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 2007

RESULTS HIGHLIGHTS

— Sales grew by 99.2% year-on-year to RMB1,711.0 million

— Number of Kappa Brand retail outlets reached 1,945, a net increase of 807 retail outlets (or 70.9% increase)

— Gross and net margins maintained at high level of 58.5% and 42.9% respectively

— Profit attributable to equity holders surged by 139.4% to RMB733.6 million

— Basic earnings per share rose by 123.8% to RMB15.89 cents

— Proposed payment of a final dividend of RMB1.09 cents per ordinary share

ANNUAL RESULTS

The board of directors (the "Board") of China Dongxiang (Group) Co., Ltd. ("China Dongxiang" or the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2007, together with the comparative figures for 2006, as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2007
(All amounts in Renminbi ("RMB") thousands unless otherwise stated)

	Note	**2007**	2006
Sales	*3*	**1,711,023**	858,921
Cost of sales	*8*	**(710,450)**	(323,360)
Gross profit		**1,000,573**	535,561
Other income	*7*	**20,144**	9,937
Distribution costs	*8*	**(210,101)**	(124,145)
Administrative expenses	*8*	**(85,895)**	(35,745)
Operating profit		**724,721**	385,608
Finance income/(costs), net	*9*	**46,542**	(13,532)
Profit before income tax		**771,263**	372,076
Income tax expense	*10*	**(37,695)**	(65,617)
Profit for the year attributable to equity holders of the Company		**733,568**	306,459
Earnings per share for profit attributable to equity holders of the Company (expressed in RMB cents per share)			
– basic	*11*	**15.89**	7.10
– diluted	*11*	**15.82**	7.07
Dividends	*12*	**441,881**	–

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

(All amounts in Renminbi ("RMB") thousands unless otherwise stated)

	Note	**2007**	2006
ASSETS			
Non-current assets			
Property, plant and equipment		**94,474**	42,835
Lease prepayments		**30,080**	14,001
Intangible assets		**279,751**	286,287
Deferred income tax assets		**3,308**	1,422
		407,613	344,545
Current assets			
Inventories		**88,173**	87,846
Financial assets	*4*	**201,505**	20,000
Trade receivables	*5*	**138,319**	84,374
Prepayments, deposits and other receivables		**46,764**	19,127
Cash and bank balances			
– Restricted bank balances		**29,521**	20,000
– Cash and cash equivalents		**5,311,060**	274,749
		5,815,342	506,096
Total assets		**6,222,955**	850,641

	Note	**2007**	2006
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		**54,904**	–
Share premium		**5,000,710**	–
Reserves		**846,217**	307,504
Total equity		**5,901,831**	307,504
LIABILITIES			
Non-current liabilities			
Borrowings		**–**	3,357
Licence fees payable		**5,906**	6,434
Financial liability		**–**	295,514
		5,906	305,305
Current liabilities			
Trade payables	*6*	**177,619**	112,850
Accruals and other payables		**112,804**	81,869
Borrowings		**–**	1,833
Licence fees payable – current portion		**1,557**	638
Amounts due to related parties		**–**	727
Current income tax liabilities		**23,238**	39,915
		315,218	237,832
Total liabilities		**321,124**	543,137
Total equity and liabilities		**6,222,955**	850,641
Net current assets		**5,500,124**	268,264
Total assets less current liabilities		**5,907,737**	612,809

Notes:

1 GENERAL INFORMATION OF THE GROUP

The Group is principally engaged in brand development, design and sales of sport-related apparel, footwear, and accessories in the People's Republic of China (excluding Hong Kong Special Administrative Region, Macau and Taiwan) (the "PRC" or "China") and Macau.

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

In October 2007, the Company completed its global initial public offering and the related over-allotment option ("Global Offering"). A total of 1,358,150,000 shares were offered to the public by the Company and the issued share capital of the Company is 5,677,150,000 shares upon the completion of Global Offering.

2 BASIS OF PREPARATION

The consolidated financial statements of the Company 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 financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

2.1 Standards, amendment and interpretations effective in 2007

IFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to IAS 1, 'Presentation of financial statements – Capital disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments, or the disclosures relating to taxation and trade and other payables.

IFRIC - Int 8, 'Scope of IFRS 2', requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of IFRS 2. This standard does not have any impact on the Group's financial statements.

IFRIC - Int 10, 'Interim financial reporting and impairment', prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and in financial assets carried at cost be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group's financial statements.

2.2 Interpretation early adopted by the Group

IFRIC – Int 11, 'IFRS 2 – Group and treasury share transactions', has been early adopted in 2007. IFRIC – Int 11 provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and Group companies.

2.3 Standards, amendments and interpretations effective in 2007 but not relevant

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Group's operations:

- IFRIC – Int 7, 'Applying the restatement approach under IAS 29, Financial reporting in hyper-inflationary economies'; and

- IFRIC – Int 9, 'Re-assessment of embedded derivatives'.

2.4 Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods, and the Group has not early adopted them:

- IAS 1 (Revised), "Presentation of Financial Statements" (effective from 1 January 2009). IAS 1 (Revised) requires all owner changes in equity to be presented in a statement of changes in equity. All comprehensive income is presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). It requires presenting a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when there are retrospective adjustments or reclassification adjustments. However, it does not change the recognition, measurement or disclosure of specific transactions and other events required by other IFRSs. The Group will apply IAS 1 (Revised) from 1 January 2009;

- IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply IAS 23 (Amended) from 1 January 2009.

- IAS 27 (Revised), 'Consolidated and separate financial statements' (effective from 1 July 2009). The amendment requires non-controlling interests, such as minority interests, to be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets and liabilities and related equity components of the former subsidiary are derecognised. Any gain or loss is recognised in the income statement. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost.

- Amendments to IAS 32 and IAS 1, 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009). The amendments require certain puttable financial instruments and financial instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation be classified as equity.

- IFRS 8, 'Operating segments' (effective from 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US Standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply IFRS 8 from 1 January 2009.

- IFRIC – Int 12, 'Service concession arrangements' (effective from 1 January 2008). IFRIC - Int 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. IFRIC – Int 12 is not relevant to the Group's operations because none of the Group's companies provide for public sector services.

- IFRIC – Int 13, 'Customer loyalty programmes' (effective from 1 July 2008). IFRIC - Int 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes.

- IFRIC – Int 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2008). IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Group will apply IFRIC 14 from 1 January 2008, but it is not expected to have any impact on the Group's financial statements.

3 REVENUE AND SEGMENT INFORMATION

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

The Group is principally engaged in brand development, design, and sale of sport-related apparel, footwear and accessories in the PRC and Macau. All of the sales and operating profit of the Group are earned from sales of sport-related products and over 90% of its operations are located in the PRC, while less than 10% of the Group's sales and operating profit are attributable to overseas market. Therefore, no analysis of business segment or geographical segment is presented.

Sales recognised during the years ended 31 December 2007 and 2006 were as follows:

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
KAPPA brand products	**1,645,237**	839,275
International sourcing	**60,124**	19,635
Rukka brand products	**5,662**	11
	1,711,023	858,921

4 FINANCIAL ASSETS

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

The financial assets at fair value through profit or loss of RMB201,505,000 as at 31 December 2007 represented investment in a non-listed interest bearing financial instrument issued and managed by a commercial bank in the PRC. The interest rate of the instrument is determined based on the returns of the underlying investments of the instrument. The investment is denominated in RMB and has a maturity of 3 months.

(b) Held-to-maturity financial assets

The held-to-maturity financial asset of RMB20,000,000 as at 31 December 2006 represented investment in a non-listed interest bearing financial instrument issued and managed by a commercial bank in the PRC. The investment was denominated in RMB, has a maturity of 6 months and bears interests at rates of 0 – 2.65%.

5 TRADE RECEIVABLES

	As at 31 December	
	2007	2006
	RMB'000	***RMB'000***
Trade receivables		
– Third parties	**113,755**	80,944
– Related parties	**25,108**	5,569
	138,863	86,513
Less: provision for impairment	**(544)**	(2,139)
Trade receivables, net	**138,319**	84,374

The Group's sales are mainly made on credit terms ranging from 45 to 60 days.

The ageing analysis of trade receivables as at 31 December 2007 and 2006 were as follows:

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
Current	**129,054**	69,777
Overdue by:-		
1 to 30 days	**6,804**	6,634
31 to 120 days	**1,447**	7,963
Over 120 days	**1,558**	2,139
	138,863	86,513

6 TRADE PAYABLES

The ageing analysis of trade payables as at 31 December 2007 and 2006 were as follows:

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
Current	**136,281**	87,198
Overdue by:-		
1 to 30 days	**35,334**	13,245
31 to 120 days	**3,768**	8,736
Over 120 days	**2,236**	3,671
	177,619	112,850

7 OTHER INCOME

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Subsidy income	**17,734**	2,607
Gain on de-recognition of KAPPA licence right	**–**	6,866
Others	**2,410**	464
	20,144	9,937

8 EXPENSES BY NATURE

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

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Cost of inventories recognised as expenses included in cost of sales and distribution costs	**696,559**	323,442
Depreciation of property, plant and equipment	**4,161**	2,008
Loss on disposal of property, plant and equipment	**–**	174
Amortisation of lease prepayments	**3,551**	261
Amortisation of intangible assets	**9,659**	8,422
Advertising and marketing expenses	**111,026**	69,682
Employee salary and benefit expenses	**60,192**	25,650
Withholding business tax on licence fees payable to overseas subsidiary	**8,247**	4,247
Design and product development expenses	**30,795**	7,925
Legal and consulting expenses	**8,952**	6,325
Operating lease in respect of buildings	**7,771**	2,696
Logistic fees	**18,249**	8,415
Write-down of inventories to net realisable value	**9,007**	–
(Reversal of)/Provision for impairment of trade and other receivables	**(1,595)**	604
Auditors' remuneration	**2,032**	2,511
Others	**37,840**	20,888
Total of cost of sales, distribution costs and administrative expenses	**1,006,446**	483,250

9 FINANCE INCOME/(COSTS), NET

	Year ended 31 December 2007 *RMB'000*	2006 *RMB'000*
Interest income from over subscription monies to the Global Offering	**44,742**	–
Interest income from bank deposits	**56,408**	2,645
	101,150	2,645
Interest expense on bank borrowings repayable within five years	**(149)**	(121)
Interest expense on financial liability	**–**	(22,789)
Interest expense on licence fees payable	**(391)**	(388)
	(540)	(23,298)
Foreign exchange (losses)/gains, net	**(54,068)**	7,121
	46,542	(13,532)

10 INCOME TAX EXPENSE

	Year ended 31 December 2007 *RMB'000*	2006 *RMB'000*
Current income tax		
– PRC enterprise income tax ("EIT")	**39,581**	61,938
Deferred income tax	**(1,886)**	3,679
	37,695	65,617

The Company was incorporated in the Cayman Islands. Under current laws of 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 2007 (2006: nil).

The subsidiaries incorporated in the PRC are subject to income tax at applicable rates ranging from 15% to 33% during the year ended 31 December 2007 and 2006. Shanghai Taitan Sporting Goods Co., Limited ("Shanghai Taitan") and Shanghai Kappa Sporting Goods Co., Limited ("Shanghai Kappa") are entitled to preferential income tax rate of 15% as resident in Shanghai Pudong New Area. In addition Shanghai Kappa obtained approval from the State Taxation Bureau of Shanghai Pudong New Area for its entitlement to full exemption from the preferential income tax of 15% for its first profit making year ended 31 December 2007.

Effective from 1 January 2008, the subsidiaries incorporated in PRC shall determine and pay the corporate income tax in accordance with the Corporate Income Tax Law of the PRC (hereinafter "the new CIT Law") as approved by the National People's Congress on 16 March 2007. Under the new CIT Law, the corporate income tax rate applicable to those subsidiaries will be changed to 25% from 2008.

On 22 February 2008, the Ministry of Finance and the State Administration of Taxation jointly issued Cai Shui [2008] Circular 1 ("Circular 1"). According to Article 4 of Circular 1, where foreign investment enterprises declare dividend in 2008 and beyond out of the cumulative retained earnings as of 31 December 2007, such dividends earned by the foreign investor shall be exempted from corporate withholding income tax. For dividend which arises from foreign investment enterprises' profit earned after 1 January 2008, corporate withholding income tax will be levied on the foreign investor.

11 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year. The comparative basic earnings per share is calculated based on the profit attributable to the equity holders of the Company and on the assumption that 4,319,000,000 shares issued upon the incorporation of the Company and in connection with the Reorganisation and Capitalization issue had been in issue since 1 January 2006.

	2007	2006
Profit attributable to equity holders of the Company (RMB' 000)	**733,568**	306,459
Weighted average number of ordinary shares in issue (thousands)	**4,617,162**	4,319,000
Basic earnings per share (RMB cents per share)	**15.89**	7.10

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has Pre-IPO Share Options of 18,700,000 Shares as the dilutive potential ordinary shares. The comparative diluted earnings per share is calculated based on the profit attributable to the equity holders of the Company and on the assumption that 4,319,000,000 shares issued upon the incorporation of the Company and in connection with the Reorganisation and Capitalization issue, and shares in relation to the Pre-IPO Share Options upon exercise had been in issue since 1 January 2006.

	2007	2006
Profit attributable to equity holders of the Company (RMB' 000)	**733,568**	306,459
Weighted average number of ordinary shares in issue (thousands)	**4,617,162**	4,319,000
Adjustment for Pre-IPO Share Options (thousands)	**18,700**	18,700
Weighted average number of ordinary shares in issue for diluted earnings per share (thousands)	**4,635,862**	4,337,700
Diluted earnings per share (RMB cents per share)	**15.82**	7.07

12 DIVIDENDS

	2007
	RMB'000
Interim dividends (Note (a))	**150,000**
Special dividends (Note (b))	**230,000**
Final dividends proposed, of RMB1.09 cents per ordinary share (Note (c))	**61,881**
	441,881

(a) Pursuant to a resolution passed on 28 May 2007, Hong Kong Dongxiang Sports Development Holdings Limited, subsidiary of the Group, declared an interim dividend of RMB150,000,000 to the then equity holders of Companies comprising the Group.

(b) Pursuant to a resolution passed on 12 September 2007, the Company declared a special dividend of RMB230,000,000 in relation to the profit for the five months ended 31 May 2007.

(c) Pursuant to a resolution passed on 1 April 2008, the Board of the Company proposed a final dividend of RMB1.09 cents per ordinary share totalling RMB61,881,000 from share premium for the year ended 31 December 2007. This proposed dividend is not reflected as a dividend payable in the financial statements, but will be reflected as an appropriation of share premium in the year ending 31 December 2008.

The proposed dividend payments are subject to approval by the shareholders of the Company at the annual general meeting to be held on 15 May 2008 and are payable in Hong Kong Dollars based on the official exchange rate of Renminbi against Hong Kong Dollars as quoted by the People's Bank of China on 15 May 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The PRC is the world's most populous country with approximately 1.3 billion people. It also has one of the world's fastest growing economies. Year 2007 saw the fifth consecutive year of GDP growth in China of over 10%. The PRC's economic boom has led to rapid urbanisation in recent years. The growing consumption power of urban consumers has driven development of the retail industry. The sportswear industry has benefited under this backdrop as people pay closer attention to personal fitness and active lifestyles. According to a market research conducted by ZOU Marketing, the PRC sportswear market is expected to grow at a rate of 23% annually from 2006-2009 to US$7.2 billion, and at a rate of 20% annually from 2009-2012 to US$12 billion. Looking ahead, the 2008 Beijing Olympic Games which will be the most important sports event ever hosted in the PRC will offer a golden opportunity for the PRC sportswear industry.

China Dongxiang is a leading international sportswear brand enterprise based in the PRC. The Kappa Brand, which is owned by the Group in China and Macau, is one of the top international sportswear brands in the PRC. Its products convey an active, fashionable and youthful image, and are warmly welcomed by China's fast growing and high potential consumers.

Year 2007 was a remarkable year for the Group. We achieved a 99.2% growth in sales from RMB858,921,000 to RMB1,711,023,000. Profit attributable to equity holders reached a record high of RMB733,568,000, representing an increase of 139.4% over the previous year. Moreover, the Company was successfully listed on the Main Board of the Stock Exchange of Hong Kong Limited on 10 October 2007, raising net proceeds of approximately RMB5,013,862,000. The excellent track record of the Group's management achievements and the strong financial resources available to the Group after listing have certainly combined to create a promising future for the Group.

Financial Review

Key financial performance

	Note	**Year ended 31 December**		**Change**
		2007	2006	
		RMB'000	*RMB'000*	
Key items of consolidated income statements				
Sales		**1,711,023**	858,921	**99.2%**
Gross profit		**1,000,573**	535,561	**86.8%**
Operating profit		**724,721**	385,608	**87.9%**
Profit attributable to equity holders		**733,568**	306,459	**139.4%**
		RMB cents	*RMB cents*	
Basic earnings per share		**15.89**	7.10	**123.8%**
Diluted earnings per share		**15.82**	7.07	**123.8%**
Profitability ratios				
Gross profit margin		**58.5%**	62.4%	**-3.9%**
Operating profit margin		**42.4%**	44.9%	**-2.5%**
Effective tax rate		**4.9%**	17.6%	**-12.7%**
Net profit margin		**42.9%**	35.7%	**7.2%**
Key operating expense ratios				
Advertising and marketing expenses as a percentage of sales		**6.5%**	8.1%	
Employee salary and benefit expenses as a percentage of sales		**3.5%**	3.0%	
Design and product development expenses as a percentage of cost of sales		**4.3%**	2.5%	
		In days	In days	
Working capital efficiency ratios				
Average trade receivables turnover days	*1*	**24**	27	
Average trade payables turnover days	*2*	**75**	89	
Average inventory turnover days	*3*	**49**	70	
Assets ratios				
Current ratio	*4*	**18.4 times**	2.1 times	

Notes:

1. Average trade receivables turnover days is equal to the average opening and closing trade receivables balances divided by sales, then multiplied by the number of days in the relevant period.

2. Average trade payables turnover days is equal to the average opening and closing trade payables balances divided by the cost of sales and multiplied by the number of days in the relevant period.

3. Average inventory turnover days is equal to the average opening and closing inventory balances divided by the cost of sales and multiplied by the number of days in the relevant period.

4. Current ratio is equal to the closing current assets divided by closing current liabilities.

Sales, Cost of Sales and Gross Profit

Sales analysis by business segment and product category

	Year ended 31 December				
	2007		2006		
	RMB'000	***% of total sales***	*RMB'000*	*% of total sales*	**Change *(%)***
Kappa Brand					
Apparel	**1,181,253**	**69.0%**	642,070	74.7%	**84.0%**
Footwear	**389,638**	**22.8%**	165,466	19.3%	**135.5%**
Accessories	**74,346**	**4.3%**	31,739	3.7%	**134.2%**
	1,645,237	**96.1%**	839,275	97.7%	**96.0%**
International Sourcing					
Apparel	**40,317**	**2.4%**	9,980	1.2%	**304.0%**
Footwear	**13,413**	**0.8%**	5,657	0.6%	**137.1%**
Accessories	**6,394**	**0.4%**	3,998	0.5%	**59.9%**
	60,124	**3.6%**	19,635	2.3%	**206.2%**
Rukka Brand					
Apparel	**5,441**	**0.3%**	11	0.0%	**N/A**
Footwear	**3**	**0.0%**	0	0.0%	**N/A**
Accessories	**218**	**0.0%**	0	0.0%	**N/A**
	5,662	**0.3%**	11	0.0%	**N/A**
Overall					
Apparel	**1,227,011**	**71.7%**	652,061	75.9%	**88.2%**
Footwear	**403,054**	**23.6%**	171,123	19.9%	**135.5%**
Accessories	**80,958**	**4.7%**	35,737	4.2%	**126.5%**
	1,711,023	**100.0%**	858,921	100.0%	**99.2%**

Kappa Brand

Kappa Brand operations formed the Group's major source of revenue and accounted for 96.1% (2006: 97.7%) of the Group's total sales for the year ended 31 December 2007. The surge in sales of the Kappa Brand business by RMB805,962,000 (or 96.0%) as compared to 2006 was mainly attributable to the on-going successful marketing and positioning of the brand and high level of acceptance of the products by end-customers in the PRC market. The Kappa Brand has been positioned at the forefront of sportswear fashion in the PRC. It conveys an active, fashionable and youthful image that appeals to a fast growing customer base. Driven by strong demand, the number of Kappa Brand retail outlets directly or indirectly operated by the Group's distributors increased substantially from 1,138 as of 31 December 2006 to 1,945 as of 31 December 2007, a net increase of 807 retail outlets (or 70.9%). During 2007, the Group increased the frequency of sales fairs for distributors from two to four times each year to have quicker response to the market trend and to facilitate distributors' high volume orders for the four seasons.

In 2007, the Group reviewed its product mix strategy and decided to further develop its footwear business in order to strengthen its diversified product base. As a result, the footwear sales as a percentage of the Group's total sales increased to 23.6% as compared to 19.9% in 2006 while the apparel sales as a percentage of the Group's total sales decreased to 71.7% as compared to 75.9% in 2006. Sales of accessories remained fairly stable at 4.7% and 4.2% of the Group's total sales in 2007 and 2006 respectively.

International Sourcing

The Group acted as a sourcing centre for Basicnet S.p.A. ("Basicnet"), the owner of the Kappa Brand worldwide outside the PRC, Macau and Japan. The Group organised design and development, as well as production and manufacturing of products in the PRC for Kappa licensees of Basicnet to sell the Kappa Brand products in their designated sales regions. Although sales from our international sourcing business were insignificant, it nonetheless gives the Group exposure to international market trends and enhances the Group's management practices to meet international standards. In 2007, sales of international sourcing business enjoyed a high growth of 206.2% to RMB60,124,000 as compared with RMB19,635,000 in 2006.

Rukka Brand

The Group was the exclusive distributor and licensee for the Rukka Brand in the PRC. Rukka is a Finnish sportswear brand specialising in high-quality functional products. The Group has been operating sales of Rukka Brand products through consignee retail outlets since late 2006. Sales of Rukka Brand for the year ended 31 December 2007 were RMB5,662,000. The amount was still insignificant to the Group's total revenue.

Unit average selling prices and total units sold

The unit average selling prices and total units sold are analyzed as follows:

	Year ended 31 December					
	2007		2006		**Change (in %)**	
	Average selling prices *RMB*	**Total units sold in thousands**	Average selling prices *RMB*	Total units sold in thousands	**Average selling prices**	**Total units sold**
Apparel	**150**	**8,176**	131	4,968	**14.5%**	**64.6%**
Footwear	**164**	**2,461**	134	1,277	**22.4%**	**92.7%**

Note:

1. Unit average selling prices represent the sales for the year divided by the total units sold for the year.

2. The accessories have a wide range of products that vary significantly in terms of unit average selling prices. We believe that the unit average selling price analysis of this product category would not be meaningful.

The increase in unit average selling prices of apparel products in 2007 was mainly due to launch of more high-end products which have higher unit average selling prices.

The Group reviewed its product mix strategy in 2007 and decided to further develop the footwear business in order to strengthen the Group's diversified product base. In particular, more high quality materials and sophisticated manufacturing processes have been used for the enlarged series of footwear products. Increased quantities of high-end products were sold at higher average selling prices.

Overall, the total units of apparel products and footwear products sold by the Group increased by 64.6% and 92.7% respectively in 2007 as compared with 2006. The strong demand for the Group's products has driven the high growth in sales volume.

Cost of Sales and Gross Profit

For the year ended 31 December 2007, the cost of sales of the Group amounted to RMB710,450,000 (2006: RMB323,360,000), representing an increase of RMB387,090,000 (or 119.7%). The trend was mainly in line with the increase in sales. The gross profit of the Group amounted to RMB1,000,573,000 (2006: RMB535,561,000), representing a year-on-year increase of RMB465,012,000 or 86.8%. The overall gross profit margin of the Group in 2007 was 58.5%, representing a decrease of 3.9% as compared to the overall gross margin of 62.4% in 2006.

The gross margins analysis by business segment is outlined as follows:-

	Year ended 31 December				
	2007		2006		
	Gross profit *(RMB'000)*	**Gross profit margin**	Gross profit *(RMB'000)*	Gross profit margin	**Change (%)**
Kappa Brand	**985,753**	**59.9%**	531,754	63.4%	**-3.5%**
International sourcing and Rukka Brand	**14,820**	**22.5%**	3,807	19.4%	**3.1%**
Overall	**1,000,573**	**58.5%**	535,561	62.4%	**-3.9%**

The Group sells Kappa Brand products to its distributors at a discount to the uniform retail price and the "discounted price" represents the Group's sales. Prior to 2007, the Group offered standard discounts to all distributors. Since January 2007, the Group has adopted a new distributor grading system along with a new target driven discount scheme. Under this new system, the Group has been strategically offering higher discounts to those distributors who could better achieve the sales and performance targets set by the Group. This could highly enhance the loyalty of the Group's key distributors and their cohesion with the Group's sales strategy, though some gross margins have been sacrificed. On the other hand, the Group reviewed its product mix strategy in 2007 and decided to further develop the footwear business in order to diversify its product base. Since footwear products in general have lower gross margins than apparel products, the increase in footwear sales as a percentage of total sales has served to lower overall gross margins of the Kappa Brand business.

The international sourcing and Rukka Brand businesses have lower gross margins as compared with Kappa Brand business. The combined gross margin of these two small business segments in 2007 was 22.5%, an increase of 3.1% as compared to 19.4% in 2006 due to cost saving from enhanced economies of scale.

Apart from the decrease in the gross margin of Kappa Brand business as mentioned above, the increase in the sales proportion of international sourcing business from 2.3% in 2006 to 3.6% in 2007 also led to the decrease in overall gross margins for the Group in 2007.

The gross margins analysed by product category is outlined as follows:-

	Year ended 31 December				
	2007		2006		
	Gross profit *(RMB'000)*	**Gross profit margin**	Gross profit *(RMB'000)*	Gross profit margin	**Change (%)**
Apparel	**748,451**	61.0%	420,512	64.5%	**-3.5%**
Footwear	**204,546**	50.7%	95,111	55.6%	**-4.9%**
Accessories	**47,576**	58.8%	19,938	55.8%	**3.0%**
Overall	**1,000,573**	58.5%	535,561	62.4%	**-3.9%**

For apparel products, the gross profit margin decreased by 3.5% in 2007 as compared to 2006, which was mainly in line with the 3.7% overall decrease in gross margin of Kappa Brand business. Nevertheless, the gross profit margin of footwear products decreased by 4.9% in 2007 as compared to 2006. In 2007, the Group launched the new high-end series of footwear products, the increase in average selling prices did not increase at the same pace as increase in costs in order to stimulate the sales of the new series. This resulted in a higher than average level decrease in gross profit margin for footwear products. On the other hand, the sales mix of accessories products has been improved and recorded an increase in gross profit margin by 3.0% in 2007 as compared to 2006.

Other Income

Other income mainly comprised subsidies from the government for the years ended 31 December 2007 and 2006. During the year ended 31 December 2006, other income also included gains on the de-recognition of Kappa Brand licensing rights.

Distribution Costs and Administrative Expenses

Distribution costs mainly included advertising and marketing expenses, employee salaries and benefit expenses for marketing and sales staff, logistics fees (including transportation expenses and rental of distribution centres), amortization of trademarks and design & product development expenses. For the year ended 31 December 2007, distribution costs amounted to RMB210,101,000 (2006: RMB124,145,000), accounting for 12.3% of the Group's total sales. This signalled a decrease of 2.2% against 14.5% in 2006. This decrease is mainly due to the drop in advertising and marketing expenses as a percentage of sales from 8.1% in 2006 to 6.5% in 2007. In fact, advertising and marketing expenses increased from RMB69,682,000 in 2006 to RMB111,026,000 in 2007, representing a substantial increase of RMB41,344,000 (or 59.3%). The Group initiated a number of highly effective marketing and promotional activities during the year (please refer to "Effective marketing strategy" under "BUSINESS REVIEW" section for more details). Nevertheless, the surge in sales in 2007 was higher than the increase in advertising and marketing expenses, which resulted in lower advertising and marketing expenses as a percentage of sales.

Administrative expenses mainly represented employee salaries and benefit expenses for administrative staff, legal matters and consulting fees, plus operating leases for office buildings, and depreciation of property, plant and equipment. For the year ended 31 December 2007, administrative expenses amounted to RMB85,895,000 (2006: RMB35,745,000). As a percentage of the Group's sales, these administrative expenses were fairly stable and held steady at the level of 5.0% and 4.2% in 2007 and 2006 respectively.

Operating Profit

For the year ended 31 December 2007, operating profits of the Group amounted to RMB724,721,000, an increase of RMB339,113,000 (or 87.9%) against RMB385,608,000 in 2006. The operating profit margin was 42.4% in 2007 compared with 44.9% in 2006. This lower operating profit margin was mainly attributable to lower gross profit margins, effect of which was mitigated by lower distribution costs as a percentage of sales.

Finance Income/(Costs), Net

For the year ended 31 December 2007, finance income comprised interest income of RMB101,150,000 less of interest expenses of RMB540,000 and foreign exchange losses of RMB54,068,000.

Interest income amounting to RMB44,742,000 mainly represented one-off interest income from over-subscription monies to the Global Offering, and interest income from unutilised Global Offering proceeds deposited into short-term deposits with licensed banks and financial institutions in Hong Kong, amounting to RMB47,802,000.

The exchange losses mainly arose from Global Offering proceeds monies placed as Hong Kong Dollars bank deposits in Hong Kong (please refer to the "Foreign Exchange Risk" section for more details).

In 2006, finance costs mainly comprised RMB22,789,000 in interest expenses on financial liabilities and partially offset by a net exchange gain of RMB7,121,000 mainly arising from the translation of the same financial liability. This financial liability was de-recognised in 2007.

Taxation

For the year ended 31 December 2007, income tax expenses of the Group amounted to RMB37,695,000 (2006: RMB65,617,000). The effective tax rate was 4.9% (2006: 17.6%). The low effective tax rate in 2007 was mainly due to a major operating subsidiary of the Group, Shanghai Kappa, that enjoyed a PRC income tax exemption during its first year of operation. This tax exemption was expired as from 1 January 2008.

Profits Attributable to Equity Holders and Net Profit Margin

Profits attributable to equity holders of the Company for the year ended 31 December 2007 were RMB733,568,000, representing an increase of 139.4% from RMB306,459,000 in 2006. Net profit margins for 2007 were 42.9%, an increase of 7.2% as compared to 35.7% in 2006.

Final Dividend

The Board of the Company recommends distribution of a final dividend of RMB1.09 cent per ordinary share for the year ended 31 December 2007, totalling RMB61,881,000 and approximately 37% of the Group's net profits available for distribution for the period from 10 October 2007 (the date on which the shares of the Company are listed) to 31 December 2007. The Company's normal dividend policy is distribution of 25% of the Group's net profits available for distribution for the period and the additional 12% distribution represents partial one-off interest income from over-subscription monies to the Global Offering of which the Company would like to share with its shareholders.

BUSINESS REVIEW

Effective Marketing Strategy

As an enterprise engaged in the sports fashion business, the Group continued to adopt a distinct and coherent marketing and promotion strategy. We undertook sponsorships strategically and implemented a promotion strategy through selected media and other advertising channels that the Group considered to be the most effective to convey the image of our products. We also sought channels that were the most efficient in targeting the Group's desired consumer demographic.

The Group enhanced its visibility and promoted its brands through sponsorship of sport teams, sporting events, entertainment figures and publicity events. The major marketing and promotion activities conducted during the year ended 31 December 2007 included:

Sports oriented

- Sponsorship of the China Open Tennis Championship;
- Sponsorship of the Hong Kong Table-tennis Team and the PRC 49er Sailing Team, both teams will participate in the 2008 Beijing Olympic Games;
- A delegate wearing Kappa brand products delivering Fuwa, the mascots for the 2008 Olympic Games, throughout the world;
- Co-sponsorship of AS Roma, the top Italian soccer team. A new series of AS Roma products has been launched in 2008;
- Sponsorship of Electronic Sports World Cup; and
- Sponsorship of Tibet mountaineer team for climbing Mt. Everest.

Fashion oriented

- Co-branding with Pepsi and 7-Up. The Kappa Brand logo was printed on no less than 2 billion cans of Pepsi cola and more than 3 million cans of 7-Up in the PRC;
- Kappa and Dongfeng Peugeot Citroen co-branding event; and
- Sponsorship of street dancing competition hosted by MTV.

Charity oriented

- Participation in the "I want to go to school" campaign organized by the China National Radio and the China Youth Development Foundation.

In addition, the Group primarily focused on print media and placed advertisements in leading sports and fashion magazines. The Group also utilised indoor and outdoor advertising, internet, electronic billboards, and word of mouth, to publicise the Group's brands and products.

Innovative Design and Development Capabilities

The Group adapted to ever-changing market trends by offering products with active, fashionable and youthful designs. These were realised through our in-house design team, which is highly knowledgeable about fashion trends and consumer preferences in the market. The Group's talented, innovative and passionate product designers were mainly based in the Design and Development Centre in Beijing. As of 31 December 2007, the Group had a design team of 36 people, including PRC nationals, Koreans and Italians.

The Group's in-house design and merchandising team's capabilities were further strengthened by external cooperation with overseas institutions such as the University of Arts London ("UAL") and companies like Itochu. The Group was apparel sector cooperation partner of UAL in the PRC. During the year ended 31 December 2007, UAL supported and assisted the Group's creative and commercial activities through consultancy services, student projects and training programmes. Itochu has long been a highly reputable multi-brand apparel company in Japan. For this reason the Group has hired Itochu to design our tennis collection items. We believe that co-operation with UAL and Itochu has broadened the vision of the Group's designers, inspiring them with new and innovative ideas. It has also helped them anticipate and stay at the forefront of fashion trends, enabling them to introduce international design elements into the merchandise mix.

Extensive Distribution and Retail Network

The Group has adopted a "primary distributor" policy to sell our products to a limited number of distributors. Under this scheme, the Group typically appoints only one primary distributor in one defined geographical area of a market. This policy effectively motivates distributors and enhances their loyalty. As of 31 December 2007, the Group had 44 distributors and consignees who directly or indirectly operated 1,977 retail outlets selling Kappa and Rukka branded products in the PRC and Macau. This represented a net increase of 834 retail outlets (or 73.0%) compared with the 1,143 retail outlets as of 31 December 2006. The distribution of retail outlets covered all major provincial capital cities and many other large urban areas and towns in the PRC. The Group considered the renovation of retail outlets to be a crucial factor in building brand image, in this respect we co-operated with our distributors to renovate 330 retail outlets during the year ended 31 December 2007. This included expansion of retail outlet areas and conversion of retail outlets into third generation stores.

Since the second half of 2007, the Group has launched its flagship store plan by co-operating with its distributors to open flagship outlets in prime shopping locations of first-tier cities in the PRC. As of 31 December 2007, 2 flagship stores were opened in Harbin and Hangzhou with further plans to open up to more than 10 flagship stores until 31 December 2008.

The following table details the change in the number of the retail outlets directly or indirectly operated by the Group's distributors and consignees during the year ended 31 December 2007 for the Kappa and Rukka brands:-

	As at 31 December 2007 (No. of retail outlets)	As at 31 December 2006 (No. of retail outlets)	**Net increase (No. of retail outlets)**	Net increase (In %)
Kappa Brand	**1,945**	1,138	**807**	70.9
Rukka Brand	**32**	5	**27**	540.0
Total	**1,977**	1,143	**834**	73.0

Comprehensive Supply Chain Management

The Group has applied a comprehensive supply chain management approach for procurement, supplies as well as the manufacturing and distribution of products. The Group adopted an asset-light business model and outsourced production processes to a number of PRC manufacturers that have years of apparel, footwear or accessories production experience. As of 31 December 2007, the Group selectively engaged in and actively supervised approximately 90 manufacturers in processing and manufacturing the Group's products.

Since June 2007, the Group has implemented a highly integrated ERP-SAP system. By using a platform to which the Group's manufacturers have direct access, the ERP-SAP system enables manufacturers to continually update the Group on the latest production status.

Finished goods from manufacturers were shipped to the Group's distribution centres before being dispatched to distributors. The Group has operated a distribution centre in Beijing's Fengtai District with a floor area of approximately 12,169 square meters. In May 2007, the Group also set up another distribution centre in Kunshan, Jiangsu Province with a floor area of approximately 5,772 square meters. The Group's manufacturers were mainly located at the Southern and South Eastern regions of the PRC while the same regions were also the high growth markets with a strong demand for the Group's products. The new distribution centre could highly enhance the Group's response time and shorten the overall time of distribution.

For sales of the Group's Kappa Brand products, we increased the frequency of sales fairs for distributors from twice to four times each year since 2007 to cover spring, summer, fall and winter collections.

Apart from our own inventories, we also closely monitor the inventories of our distributors. The Group has in place a retail sales analysis system and a distribution resources planning ("DRP") system that has enabled us to swiftly collect and monitor retail sales and inventory levels of distributors. The newly installed ERP-SAP system was also linked to the DRP system to enhance the exchange of information among various departments and strengthen our supply chain and distribution network management.

FINANCIAL POSITION

Working capital efficiency ratios

The average trade accounts receivable turnover days in 2007 and 2006 were 24 days and 27 days respectively. The relatively low turnover days in both years was mainly attributable to the Group's tight credit control policy and fast sales of our distributors' inventories so that they could repay their trade balances within a short period.

The average number of accounts payable turnover days in 2007 and 2006 were 75 and 89 respectively. This was in line of our policy to repay trade debts with our suppliers and manufacturers within 60 to 90 days.

The average number of inventory turnover days in 2007 and 2006 were 49 days and 70 days respectively. This reduction of inventory turnover days was due to the Group's effective supply chain management and lower inventory maintenance levels resulting from the change in the frequency of trade fairs for distributors from two times to four times each year.

Liquidity and financial resources

As at 31 December 2007, cash and cash equivalents of the Group amounted to RMB5,311,060,000, an increase of RMB5,036,311,000 as compared with the balance of RMB274,749,000 as at 31 December 2006. The increase mainly represents RMB656,354,000, comprising net cash generated from operating activities and RMB5,013,862,000 net proceeds from Global Offering, less RMB55,834,000 for purchase of property, plant and equipment and lease prepayment, RMB26,549,000 for purchase of intangible assets, RMB200,000,000 for purchase of financial assets and RMB380,000,000 for dividends payment.

As at 31 December 2007, the Group's net asset value was RMB5,901,831,000 (2006: RMB307,504,000). The Group's current assets exceeded current liabilities by RMB5,500,124,000 (2006: RMB268,264,000). The Group had a very strong liquidity position. The current ratio as at 31 December 2007 was 18.4 times (2006: 2.1 times). As at 31 December 2007, the Group had no outstanding bank loans and other borrowings. Bank borrowings of RMB5,190,000 and financial liabilities of RMB295,514,000 as at 31 December 2006 had been repaid and de-recognized respectively in 2007.

Pledge of assets

As at 31 December 2007, the Group had restricted bank balances of RMB29,521,000 to secure advertising costs payable to a third party business partner.

As at 31 December 2006, the Group had restricted bank balances of RMB20,000,000 for capital injection to a subsidiary to be set up.

Capital commitments and contingencies

As at 31 December 2007, the Group had no significant capital commitments and contingent liabilities.

Foreign Exchange Risk

During 2007, the Company received its Global Offering proceeds in Hong Kong Dollars. These unutilised proceeds were deposited in bank accounts denominated in Hong Kong Dollars and the Company will pay dividends in Hong Kong Dollars.

Previously, the Company's functional currency was Renminbi since it was the ultimate holding company for a group of subsidiaries mainly operated in the PRC. Since November 2007, the Company has changed its functional currency to US Dollars because it has undertaken international business which is transacted in that currency. As a result, the Company's Hong Kong Dollars Global Offering bank deposits recorded exchange losses against the appreciation of the Renminbi prior to November 2007 and exchange losses against the appreciation of US Dollars since November 2007. The Company's financial statements in US Dollars were translated into Renminbi for Group reporting and consolidation purposes. The foreign exchange difference arising from the translation of financial statements will not be recognized in income statements. Instead, it will be recognized as a separate component of equity of the Group.

The major operations of the Group were mainly carried out in the PRC and transacted in Renminbi. Apart from the Global Offering proceeds in Hong Kong Dollars, the exchange rate risk of the Group was not significant. The Group will closely monitor the unutilised Global Offering proceeds in Hong Kong Dollars and will use appropriate hedging solutions if necessary.

Significant investments and acquisitions

During the year under review, the Group has made no significant investments or any material acquisition or disposal of subsidiaries. The Group continues to seek business opportunities such as acquisition of or cooperation with international sportswear brands so as to increase the returns on shareholders' equity.

Application of net Global Offering proceeds

In October 2007, the Company issued a total of 1,358,150,000 shares at HK$3.98 each for total gross proceeds of HK$5,405,437,000. The net proceeds after deduction of related expenses were approximately HK$5,176,933,000 (equivalent to RMB5,013,862,000). As of 31 December 2007, the Group has used RMB230,000,000 to pay the special dividends declared prior to the Global Offering. This usage was consistent with the disclosure in the Company's prospectus dated 25 September 2007. The unutilised net proceeds have been deposited into short-term deposits with licensed banks and financial institutions in Hong Kong.

HUMAN RESOURCES

As at 31 December 2007, the Group had approximately 353 employees (As at 31 December 2006: 221 employees). Driven by high business growth, the Group has to recruit more talented employees in all departments in order to cope with business expansion.

The Group has invested in employee training and development. During the year ended 31 December 2007, the Group hired a reputable human resources consultancy company to conduct an independent and scientific assessment of key employees in the Group. The results of this assessment will help to further develop the potential of our employees. The Group deployed a performance-based remuneration scheme to its employees by which quarterly KPI and annual bonuses are rewarded to high performance employees on top of their basic salary. In addition, the Group has adopted a Pre-IPO share option scheme to grant share options of 18,700,000 underlying shares to 53 key management members as a way to reward and retain high caliber managers.

SUBSEQUENT EVENTS

On 13 March 2008, the Company and Orix Corporation ("ORIX") (collectively "the Parties") entered into a non-binding letter of intent ("LOI ") in relation to the acquisition of the entire issued share capital of Phenix Co., Ltd. ("Phenix"), a company established under the laws of Japan, at a price to be agreed ("Acquisition"). Pursuant to the LOI, ORIX agreed to negotiate with the Company on an exclusive basis, and if they reach agreement, the Parties intend enter into definitive agreements regarding the Acquisition on or before 25 April 2008. The LOI will be terminated automatically at the earlier of 30 April 2008 or definitive agreements in relation to the Acquisition being entered into. Phenix is a sporting apparel company with core operations in design, development and sales. Its major brands include, among others, "PHENIX" in the ski and outdoor sportwear market globally and "Kappa" in the football and athletic-wear market in Japan. The Group considers that the Acquisition is in line with the Group's multi-brand strategy.

OUTLOOK

The high growth economy in the PRC and the 2008 Beijing Olympic Games create an unprecedented favorable environment for the PRC sportswear industry. By capturing the opportunity, the Group will continue to develop its business in four directions: brand building, retail network expansion, internal operation enhancement and multi-brand strategy.

Brand building

The Group considers that product design and development is the main driver to lead the market and create the demand. The Group will continue to enhance its design and development capabilities through establishment of overseas design and development centres. We will commence from Asian countries as fashion trend in Asia is highly interactive and unify. The Group will further cooperate with well-recognized international design and development institutes. The co-operations with UAL and Itochu have already proven the synergy. The Group will continue to sponsor a number of selective sport and fashion activities which are well fitted to the image of Kappa Brand. For 2008, we will continue to sponsor the Hong Kong Table-tennis Team and the PRC 49er Sailing Team, both teams will participate in the 2008 Beijing Olympic Games. In addition, the Group will actively participate in a number of 2008 Olympic events in the PRC. Given the co-branding with Pepsi has brought a great success to both brands in 2007, we will explore the new co-branding events with Pepsi and other famous brands. The Group believes that the flagship store plan is a very effective mean to build the brand. The Group will continue to co-operate with its distributors to open flagship stores at the prime shopping locations of first-tier cities in the PRC.

Retail network expansion

Comparing with other top international sportswear brands in the PRC, the number of retail outlets of Kappa Brand is still low and the retail network is under-penetrated. We believe that there is a huge potential for Kappa Brand to expand its retail network in order to meet the strong demand for its products. The Group will continue to co-operate with its distributors to open new stores in the provincial capital and first-tier cities as well as the high potential second and third-tier cities in the North Eastern and South Eastern regions which enjoy a high growth in economy in recent years. On the other hand, the Group is planning to directly invest in its key distributors by setting up retail joint ventures with them. The Group will act as minority shareholders in the joint ventures but it will exercise influence on the operation and development of the joint ventures. The Group's direct investments in the key distributors will further enhance the Group's long-term strategy on retail network expansion plan.

Internal operation enhancement

The Group invests and places considerable emphasis on the management information system to improve the Group's efficiency in product design and development, supply chain management, quality and inventory control, logistics and sales. Since June 2007, the Group has replaced its management system and financial information system with a highly integrated ERP-SAP system. We will further invest and enhance the system over the next three years to further integrate our operations with the Group's manufacturers, distributors and their retail networks. The Group's direct investments in the key distributors will speed up the integration.

In 2008, the Group is planning to set up the third distribution centre in Guangdong province. The third distribution centre will enhance the Group's response time and shorten the time of distribution in the Southern region of the PRC.

At early 2008, the Group has adjusted its organization structure to streamline the major business segments and administrative functions for alignment with its future development strategies. The Group will continue to provide comprehensive training programmes to its employees for enhancement of their professional and management skills. The Group will also continuously recruit the best persons in the industry to prepare for its growth and expansion. On the other hand, the Group has a plan to establish a new operating headquarter in Beijing to cater for its future growth. The Group is actively searching for the location of headquarter.

Multi-brand strategy

In second half year of 2008, the Group will launch the sub-brand of Kappa Brand, Robe Di Kappa ("RDK"), in the PRC market. The Group acquired the PRC and Macau ownership of RDK together with Kappa in 2006. RDK is a more higher-end brand with main series of casual sportswear apparel products targeting on more matured customer group. The manufacturing and distribution model of RDK will be similar to that of Kappa Brand but the retail outlets of RDK will be opened at more higher-end shopping areas. The launch of RDK will help to broaden the product line of Kappa Brand.

As disclosed in the SUBSEQUENT EVENTS section above, the Group intends to acquire Phenix which owns and operates Kappa Brand and a number of other brands in skiing and outdoor sportswear in Japan. We believe that the acquisition will bring synergy to the business of the

Group and Phenix in both the PRC and Japan markets. Firstly, Phenix has very strong design and development capabilities. The merger of design and development function of the Group and Phenix will provide a very strong platform for the Group's long term sustainable development of Kappa Brand in the PRC market. Secondly, the acquisition of Phenix provides a very good opportunity for the Group to launch their high quality skiing and outdoor sportswear products in the PRC market. This is in line with the Group's multi-brand strategy. Thirdly, the Group will make use of its successful experience in brand management and operation to enhance the business performance of Phenix, in particular the Kappa brand in Japan.

The Group is committed to be one of the best multi-brand sportswear enterprises in the PRC. The Kappa Brand is the Group's first brand and it has provided a very solid foundation for the Group to deploy its multi-brand strategy. By utilizing the management's abundant experience on sportswear industry and the Group's strong financial resources, the Group will endeavor to find and explore the opportunities for acquisition of the ownership or long term operating right of one or more international brands in the PRC or regional market. The Group believes that the multi-brand strategy will enhance the value of the shares and bring benefits to its shareholders and investors.

OTHER INFORMATION

Compliance with Code on Corporate Governance Practices

The Company is committed to ensuring high standards of corporate governance in the interests of shareholders and devotes considerable effort to identifying and formalising best practices. The Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rule since its listing on 10 October 2007. 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 2007.

Compliance with the Model Code for Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as 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 during the period from its listing on 10 October 2007 to 31 December 2007.

Audit Committee

The Audit Committee is responsible for overseeing the relationship with the Company's external auditor, review of the financial information 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. Mak Kin Kwong (Chairman), Dr. Xiang Bing and Mr. Xu Yudi. The Audit Committee consists solely of independent non-executive Directors, all of whom have extensive financial experience. Up to 31 December 2007, the Audit Committee has held one meeting since the date of listing of the Company to discuss and consider the report on 2007 audit plan of the Company prepared by the external auditor and the report on internal control of the Company prepared by an independent external consulting firm. All members attended this meeting.

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 2007.

Purchase, Sale or Redemption of the Listed Securities

The shares of the Company were listed on the Stock Exchange on 10 October 2007 and neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2007.

Book Closure

The Register of Members of the Company will be closed from 8 to 15 May 2008, both days inclusive, for the purpose of determining shareholders' entitlements to the proposed final dividend. In order to qualify for the final dividend and the right to attend and vote at the meeting, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Share Registrars Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 7 May 2008.

Annual general meeting

The AGM of the Company will be held in Hong Kong on 15 May 2008. Notice of the AGM will be issued and disseminated to shareholders in due course.

Publication of Results Announcement

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

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

Hong Kong, 1 April 2008

As at the date of this announcement, the executive directors of the Company are Mr. CHEN Yihong and Mr. QIN Dazhong. The non-executive director is Mr. GAO Yu. The independent non-executive directors are Dr. XIANG Bing, Mr. XU Yudi and Mr. MAK Kin Kwong.