comprehensive income that may be reclassified to profit or loss:			
Items			
— Change in fair value of available-for-sale financial assets	11	**1,716,878**	137,194
— Currency translation differences		**(122,652)**	(35,076)
Other comprehensive income for the year, net of tax		**1,594,226**	102,118
Total comprehensive income for the year		**1,797,294**	295,922
Attributable to:			
— Owners of the Company		**1,804,492**	278,837
— Non-controlling interests		**(7,198)**	17,085
Total comprehensive income for the year		**1,797,294**	295,922

CONSOLIDATED BALANCE SHEET

As at 31 December 2013

	Note	As at 31 December **2013** *RMB'000*	2012 *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**85,967**	101,201
Lease prepayments		**12,008**	12,293
Intangible assets	9	**257,141**	272,027
Interests in jointly controlled entities	10	**15,591**	15,562
Available-for-sale financial assets	11	**3,223,605**	1,026,587
Deferred income tax assets		**97,829**	93,665
Prepayments, deposits and other receivables — non-current portion		**55,304**	43,886
		3,747,445	1,565,221
Current assets			
Inventories		**182,758**	287,325
Trade receivables	12	**333,041**	414,124
Prepayments, deposits and other receivables		**57,166**	88,276
Other financial assets		**3,551,091**	2,261,137
Cash and bank balances		**1,096,797**	2,712,996
		5,220,853	5,763,858
Total assets		**8,968,298**	7,329,079

CONSOLIDATED BALANCE SHEET (continued)

As at 31 December 2013

	Note	As at 31 December 2013 RMB'000	2012 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Share capital		**53,589**	53,589
Share premium account		**1,863,919**	1,984,059
Reserves		**6,691,690**	4,884,974
		8,609,198	6,922,622
Non-controlling interests		**14,626**	21,824
Total equity		**8,623,824**	6,944,446
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**33,574**	24,162
		33,574	24,162
Current liabilities			
Trade payables	13	**148,035**	124,032
Accruals and other payables		**114,258**	210,518
Provisions		**17,836**	22,771
Current income tax liabilities		**30,771**	3,150
		310,900	360,471
Total liabilities		**344,474**	384,633
Total equity and liabilities		**8,968,298**	7,329,079
Net current assets		**4,909,953**	5,403,387
Total assets less current liabilities		**8,657,398**	6,968,608

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 18 March 2014.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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.

2.1.1 Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2013:

- Amendment to IAS 1, '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).

- Amendment to IFRS 7, 'Financial instruments: Disclosures', on asset and liability offseting. The amendments 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 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.

- IFRS 11, 'Joint arrangements' focuses on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. A joint operator accounts for its share of the assets, liabilities, revenue and expenses. Joint ventures arise where the investors have rights to the net assets of the arrangement; joint ventures are accounted for under the equity method. Proportional consolidation of joint arrangements is no longer permitted.

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

- IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, 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.

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

- Amendments to IAS36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS36 by the issue of IFRS 13.

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these consolidated financial statement. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

- Amendment to IFRS 2, 'Share-based payment', clarifies the definition of a 'vesting condition' and separately defines 'performance condition' and 'service condition'. The amendment to IFRS 2 is prospectively applied to share-based payment transactions for which the grant date is on or after 1 July 2014.

- Amendment to IFRS 8, 'Operating segments', require disclosure of the judgements made by management in aggregating operating segments and a reconciliation of segment assets to the entity's assets when segment assets are reported. An entity shall apply the amendments to IFRS 8 for annual periods beginning on or after 1 July 2014.

- 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. The Group will also consider the impact of the remaining phases of IFRS 9 when completed by the Board.

- Amendment to IFRS 13, 'Fair value measurement', clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including non-financial contracts) within the scope of IAS 39 or IFRS 9. An entity shall apply the amendment to IFRS 13 for annual periods beginning on or after 1 July 2014 and prospectively from the beginning of the first annual period in which IFRS 13 is applied.

- Amendment to IAS 24, 'Related Party Disclosures', the reporting entity is not required to disclose the compensation paid by the management entity (as a related party) to the management entity's employee or directors, but it is required to disclose the amounts charged to the reporting entity by the management entity for services provided. An entity shall apply the amendment to IAS 24 for annual periods beginning on or after 1 July 2014.

- IAS 32, 'Financial instruments: Presentation' on asset and liability offsetting. These amendments are to the application guidance in IAS 32, 'Financial instruments: Presentation', and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.

- IAS 36, 'Impairment of assets' on recoverable amount disclosures. This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

- IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognised. The Group is not currently subjected to significant levies so the impact on the Group is not material.

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 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 and other brands and international business which includes the provision of Kappa Brand products for other Kappa licencees 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 *RMB'000*	Japan *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Year ended 31 December 2013				
Total revenue before inter-segment elimination	**925,234**	**516,721**	**—**	**1,441,955**
Inter-segment revenue	**(21,393)**	**(6,870)**	**—**	**(28,263)**
Revenue from external customers	**903,841**	**509,851**	**—**	**1,413,692**
Cost of goods sold	**(405,252)**	**(327,932)**	**—**	**(733,184)**
Reversal of impairment losses of inventories	**28,209**	**2,456**	**—**	**30,665**
Segment gross profit	**526,798**	**184,375**	**—**	**711,173**
Segment operating profit/(loss)	**148,355**	**(16,490)**	**(47,940)**	**83,925**
Finance income	**189,426**	**4**	**5,670**	**195,100**
Finance cost	**(7,589)**	**(8,650)**	**11,938**	**(4,301)**
Share of profits of jointly controlled entities	**—**	**287**	**—**	**287**
Profit/(loss) before income tax	**330,192**	**(24,849)**	**(30,332)**	**275,011**
Income tax expense	**(71,003)**	**(940)**	**—**	**(71,943)**
Profit/(loss) for the year	**259,189**	**(25,789)**	**(30,332)**	**203,068**
Material items of income and expense				
Depreciation and amortisation	**21,585**	**7,405**	**—**	**28,990**
Provision for impairment losses of available-for-sale financial assets	**27,118**	**—**	**—**	**27,118**
Provision for/(reversal of) impairment losses of trade and other receivables	**102,964**	**(491)**	**—**	**102,473**
Advertising and marketing expenses	**28,883**	**14,698**	**—**	**43,581**
Sales operating expenses	**71,259**	**40,288**	**—**	**111,547**

	China *RMB'000*	Japan *RMB'000*	Unallocated *RMB'000*	Total *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 losses of inventories	59,318	(4,092)	—	55,226
Segment gross profit	654,133	242,731	—	896,864
Segment operating profit/(loss)	158,365	18,859	(88,662)	88,562
Finance income	164,716	6	13,127	177,849
Finance cost	(2,318)	5,723	1,909	5,314
Share of losses of jointly controlled entities	—	(771)	—	(771)
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
Advertising and marketing expenses	89,398	17,191	—	106,589
Sales operating expenses	95,673	47,348	—	143,021

The loss of RMB47,940,000 (2012: RMB88,662,000) 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:

	2013	2012
	RMB'000	*RMB'000*
China		
— Distribution of Kappa Brand products	**700,640**	1,057,825
— Retail of Kappa Brand products	**160,500**	70,863
— International business and others	**42,701**	36,174
	903,841	1,164,862
Japan		
— Distribution and retail of Kappa Brand products	**164,989**	209,796
— Distribution and retail of Phenix Brand products	**344,862**	397,159
	509,851	606,955
	1,413,692	1,771,817

During the year ended 31 December 2013, revenues of approximately RMB148,648,000 (2012: nil) are derived from a single external customer. These revenues are attributable to China segment.

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 2013				
Interests in jointly controlled entities	**—**	**15,591**	**—**	**15,591**
Available-for-sale financial assets	**3,223,605**	**—**	**—**	**3,223,605**
Deferred income tax assets	**97,829**	**—**	**—**	**97,829**
Other assets	**4,611,376**	**369,055**	**767,947**	**5,748,378**
Total assets before inter-segment elimination	**7,932,810**	**384,646**	**767,947**	**9,085,403**
Inter-segment elimination	**(21,699)**	**(10,529)**	**(84,877)**	**(117,105)**
Segment assets	**7,611,111**	**374,117**	**683,070**	**8,968,298**
Deferred income tax liabilities	**30,136**	**3,438**	**—**	**33,574**
Current income tax liabilities	**29,620**	**1,151**	**—**	**30,771**
Other liabilities	**146,266**	**166,301**	**29,068**	**341,635**
Total liabilities before inter-segment elimination	**206,022**	**170,890**	**29,068**	**405,980**
Inter-segment elimination	**(11,210)**	**(21,228)**	**(29,068)**	**(61,506)**
Segment liabilities	**194,812**	**149,662**	**—**	**344,474**

	China	Japan	Unallocated	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2012				
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
Other assets	5,383,951	439,279	484,313	6,307,543
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)
Segment assets	6,495,779	441,092	392,208	7,329,079
Deferred income tax liabilities	20,436	3,726	—	24,162
Current income tax liabilities	1,751	1,399	—	3,150
Other liabilities	236,760	142,779	36,343	415,882
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)
Segment liabilities	244,576	140,057	—	384,633

As at 31 December 2013, the total non-current assets other than financial instruments and deferred tax assets located in the PRC amounted to RMB351,022,000 (2012: RMB326,715,000) and the total of these non-current assets located in other countries and places amounted to RMB74,989,000 (2012: RMB74,368,000).

4 EXPENSES BY NATURE

The expenses included in cost of goods sold, reversal of impairment losses of inventories, distribution expenses and administrative expenses are analysed as follows:

	2013	2012
	RMB'000	*RMB'000*
Cost of inventories recognised as cost of goods sold	**720,666**	913,823
Depreciation of property, plant and equipment	**15,230**	18,526
Amortisation of lease prepayments and intangible assets	**13,760**	18,124
Advertising and marketing expenses	**43,581**	106,589
Sales operating expenses	**111,547**	143,023
Employee salary and benefit expenses	**153,015**	187,772
Design and product development expenses	**47,940**	88,662
Legal and consulting expenses	**3,682**	7,293
Operating lease in respect of buildings	**31,558**	40,709
Logistic fees	**70,669**	90,301
Reversal of impairment losses of inventories	**(30,665)**	(55,226)
Provision for impairment losses of trade and other receivables *(Note 12)*	**102,473**	24,130
Travelling expenses	**18,344**	28,899
Auditors' remuneration	**3,704**	4,469
Others	**49,828**	54,194
Total of cost of goods sold, reversal of impairment losses of inventories, distribution expenses and administrative expenses	**1,355,332**	1,671,288

5 OTHER GAINS, NET

	2013	2012
	RMB'000	*RMB'000*
Government subsidy income	**10,514**	45,794
Royalty income	**10,458**	6,073
Disposal of shares in jointly controlled entities *(Note 10)*	**—**	(438)
Investment income from available-for-sale financial assets	**34,000**	19,385
Disposal of available-for-sale financial assets	**1,151**	—
Others, net	**(3,440)**	(560)
	52,683	70,254

Government subsidy income represents grants from the local finance bureaus as encouragement to the Company's subsidiaries' investments and is 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.

6 FINANCE INCOME, NET

	2013	2012
	RMB'000	*RMB'000*
Finance income:		
— Interest income from bank deposits	**54,130**	100,228
— Income from other financial assets	**140,970**	77,621
	195,100	177,849
Finance cost:		
— Foreign exchange (losses)/gains, net	**(1,020)**	11,171
— Others	**(3,281)**	(5,857)
	(4,301)	5,314
Finance income, net	**190,799**	183,163

7 INCOME TAX EXPENSE

	2013	2012
	RMB'000	*RMB'000*
Current income tax		
— PRC corporate income tax ("CIT")	**65,466**	63,575
— Taxation in Japan	**1,229**	1,458
Deferred income tax	**5,248**	12,117
	71,943	77,150

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 2013 (2012: nil).

According to the New corporate income tax Law ("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 ended 31 December 2012, the major operating subsidiary of the Group obtained approval from tax bureau on 5% withholding income tax rate. As at 31 December 2013, the Group had provided a deferred withholding tax liability amounted to RMB30,136,000 (2012: RMB20,436,000) 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 2013 applicable to the subsidiary is 30% (2012: 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 2013 (2012: 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:

	2013	2012
	RMB'000	*RMB'000*
Profit before income tax	**275,011**	270,954
Tax calculated at the statutory tax rate of 25% (2012: 25%) from PRC operating subsidiaries	**68,753**	67,739
Tax effects of:		
— Utilisation of previous unrecognised tax losses	**(4,805)**	(1,862)
— Tax losses for which no deferred income tax asset was recognised	**16,425**	24,544
— Preferential tax rates on the profits of certain subsidiaries	**(4,453)**	(5,896)
— Income not subject to tax	**(4,174)**	(1,827)
— Expenses not deductible for tax purpose	**2,384**	1,915
Withholding income tax on the profits of PRC subsidiaries to be distributed to foreign investors	**9,700**	(6,564)
Others	**(11,887)**	(899)
Income tax expense	**71,943**	77,150

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.

	2013	2012
Profit attributable to owners of the Company *(RMB'000)*	**210,266**	176,719
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme *(thousands)*	**5,508,643**	5,538,588
Basic earnings per share *(RMB cents per share)*	**3.82**	3.19

(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 2013, there was no potential diluted ordinary share (2012: nil) and therefore no diluted earnings per share is presented.

9 INTANGIBLE ASSETS

	KAPPA trademarks *RMB'000*	Phenix trademark and others *RMB'000*	Computer software *RMB'000*	Total *RMB'000*
At 31 December 2012				
Net book amount	251,207	7,602	13,218	272,027
At 31 December 2013				
Net book amount	239,649	7,387	10,105	257,141

10 INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2013 ***RMB'000***	2012 *RMB'000*
At 1 January	**15,562**	18,909
Disposal of equity interest in a jointly controlled entity	**—**	(438)
Share of profits/(losses)	**287**	(771)
Exchange differences	**(258)**	(2,138)
At 31 December, share of net assets	**15,591**	15,562

Nature of investment in joint ventures in year 2013 and 2012

Company name	**Country of incorporation**	**Particulars of issued/ registered capital**	**Interest held**	**Principal activities**	**Measurement method**
Indirectly held:					
Shanghai Phenix Apparel Co., Ltd. (上海菲尼克斯製衣有限公司)	PRC	USD 4,300,000	38%	Production and sale of apparel and sportswear	Equity

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.

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.

Summarised financial information for joint venture

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	
	2013	*2012*
	RMB'000	RMB'000
Total assets	**20,616**	19,593
Total liabilities	**(5,024)**	(4,031)

	Year ended 31 December	
	2013	2012
	RMB'000	*RMB'000*
Revenue	**14,945**	20,644
Share of gains/(losses) after income tax for the year	**287**	(771)

11 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2013	2012
	RMB'000	*RMB'000*
At 1 January	**1,026,587**	973,398
Currency translation differences	**(49,632)**	(1,784)
Additions	**559,390**	—
Disposals	**(2,500)**	—
Change in fair value	**1,716,878**	137,194
Impairment losses	**(27,118)**	(82,221)
At 31 December	**3,223,605**	1,026,587

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

	2013	2012
	RMB'000	*RMB'000*
Unlisted equity securities in the PRC		
— MSYH Group *(Note (a))*	**70,000**	70,000
— Yunfeng E-commerce Funds *(Note (b))*	**2,427,785**	765,576
— Yunfeng Fund II *(Note (c))*	**6,071**	—
— CITIC Mezzanine Fund I *(Note (d))*	**276,253**	150,000
— Rongyu Fund *(Note (e))*	**200,000**	—
— Tebon Fund *(Note (f))*	**200,000**	—
— Other investment	**21,000**	21,000
Listed equity securities in the US		
— Mecox Lane *(Note (g))*	**22,496**	20,011
	3,223,605	1,026,587
Market value of listed securities	**22,496**	20,011

Available-for-sale financial assets are denominated in the following currencies:

	2013	2012
	RMB'000	*RMB'000*
US dollar	**2,456,352**	785,587
Renminbi	**767,253**	241,000
	3,223,605	1,026,587

Notes:

(a) This 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"). 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 subscribed for limited partnership agreements with Yunfeng E-commerce funds ("Yunfeng E-commerce 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 at historical exchange rate), which had been fully paid as at 31 December 2012. The Yunfeng E-commerce 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 2013, the investment was stated at fair value, and an unrealised fair value investment of RMB1,711,245,000 (2012: RMB137,194,000) was charged to other comprehensive income.

(c) In May 2013, the Group subscribed for limited partnership interests with a total capital commitment of USD20,000,000 in Yunfeng Fund II. The Yunfeng fund II is a limited partnership established for the purpose of making equity investments in the PRC. As at 31 December 2013, the Group has paid USD1,540,000 (equivalent to RMB9,390,000 at historical exchange rate), being 8% of the capital commitment.

As at 31 December 2013, the investment was stated at fair value of RMB6,071,000. The decline in fair values of the investment was considered other-than-temporary. Accordingly, the Group recognised a loss of RMB3,370,000 in respect of provision for impairment of this investment.

(d) 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. In November 2011 and June 2013, the Group had paid RMB150,000,000 respectively.

As at 31 December 2013, the investment was stated at fair value of RMB276,253,000. The decline in fair values of the investment was considered other-than-temporary. Accordingly, the Group recognised a loss of RMB23,748,000 in respect of provision for impairment of this investment.

(e) In May 2013, the Group subscribed for limited partnership interests with a total capital commitment of RMB200,000,000 in Rongyu Fund. The Rongyu Fund is a limited partnership established for the purpose of making equity investments in the PRC. As at 31 December 2013, the Group has fully paid the capital commitment and the investment was stated at fair value.

(f) In December 2013, the Group subscribed for limited partnership interests with a total capital commitment of RMB200,000,000 in Tebon Innovation Fund ("Tebon Fund"). The Tebon Fund is a limited partnership established for the purpose of making equity investments in the PRC. As at 31 December 2013, the Group has fully paid the capital commitment and the investment was stated at fair value.

(g) In March 2011, the Group purchased 40,519,226 ordinary shares of Mecox Lane Limited ("Mecox Lane"), representing approximately 10% of the issued shares of Mecox Lane, at a price of USD0.8571 per share, totaling USD34,729,000 (equivalent to approximately RMB228,295,000). Mecox Lane is 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. 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-year's period starting from 25 March 2011.

During the year ended 31 December 2013, the Group disposed 5,138,420 shares of Mecox Lane, and had recognised disposal gains of approximately RMB1,151,000.

As at 31 December 2013, the rest of the investment in Mecox Lane was stated at fair value of RMB22,496,000 which was determined with reference to the quoted price of the listed shares of Mecox Lane. The increase in fair value of RMB5,633,000 was charged to other comprehensive income (2012: decline of RMB22,221,000 charged to impairment loss).

12 TRADE RECEIVABLES

	2013	2012
	RMB'000	*RMB'000*
Trade receivables		
— Third parties	**353,455**	364,092
— Related parties	**163,250**	131,720
	516,705	495,812
Less: provision for impairment	**(183,664)**	(81,688)
Trade receivables, net	**333,041**	414,124

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 2013 and 2012 was as follows:

	2013	2012
	RMB'000	*RMB'000*
Current	**223,509**	201,497
Within 30 days	**37,274**	75,717
31 to 120 days	**90,579**	98,717
Over 120 days	**165,343**	119,881
	516,705	495,812

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 2013, trade receivables of RMB293,196,000 (2012: RMB294,315,000) were past due, of which RMB183,664,000 (2012: RMB81,688,000) 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:

	2013	2012
	RMB'000	*RMB'000*
At 1 January	**81,688**	58,029
Provision for impairment losses of receivables	**102,473**	24,130
Exchange difference	**(497)**	(471)
At 31 December	**183,664**	81,688

13 TRADE PAYABLES

The ageing analysis of trade payables as at 31 December 2013 and 2012 was as follows:

	2013	2012
	RMB'000	*RMB'000*
Current	**119,107**	115,878
Within 30 days	**5,231**	1,543
31 to 120 days	**15,739**	21
Over 120 days	**7,958**	6,590
	148,035	124,032

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

	2013	2012
	RMB'000	*RMB'000*
Interim dividend paid of RMB0.50 cent (2012: 0.53 cent) per share	**27,682**	29,343
Interim special dividend paid of RMB0.67 cent (2012: 0.70 cent) per share	**37,094**	38,755
Proposed final dividend of RMB0.64 cent (2012: 0.43 cent) per share	**35,433**	23,807
Proposed final special dividend of RMB0.85 cent (2012: 0.57 cent) per share	**47,059**	31,557
	147,268	123,462

The dividends paid in 2013 amounted to RMB120,140,000 or RMB2.17 cents per share (2012: RMB68,098,000 or RMB1.23 cents per share), comprising 2012 final dividends of RMB55,364,000 and 2013 interim dividends of RMB64,776,000 (2012: 2012 interim dividends of RMB68,098,000). The dividends of RMB589,000 (2012: RMB371,000) were paid to the shares held for Restricted Share Award Scheme .

Pursuant to a resolution passed on 18 March 2014, the board of directors of the Company proposed a final dividend and final special dividend of RMB0.64 cent and RMB0.85 cent per ordinary share of the Company, amounting to RMB35,433,000 and RMB47,059,000 for the year ended 31 December 2013 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 14 May 2014.

The aggregate amounts of the dividends paid during 2013 and 2012 have been disclosed in the consolidated income statement in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

15 EVENTS AFTER THE BALANCE SHEET DATE

The Group entered into a definitive share sales agreement dated January 29, 2014 with Cnshangquan E-Commerce Co., Ltd., pursuant to which the Group has agreed to sell the rest 35,380,806 ordinary shares of the Mecox Lane, for a total cash consideration of approximately US$4.8 million.

The share sale transactions are expected to close in the second quarter of 2014, subject to the satisfaction of customary closing conditions specified in the share sales agreement, including certain PRC government approvals.

MANAGEMENT DISCUSSION AND ANALYSIS

Macroeconomic Review

Under the ongoing impact of the international financial crisis, global economic recovery in 2013 was mild and uneven among nations, as real GDP growth remained below the average level of 4% reported for the decade prior to the financial crisis. In 2013, major central banks in the world continued to follow an accommodative monetary policy with short-term interest-rate levels approaching zero. The European Central Bank continued to lower interest rates by large margins, while the U.S. Federal Reserve Board purchased Treasuries and mortgage bonds on an ongoing basis. Elsewhere, the Bank of Japan started quantitative easing at the beginning of the year, resulting in the decrease in real income and a weaker Yen.

In 2013, the Chinese economy reported growth amidst general stability. In the latter half of the year, the fundamental objective of government policies was tilted towards growth following various government meetings. Measures were adopted to support small enterprises, accelerate investments in railway, provide assistance to the export sector, delegate administrative approval authority, encourage use of idle funds and relax financing restrictions for property developers, etc, to counter the risk of unduly economic regression. As at the end of the second quarter, aggregate financing in the Chinese economy had reversed to growth, while financial expenditure rebounded significantly. GDP grew by 7.8% during the third quarter, driven mainly by investments which contributed close to 56%. The fourth quarter saw continued growth with rising retail and property prices in the wake of massive capital influx into China. Nevertheless, China is undergoing a crucial period of economic transformation, where the foundation for economic recovery has yet to be further strengthened, pending resolution of deep-lying issues accumulating over prolonged periods.

Industry Review

Domestic consumption remained sluggish in 2013, as the growth in total retail sales of consumer goods for the year slowed down by 1.2 percentage points compared to the previous year. 2013 has also been a year of opportunities as well as challenges for the sporting goods industry. Under the double impact of lacklustre sentiments in the retail market and fierce competition with e-commerce, traditional brand operators were facing cutbacks to various extents in terms of sales, profit and the size of their retail networks, while physical sales channels continued to dwindle.

The thriving development of the Internet, and the Mobile Internet in particular, has brought about fundamental changes to human life in terms of lifestyle, consumption pattern and mindset. Leveraging advantages in cost, easy application and product offerings, e-commerce players in China have been growing at lightning speed. The rapid rise of e-commerce has dealt a heavy blow to traditional marketing channels in the industry. Brand operators have begun to turn to e-commerce by gradually integrating online and offline resources on the back of their strengths in supply chain and operations. With the rising costs of distribution and circulation, the cost advantage of online goods will be undermined hampered, while traditional brands that have resorted to Internet sales will remain in an advantageous position.

In the age of Internet, the sportswear industry will return to the basics, that is, the very nature of business activities: enhancing consumers' experience by focusing on what they want. Currently, the domestic sportswear industry is undergoing a crucial stage of transformation and evolution. Against a larger backdrop where opportunities as well as challenges exist, traditional brand operators have no choice but persist in developing both online and offline businesses in a synergised manner to optimize distribution of sales channels, build brands, design new products, enhance control and management as well as operating capability effectively, in order to remain sustainable and competitive in the market.

Business Review

In 2013, the Group continued to adopt prudent business strategies in persistent implementation of its objectives and directions for reform to lay a strong foundation for business development.

Brand Building and Marketing

PRC — Kappa brand

During the period under review, the Kappa brand in China closely followed popular trends and delivered an excellent performance in creating online hypes, launching non-Internet marketing programmes and media integration.

In view of the dominance of social networking platforms, Kappa continued to use brand marketing via emerging channels such as Weibo and WeChat. Through mix and match recommendations, promotional information, pictures of our branded apparels and interactions with celebrities in the industry posted on these platforms, our brand image has been enhanced with increased exposure to our target customer groups. We succeeded in making inroads with new media terminals, with advertisements on the customer-end of the CCTV5 Apps for smart phones effectively reaching our targeted groups.

On 20 December 2013, a "LOVE•KOMBAT" product launch presentation was held, as the Kappa China team drew on the strengths of their best designers to unveil new items in the "KOMBAT" series as the star products for the Spring and Summer seasons of 2014. While the KOMBAT designers explained the concepts and unique features of the new additions to the series, which included K-tops, pants and suits, artists including Daniel Chan and Wang Li Kun were invited to give a lively showcase of the flair and dynamism of the KOMBAT series, ensuring a vivid, visual experience of the brand new Kappa products for all attending guests.

In terms of corporate social responsibility, Kappa participated as a sponsor for the "2013 Music Radio for Schooling — Charitable Schooling Assistance Campaign" (2013 Music Radio 我要上學•回家助學行動) jointly organised by China National Radio and China Children and Teenagers' Fund during the latter half of the year. Through a range of activities including charity visits, show tours, Kappa Store Manager for the Day, charity golf tournament and charity gala shows, etc, celebrities were invited to participate in providing charity donations and encouragement to children in rural areas in west China, resulting in positive exposure for Kappa which has enhanced its brand reputation among consumers.

Meanwhile, Kappa continued to enhance its close cooperation with lifestyle and sports media, ensuring accurate and effective promotion of its products to increase brand exposure. Magazines we have cooperated with included: Fashion Cosmo, SoCool, Trends Health for Women, China Fashion Weekly, Harper's Bazaar, Woman's Day, LifeStyle Star, Good Housekeeping, Bazaar Men's Style, Golf Travel, Sports Vision, Fashion Weekly, Trends Health, and etc. Sound marketing effects were generated from such extensive media coverage with specific targets.

PRC — RDK brand

RDK continued to be positioned as a mid-to-high market brand designed offering alternatives to the new middle class who longed for self-expression. Against fast-moving time and ever-changing trends, RDK is not unlike a dancer with mastery in the art of balance, striking balance between polish and texture, grayscale and colour, wool and fine nylon to interpret fashion that befits the new middle class.

In connection with marketing, RDK enhanced interaction with consumers on the Internet to address its target customer group of avant-garde and trendy individuals. The RDK philosophy and other product information are communicated in a timely manner through social networking platforms such as Weibo and WeChat, as well as popular online stores such as Tmall and shangpin.com. In the meantime, RDK also enhanced promotion at retail outlets for greater exposure to consumers. In particular, joint efforts with shopping malls were pursued during festivities to increase brand recognition and reception. During CHIC (China International Clothing and Accessories Fair), the RDK team was vigorously involved in the section entitled CHIC-YOUNGBLOOD, drawing the attention of trendy design houses and art and culture groups. The label enjoyed positive exposure and its brand influence was substantially increased as a result.

Japan — Kappa brand

During 2013, the Kappa Japan team opted for the celebrity approach in marketing and appointed famous Japanese motorist Katsuyuki Mori as its brand ambassador and star footballer Ogasawara Mitsuo as spokesperson for its soccer shoe line. Meanwhile, the victories of Shiho Oyama, famous lady golfer sponsored by Kappa Golf, at the finals of LPGA 2013 and the "LPGA Tour Championship RiCO Cup" also generated positive media exposure for the Kappa Golf brand. The strategy of celebrity effect has greatly enhanced Kappa's popularity in Japan.

In terms of product marketing, our brand presence has been further enhanced with closer encounters with consumers through interactive activities on the Kappa Golf webpage on Facebook, the U.S. social networking platform. Based on their respective characteristics, Kappa launched separate promotions of its general training products and Golf products in various magazines, such as "PREPPY," "ALBA," "Sakka Nihon," "LEON," "GOLF LEON," "Samura Kicks," "Number," "Tarzan," "World Soccer Digest" and etc. More consumers have been following us as a result of our extensive promotional efforts.

Japan — Phenix brand

As the most followed outdoor brand of Japan, Phenix focused its marketing efforts more on daily-life aspects, with a view to broadening the scope of brand followers. Such efforts included vigorous promotional campaigns that advertised the products in popular magazines such as "Gakujin," "BEPAL," "GoOut," "Soto," "The Day," "Out Standing," "Hunt" and "Peaks." Save as the professional, functional qualities being emphasised, the mix and match of the brand's fashionable offerings was also demonstrated, with the aim of providing a new visual experience for the target consumer group of professionals.

Innovations in Product Design, Research and Development

Kappa KOMBAT

The KOMBAT series was Kappa's classic product range in the 1980s for the combination of sporting functionality and fashionable design. It marked the success of Kappa in transforming from a leisure label to a sports brand. Today, the reincarnated KOMBAT series continue to draw inspirations from its predecessor, preserving the sporting functions while adding designs of the latest fashion. Sportswear is presented as fashion, a combat suit with positive energy tailored for youngsters who love to live and dare to dream.

The design idea of the Kappa KOMBAT series springs from the impression of the human body in action in sports. It is a modernised interpretation of the classic version, although the cocoon profile with a short front and a long rear has been inherited from the previous version, giving it an immediately avant-garde, distinctive appearance. Design-wise, the KOMBAT hoodie continue to rely on 3D cuttings to highlight the beauty of the silhouette, creating an unbridled overall shaping to complete a perfect blend of fashion and comfort. The use of fleece represents another smart move that increases comfort while enhancing the solid feel, imparting a fresh sense of the youthfulness, energy and confidence of youngsters.

The design of the Kappa KOMBAT pants is inspired by the tight pants in football training. The designer has taken into full consideration of ergonomic concerns when creating them as daily casual wear. The 3D cuttings added at the knee and thigh positions provide a perfect display of the loose shape above the knee and the tight one below it, while effectively stretching and streamlining the leg-shape. Based on the designer's in-depth observation of the shapes of the legs of Asians, the KOMBAT pants come in four different models, and each model features specifically different 3D cuttings for better shaping effect.

Kappa accessories

In the current market where trendiness prevails, accessories are indispensable for the mix and match process. Kappa puts a lot of effort in the design and research of accessories to ensure that they provide the final touch that makes the wearer stands out above the rest.

The polka-dot hat vivifies the overall appearance with the teasing design.

The glittering stitch neck warmer in a fluorescent colour, adorned by graceful, minimalist diamond-shaped patterns, befits the image of a metropolitan lady who is heartwarming and fashionable.

The backpack with the graphic imprint of a parachute, reflecting the carefree attitude of the owner, is perfect for an energetic bicycle ride during weekends.

Kappa running windbreakers

Kappa's running windbreakers are highly functional, with light water-proof coating materials affording protection against wind and rain. The raindrop design and the minute spots of deliberate colour clash speak eloquently of the refreshing character of youth guys from the city.

Kappa retro

The retro hoodies, dedicated especially to the young, bright and passionate sports fans, come with marvelous energy and liveliness embodied by diverse colours and patterns. The classical style is reinvented in the details, as the design seeks to give an interpretation of modern trends. The joined pieces on the sleeves impart a strong sporting sense, while the large-type text on the chest further reinforces the call for energy.

The retro Kappa King running shoes come in a bold, electric fluorescent colour, an astounding style beyond the wildest imagination of any runner.

Raincoat for general training

The raincoat launched in the Fall/Winter season of 2013 as part of the new training suit series of Kappa Japan is comparable in functions to its previously marketed counterparts, boasting water resistance 20,000 mm, moisture permeability of 10,000g/m^2/24h and a water-proof sealing strip to ensure the enjoyment of sports on a rainy day. The detachable polar fleece liner provides further options that give it an outstanding price-performance ratio.

Our research, development and design team in Japan continued to make positive contributions in 2013, as they stepped up with their research and development on details with enhanced efficiency. New technologies were created to enhance the functional applications of our apparel products, giving substance to the notion of "scientific apparel as reasonable clothes" and the pledge of "handling details beyond customers' imagination."

Upgrading our retail network

During the period under review, the Group continued to optimise its sales network and store efficiency, assessed its store network and made adjustments accordingly. As at 31 December 2013, the Group had a total of 1,183 Kappa retail stores operated directly or indirectly, with 21 distributors under the China segment. The distribution network of retail stores covered all major provincial capital cities and other major cities and townships in China.

Since the incorporation of its first regional subsidiary in Hunan in the latter half of 2012, the Group has by now established 7 subsidiaries located variously in Hunan, Dalian, Henan, Hubei, Shenzhen, Shanghai and Harbin, all reporting satisfactory results. Through trial and implementation, regional retail companies' management control over the end-market has been established. While stabilising our channels, we are also able to gain in-depth understanding of end-market requirements and secure direct feedback for brand operations.

Apart from the traditional sales in retail outlets, the Group also places great emphasis on online sales. An e-commerce platform not only provides an efficient channel for stock clearance, but also enables customers to buy branded products at any destination and purchase Kappa products from multiple platforms, as demonstrated by the Group's cooperation with taobao.com, tmall.com and other e-commerce platform providers. Meanwhile, brand information is constantly updated through our own website ikappa.com.cn, so products of the new season are showcased to consumers in a timely and effectively manner. The Group is committed to building its integrated Internet sales platform in a bid to promote its brands and increase sales.

Outlook

Regardless of how fashion evolves and the market changes, China Dongxiang will remain committed to its product philosophy of "sports, fashion, sexiness and style" and its core value of "pragmatism, innovation and passion", sparing no efforts as it continues to pursue reform and innovation through thick and thin.

The Group will continue to intensify reforms and explore new sales channels, building a model of sales channel incorporating "self-operated retail outlets + dealership + franchise chain". Meanwhile, we will provide quality products with fashion elements by vigorously consolidating design resources with R&D resources and taking into consideration of brand positions and market demand, fulfilling consumer's desires for personality and variety.

The Group will continue to optimize our supply chain, increase the efficiency of order replenishment and incorporate the B2C concept of swift logistics distribution, establishing an enormous platform for business development.

2014 will continue to be a challenging year for China Dongxiang. The effectiveness of our adjustments to retail channels and market response to the transformation of products have yet to be observed, considered and acted in response, but as told in our mission statement, China Dongxiang is committed to "creating the most desired Sport-Life brand". Persistence in innovation and round-the-clock efforts will assure maximum return for the support of our shareholders and consumers.

Financial Review

The sales for the year ended 31 December 2013 of the Group was RMB1,414 million, decreased by 20.2% as compared to RMB1,772 million for the year ended 31 December 2012. Profit attributable to equity holders for the year ended 31 December 2013 was RMB210 million, increased by 18.6% as compared to RMB177 million for the year ended 31 December 2012.

Key Financial Performance by Segments

		Group (Note 3) Year ended 31 December			China Segment (Note 1) Year ended 31 December			Japan Segment (Note 2) Year ended 31 December		
	Note	**2013** ***RMB million***	2012 *RMB million*	*Change*	**2013** ***RMB million***	2012 *RMB million*	*Change*	**2013** ***RMB million***	2012 *RMB million*	*Change*
Key items of consolidated income statement										
Sales		**1,414**	1,772	–20.2%	**904**	1,165	–22.4%	**510**	607	–16.0%
Gross profit (before provision for impairment of inventories)	4	**681**	842	–19.1%	**499**	595	–16.1%	**182**	247	–26.3%
Operating profit	3	**84**	89	–5.6%						
Profit attributable to equity holders of the Company	3	**210**	177	18.6%						
		RMB cents	*RMB Cents*							
Basic earnings per share		**3.82**	3.19	19.7%						
Diluted earnings per share		**3.82**	3.19	19.7%						
		%	*%*	*%pts*	***%***	*%*	*%pts*	***%***	*%*	*%pts*
Profitability ratios										
Gross profit margin (before provision for impairment of inventories)	4	**48.2%**	47.5%	0.7	**55.2%**	51.1%	4.1	**35.7%**	40.7%	–5.0
Operating profit margin		**5.9%**	5.0%	0.9						
Effective tax rate		**26.2%**	28.5%	–2.3						
Net profit margin		**14.9%**	10.0%	4.9						
Key operating expenses ratios (as percentage of sales)										
Sales expenses		**7.9%**	8.1%	–0.2	**7.9%**	8.2%	–0.3	**7.9%**	7.8%	0.1
Advertising and marketing expenses		**3.1%**	6.0%	–2.9	**3.2%**	7.7%	–4.5	**2.9%**	2.8%	0.1
Employee salary and benefit expenses		**10.8%**	10.6%	0.2	**11.0%**	11.0%	0	**10.6%**	9.9%	0.7
Design and product development expenses	3	**3.4%**	5.0%	–1.6						
		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	**131**	114	17	**151**	121	30	**96**	101	–5
Average trade payable turnover days	6	**68**	79	–11	**52**	72	–20	**88**	89	–1
Average inventory turnover days	7	**210**	229	–19	**260**	277	–17	**147**	153	–6
Asset ratio										
Current ratio		**16.8**	16.0	0.8	**25.4**	22.4	3.0	**2.0**	2.5	–0.5

Notes:

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

2. The Japan segment principally represents the 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 as well as segmental design and products development expenses as a percentage of sales are not meaningful.

4. Provision for inventories is included in costs to sell in accordance with International Financial Reporting Standards. The Group is in the opinion that for the ease of comparative analysis, gross profit before provision for impairment of inventories would be more reasonable for comparison.

5. Average trade receivable 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 payable 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						
	2013			2012			
	RMB million	***% of product/ brand mix***	***% of Group sales***	*RMB million*	*% of product/ brand mix*	*% of Group sales*	*Change*
CHINA SEGMENT							
Kappa Brand							
Apparel	**634**	**73.6%**	**44.8%**	789	69.9%	44.5%	–19.6%
Footwear	**199**	**23.1%**	**14.1%**	300	26.6%	16.9%	–33.7%
Accessories	**28**	**3.3%**	**2.0%**	40	3.5%	2.3%	–30.0%
Kappa Brand total	**861**	**100.0%**	**60.9%**	1,129	100.0%	63.7%	–23.7%
International business, RDK and others	**43**		**3.0%**	36		2.0%	19.4%
CHINA SEGMENT TOTAL	**904**		**63.9%**	1,165		65.7%	–22.4%
JAPAN SEGMENT							
Phenix Brand	**345**	**67.6%**	**24.4%**	397	65.4%	22.4%	–13.1%
Kappa Brand	**165**	**32.4%**	**11.7%**	210	34.6%	11.9%	–21.4%
JAPAN SEGMENT TOTAL	**510**	**100.0%**	**36.1%**	607	100.0%	34.3%	–16.0%
THE GROUP TOTAL	**1,414**		**100.0%**	1,772		100.0%	–20.2%

China Segment

Kappa Brand

Total sales from the Kappa Brand business, the core business of the Group, for the year ended 31 December 2013 was RMB861 million, decreased by RMB268 million from RMB1,129 million for the year ended 31 December 2012. Such decrease was principally due to: 1) the further adoption of the sales method of "sales order + rolling order" in 2013 for easing inventory pressure of distributors. The Group actively reduced part of the sales orders by distributors and maintained close communication with them to understand their demand. Stock replenishment through the "rolling order" method enabled Kappa brand products that meet consumers' needs to be launched to the end-user retail market; 2) in 2013, while the sportswear industry in China was still undergoing the process of inventory clearance, some end-user outlets recorded unsatisfactory profitability. In a bid to save resources and enhance profitability, the Group and our distributors closed down most of the retail stores with low efficiency. A net closure of 826 retail stores was recorded for the year, and the number of Kappa Brand retail stores decreased to 1,183 as at 31 December 2013 from 2,009 as at 31 December 2012.

International Business, RDK and Others

Sales from international business, RDK and other brands increased by RMB7 million to RMB43 million for the year ended 31 December 2013 from RMB36 million for the year ended 31 December 2012. Such increase was mainly due to the growth in sales of international business.

Japan Segment

Sales from Japan segment for the year ended 31 December 2013 decreased by RMB97 million to RMB510 million from RMB607 million for the year ended 31 December 2012. The decrease in sales of Japan Segment was mainly due to the rapid depreciation in exchange rate between Japanese Yen against RMB in 2013.

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

	Year ended 31 December				
	2013		2012		**Change**
	Sales	**% of sales of Kappa brand**	Sales	% of sales of Kappa brand	
	RMB million		*RMB million*		
Wholesale	**700**	**81.3%**	1,058	93.7%	–33.8%
Retail	**161**	**18.7%**	71	6.3%	126.9%
Total of Kappa brand	**861**	**100.0%**	1,129	100.0%	–23.7%

Sales of Kappa brand products via wholesale channel in China segment decreased by RMB358 million to RMB700 million for the year ended 31 December 2013 from RMB1,058 million for the year ended 31 December 2012, representing 81.3% of the total sales of Kappa brand in China segment in 2013 as compared with 93.7% in 2012. Retail business of Kappa brand in China segment has developed well since its commencement in the second half of 2012. As at 31 December 2013, the number of self-owned retail outlets operated by our subsidiaries reached 272. Sales via retail channel increased by RMB90 million to RMB161 million for the year ended 31 December 2013 from RMB71 million for the year ended 31 December 2012, representing 18.7% of the total sales of Kappa brand in China segment in 2013 (2012: 6.3%).

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

	Year ended 31 December					
	2013		2012		**Change**	
	ASP	**Total units sold**	ASP	Total units sold	**ASP**	**Total units sold**
	RMB	***in '000***	*RMB*	*in '000*		
Apparel	**132**	**4,478**	125	5,944	5.6%	–24.7%
Footwear	**155**	**1,191**	159	1,783	–2.5%	–33.2%

Notes:

1. Average selling price per unit represent the sales for the period divided by the total units sold for the period.

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 2013 and 2012, average selling prices per unit for apparel products were RMB132 and RMB125 respectively, and average selling prices per unit for footwear products were RMB155 and RMB159 respectively. Decreases in average selling prices for footwear products were mainly due to the effect of further accelerating inventory clearance for off-season products.

Total units sold for apparel and footwear products in the period under review, fell to a greater degree, by 24.7% and 33.2%, respectively, as compared to the same period last year, which were primarily due to our initiative to decrease the distributors' target of sales orders for easing their inventory pressure in 2013.

Cost of Goods Sold and Gross Profit

Cost of goods sold of the Group has dropped by RMB197 million, or 21.2%, to RMB733 million for the year ended 31 December 2013 (2012: RMB930 million).

For the year ended 31 December 2013, our gross profit before provision for impairment of inventories has dropped by RMB161 million, or 19.1% to RMB681 million (2012: RMB842 million). Our overall gross profit margin before provision for impairment of inventories for the year ended 31 December 2013 rose slightly by 0.7 percentage point to 48.2% from 47.5% for the year ended 31 December 2012.

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

	Year ended 31 December		
	2013	2012	**Change**
	Gross profit margin*	*Gross profit margin**	*% pts*
China segment			
Kappa Brand:			
Apparel	**58.9%**	53.3%	5.6
Footwear	**50.7%**	47.0%	3.7
Accessories	**63.1%**	55.4%	7.7
Kappa Brand overall	**57.2%**	51.7%	5.5
International business and others	**15.1%**	31.5%	–16.4
China segment overall	**55.2%**	51.1%	4.1
Japan segment	**35.7%**	40.7%	–5.0
Group overall	**48.2%**	47.5%	0.7

* Before provision for impairment of inventories

Gross profit margin of Kappa Brand in China segment for the year ended 31 December 2013 rose by 5.5 percentage points to 57.2% from 51.7% for the year ended 31 December 2012. Such rise was mainly due to increased discount offer of off-season products as well as high profit margin of new products maintained in 2013, with such new products taking up a higher proportion of the sales.

Gross profit margin of Japan segment for the year ended 31 December 2013 was 35.7%, dropped by 5 percentage points as compared to 40.7% for the year ended 31 December 2012. Such decrease was mainly due to increase in production costs and decreased discount offer for off-season inventory clearance.

Other Gains, Net

Other gains for the year ended 31 December 2013 was RMB53 million (2012: RMB70 million), of which RMB11 million (2012: RMB46 million) was subsidy income from the government for China segment, RMB35 million was income derived from the investment in available-for-sale financial assets, and the balance was other incomes, such as the license fee received in China and Japan.

Provision for Impairment of Available-for-sale Financial Assets

During the period, 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 RMB24 million for investment in CITIC Mezzanine Fund I and RMB3 million for investment in Yunfeng Fund II.

Distribution Expenses and Administrative Expenses

Distribution expenses and administrative expenses mainly comprised employee salaries and benefit expenses, advertising and marketing expenses, sales expenses, logistic fees and design and product development expenses. Total distribution expenses and administrative expenses for the year ended 31 December 2013 dropped by RMB143 million to RMB653 million as compared to RMB796 million in the year ended 31 December 2012, constituting 46.2% of the Group's total sales. As our further business adjustment has been conducting since the beginning of 2012, the Group has further optimised resources allocation and improved cost structure, in a bid to enhance production efficiency subject to reasonable cost control.

The Group has continued its streamlined strategies for making necessary adjustments in internal organisational structure and human resources. Our overall staff costs dropped substantially by RMB35 million to RMB153 million in 2013 from RMB188 million in 2012;

Advertising and marketing expenses decreased by RMB63 million to RMB44 million for the year ended 31 December 2013 from RMB107 million for the same period last year. The advertising and marketing expenses focused on implementing strategies on maintaining and protecting existing brand image, while capital investment were concentrated on advantageous projects and certain sponsorship and promotion activities which required large amount of investment with limited promotion effectiveness were terminated;

Sales expenses decreased by RMB31 million to RMB112 million for the year ended 31 December 2013 from RMB143 million for the year ended 31 December 2012. Such decline was mainly due to decrease in product display costs attributable to decrease in number of sales channels as well as optimization and termination of certain projects, such as leaseback arrangement of our flagship store;

In 2013, remarkable drop in logistics and transportation fee by RMB19 million from RMB90 million in the first half of 2012 to RMB71 million was due to a decrease in annual sales orders as well as prominent results achieved in stock clearance for off-season products;

The Group has rationalised consulting projects deemed to be unnecessary in 2013, resulting in decrease in consulting expenses to RMB4 million in 2013 from RMB7 million in 2012;

The Group took a more cautious approach in the investment in product development, which mainly drew on the Group's internal design resources, resulting in a significant drop in external design expenses. In 2013, our design and product development expenses was RMB48 million (2012: RMB89 million).

Operating Profit

For the year ended 31 December 2013, operating profit of the Group was RMB84 million (2012: RMB89 million). The operating profit margin was 5.9% for the year ended 31 December 2013 (2012: 5.0%).

Finance Income, Net

For the year ended 31 December 2013, finance income of the Group amounted to RMB191 million (2012: RMB183 million), which comprised income derived from investment in capital guaranteed treasury products of RMB141 million (2012: RMB78 million) and interest income from bank deposit of RMB54 million (2012: RMB100 million), while foreign exchange losses for the year was RMB1 million (2012: foreign exchange gains of RMB11 million).

Taxation

For the year ended 31 December 2013, income tax expense of the Group amounted to RMB72 million (2012: RMB77 million). The effective tax rates for the year ended 31 December 2013 was 26.2% (2012: 28.5%). Such decrease was mainly due to the recognition of deferred tax for the losses accrued in prior years by Shanghai Taitan Sporting Goods Co., Limited, a subsidiary of the Group, during the year.

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 2013 was RMB210 million (2012: RMB177 million), and net profit margin of the Group was 14.9% (2012: 10.0%).

Earnings Per Share

The basic and diluted earnings per share were both RMB3.82 cents for the year ended 31 December 2013, increased by 19.7% against the basic and diluted earnings per share of RMB3.19 cents for the year ended 31 December 2012.

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 2013 of RMB0.50 cent and RMB0.67 cent per ordinary share, respectively, with a total amount of RMB64,776,000.

The Board of the Company has recommended the distribution of a final dividend and a final special dividend of RMB0.64 cent and RMB0.85 cent per ordinary share, respectively (totalling RMB1.49 cent per ordinary share) for the year ended 31 December 2013.

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 14 May 2014, will be paid in Hong Kong Dollars based on the rate of HKD1.00 = RMB0.7895 being the official exchange rate of Hong Kong dollars against Renminbi as quoted by the People's Bank of China on 17 March 2014. The dividend will be paid on or about 30 May 2014 to shareholders whose names appear on the register of members of the Company on 23 May 2014.

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 21 May 2014 to 23 May 2014 (both days inclusive), for the purpose of determining shareholders' entitlements to the 2013 final dividend and final special dividend. In order to qualify for the 2013 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 20 May 2014.

Financial Position

Working capital efficiency ratios

China Segment

Average trade receivable turnover days for the year ended 31 December 2013 and 2012 were 151 days and 121 days, respectively. Our average trade receivable turnover days in 2013 increased as compared with that in 2012 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 period under review.

Average trade payable turnover days for the year ended 31 December 2013 and 2012 were 52 days and 72 days respectively. Remarkable decrease in average trade payable turnover days was primarily due to decrease in balance of trade payables resulting from drop in purchase orders.

Average inventory turnover days for the year ended 31 December 2013 and 2012 were 260 days and 277 days respectively. Drastic decrease 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.

Japan Segment

Average trade receivable turnover days and average trade payable turnover days were 96 days and 88 days, respectively for the year ended 31 December 2013 as compared to 101 days and 89 days, respectively for the year ended 31 December 2012, representing decreases in the above turnover days. Average inventory turnover days were 147 days for the year ended 31 December 2013 as compared to 153 days for the year ended 31 December 2012. Such decrease was mainly due to clearance of obsolete inventories in 2013.

Liquidity and financial resources

As at 31 December 2013, cash and bank balances (including long term bank deposits) of the Group amounted to RMB1,097 million, a decrease of RMB1,616 million as compared to a balance of RMB2,713 million as at 31 December 2012. This decrease mainly due to 1) an investment in capital guaranteed treasury products issued by banks of RMB1,149 million; 2) an investment in Rongyu

Fund of RMB200 million; 3) second investment in CITIC Mezzanine Fund I of RMB150 million; 4) an investment in Yunfeng Fund LP II of equivalent to approximately RMB9 million; 5) an investment in Tebon Innovation Fund of RMB200 million; 6) payment of 2012 final dividend and special final dividend as well as 2013 interim dividend and special interim dividend for an aggregate amount of equivalent to approximately RMB120 million; 7) cash inflow from operating activities of approximately RMB271 million; 8) decrease in bank restricted deposits of approximately RMB85 million; 9) receipt of income distribution from CITIC Mezzanine Fund I and Rongyu Fund of approximately RMB35 million.

As at 31 December 2013, net assets attributable to our equity holders was RMB8,609 million (31 December 2012: RMB6,923 million). The Group's current assets exceeded current liabilities by RMB4,910 million (31 December 2012: RMB5,404 million). The Group also had a very strong liquidity position. The current ratio as of 31 December 2013 was 16.8 times (31 December 2012: 16.0 times).

As at 31 December 2013, the Group had no outstanding bank loans or other borrowings.

Pledge of assets

As at 31 December 2013, the Group had approximately RMB52 million (31 December 2012: RMB137 million) were held in banks as guarantee deposit for the issue of letters of credit.

Capital commitments and contingencies

As at 31 December 2013, the Group paid a capital contribution of US$20 million for investment according to a limited partnership agreement with Yunfeng Fund LP II. As at 30 June 2013, the Group paid a capital contribution of US$1.5 million with remaining balance of US$18.5 million (equivalent to approximately RMB113 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

In May 2013, the Group, through its wholly-owned subsidiary, subscribed for the interests in limited partnership with Yunfeng Fund LP II of an aggregate of US$20 million according to a limited partnership agreement. The principal business of Yunfeng Fund LP II is equity investments in Great China (including Mainland of the PRC, Hong Kong, Macau and Taiwan areas). As at 31 December 2013, capital contribution of of US$1.54 million was paid.

In May 2013, the Group, through its wholly-owned subsidiary, subscribed for the interests in limited partnership with Rongyu Fund of an aggregate of RMB200 million according to a limited partnership agreement. The principal business of Rongyu Fund is equity investments in Mainland China. As at 31 December 2013, the amount for subscription of the interests was fully settled.

In June 2013, the remaining amount of RMB150 million for capital contribution into CITIC Mezzanine Fund I was settled by a wholly-owned subsidiary of the Group. In September 2011, the Group, through its wholly-owned subsidiary, subscribed for the interests in limited partnership with CITIC Mezzanine Fund I of an aggregate of RMB300 million according to a limited partnership agreement. As at 31 December 2013, the amount for subscription of the interests was fully settled.

In December 2013, the Group, through its wholly-owned subsidiary, subscribed for the interests in limited partnership with Tebon Innovation Fund of an aggregate of RMB200 million according to a limited partnership agreement. The principal business of Tebon Innovation Fund is equity investments in Great China. As at 31 December 2013, the amount for subscription of the interests was fully settled.

Save as disclosed above, the Group has made no significant investment or any material acquisition or disposal of subsidiaries during the year ended 31 December 2013.

Events occurring after the balance sheet date

On 29 January 2014, the Group entered a definitive share purchase agreement with Cnshangquan E-Commerce Co., Ltd., in pursuant to which the Group agreed to dispose 35,380,806 ordinary shares in Mecox Lane at a cash consideration of approximately US$4.8 million in aggregate. The share purchase transaction is expected to complete in the second quarter of 2014, subject to the satisfaction of customary closing conditions set out in share purchase agreement, including an approval of the PRC government.

Save as disclosed above, the Group has no other events occurring after the balance sheet date for the year ended 31 December 2013.

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 CG Code as contained in Appendix 14 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") for the year ended 31 December 2013, except one deviation from provision A.2.1 of the CG Code.

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.

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 2013.

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 2013.

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. Gao Yu. The Audit Committee consists solely of independent non-executive directors, all of whom have extensive financial experience. Up to 31 December 2013, the Audit Committee had held three meetings in 2013.

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 2013.

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

For the year ended 31 December 2013, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

Annual General Meeting ("AGM")

The AGM of the Company will be held in Hong Kong on 14 May 2014. 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 9 May 2014 to 14 May 2014 (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 8 May 2014.

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

18 March 2014

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