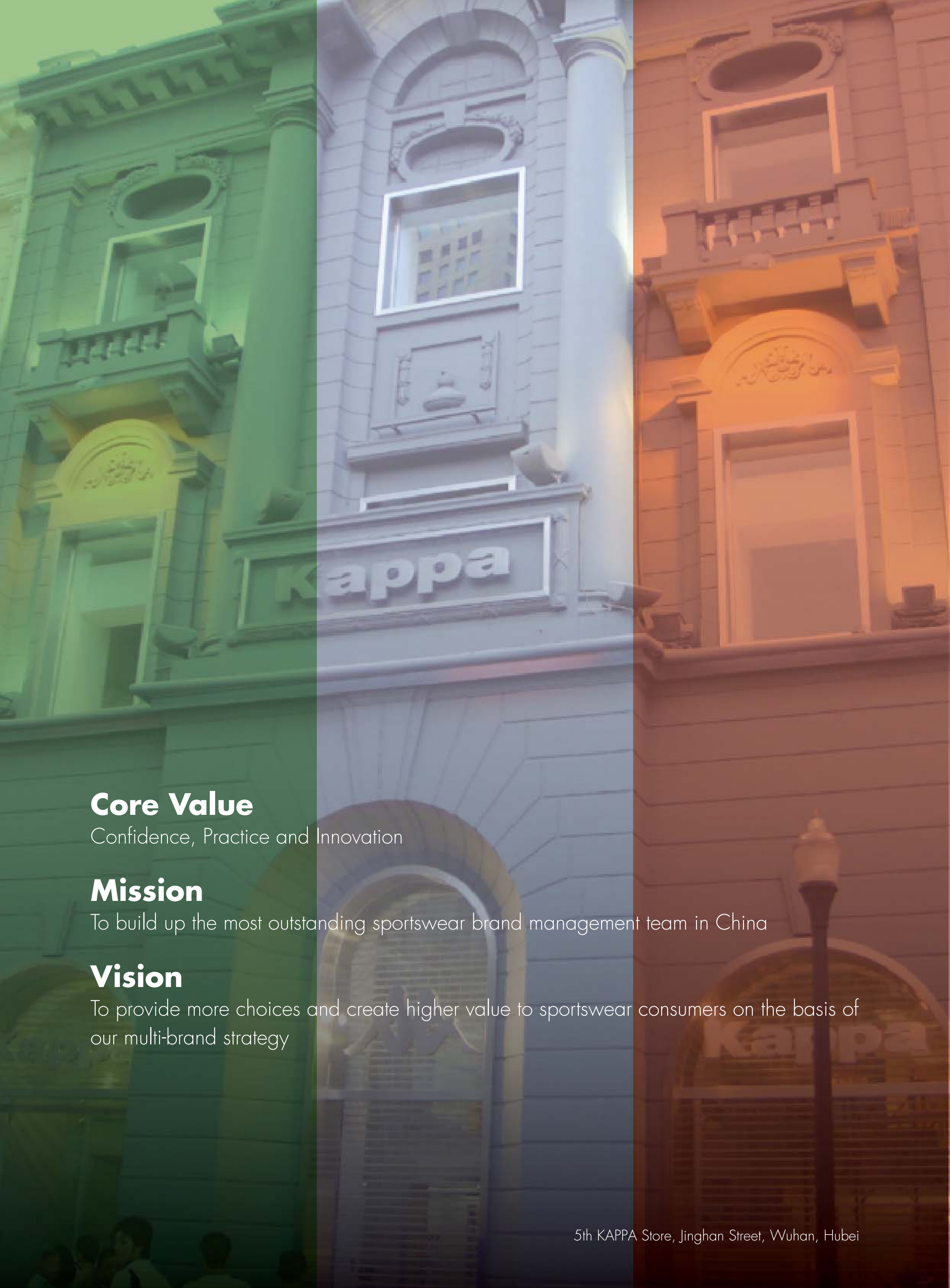
China Dongxiang (Group) Co., Ltd.
中國動向(集團)有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 3818

Annual Report 2007



Core Value

Confidence, Practice and Innovation

Mission

To build up the most outstanding sportswear brand management team in China

Vision

To provide more choices and create higher value to sportswear consumers on the basis of our multi-brand strategy

5th KAPPA Store, Jinghan Street, Wuhan, Hubei

CONTENTS

THE BOARD

- Executive Directors — Mr. CHEN Yihong, Mr. QIN Dazhong
- Non-executive Director — Mr. GAO Yu
- Independent non-executive Directors — Dr. XIANG Bing, Mr. XU Yudi, Mr. MAK Kin Kwong

Registered office	Cricket Square, Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Principal place of business in Hong Kong	Office Unit 9, 13/F Tower Two, Lippo Centre No. 89 Queensway Hong Kong
Website	www.dxsport.com
joint company secretaries	Mr. WONG Chi Keung, FCCA, CPA Ms. LIANG Hong
Qualified accountant	Mr. WONG Chi Keung, FCCA, CPA
Authorised representatives	Mr. WONG Chi Keung, FCCA, CPA Mr. GAO Yu
Principal share registrar and transfer office	Butterfield Fund Services (Cayman) Limited Butterfield House 68 Fort Street P.O. Box 705 Grand Cayman KY1-1107 Cayman Islands
Hong Kong branch share registrar and transfer office	Computershare Hong Kong Investor Services Limited Shops 1712–1716 17/F Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Legal advisers	Norton Rose Hong Kong Conyers Dill & Pearman Haiwen & Partners
Compliance adviser	Merrill Lynch Far East Limited
Auditors	PricewaterhouseCoopers Certified Public Accountants
Investor relations consultant	Porda International (Finance) PR Group

MILESTONE, HIGHLIGHTS & MAJOR ACHIEVEMENTS

2007

Robust revenue growth

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

Substantial sales network expansion

- Number of Kappa brand retail outlets reached **1,945**, a net increase of **807 outlets or 70.9% growth**

High profitability

- Impressive gross and net profit margins 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**

Successfully listed on The Stock Exchange of Hong Kong Limited on 10 Oct, 2007

Ranked No. 1 in Forbes "China Best SMEs 2008" Ranking

Awarded the "Distinguished CEO of the Year 2007" from Capital CEO Magazine

Became a constituent stock of Heng Seng Composite Index and Heng Seng Freefloat Index

2006

- The Group purchased all rights to Kappa Brand in PRC and Macau
- Morgan Stanley invested in Dongxiang Group
- Kappa became China's 3rd largest international sportswear brand

2005

- The Group further acquired the rest 80% equity interest in Beijing Dongxiang held by Li Ning
- Current management re-positioned Kappa as fashionable sportswear
- The Group signed Rukka Licensing agreement for China

2004

- The Group acquired 20% equity interest in Beijing Dongxiang through its subsidiary Shanghai Leide Sporting Goods Co., Limited

2007

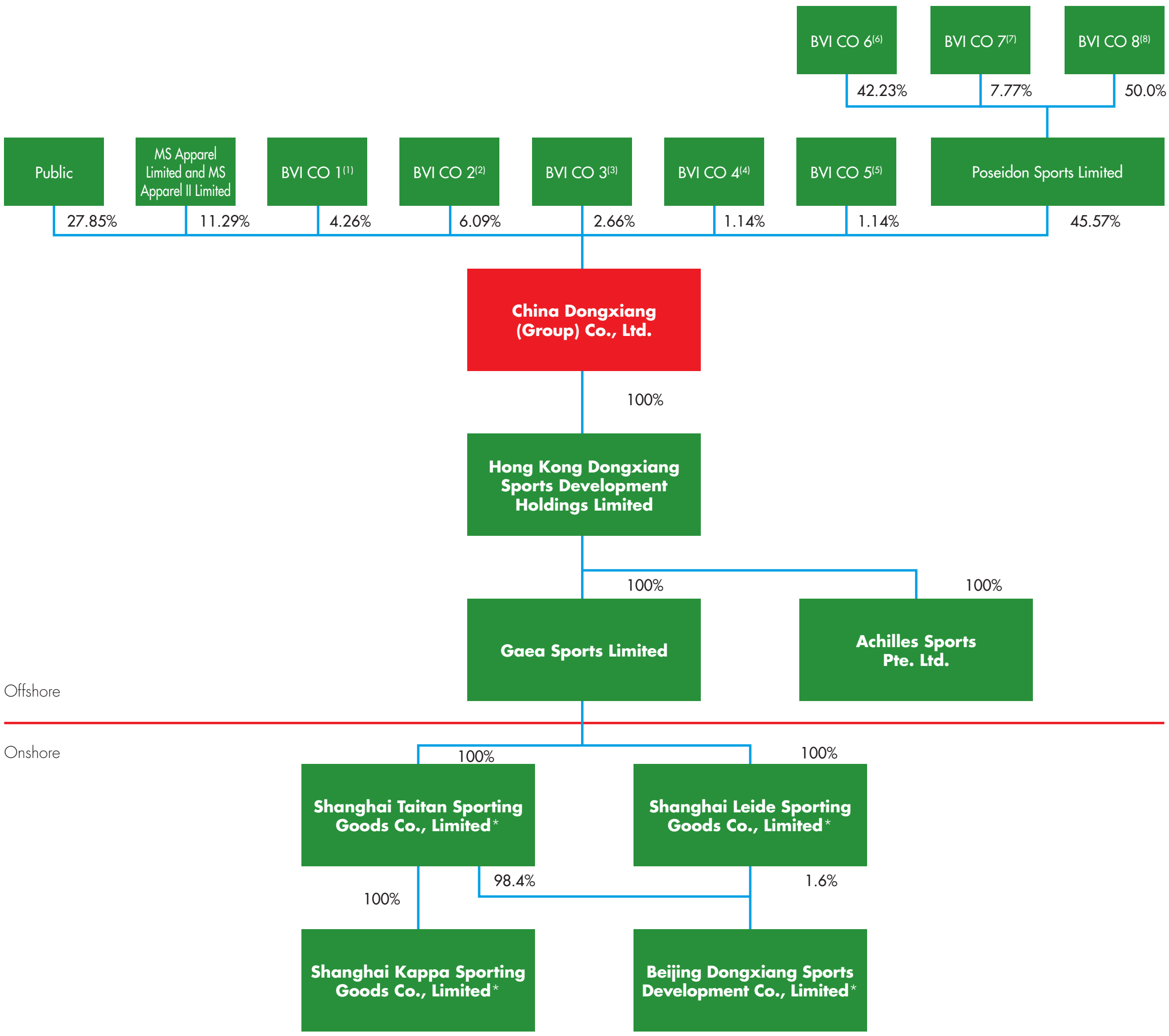
- China Dongxiang (Group) Co., Ltd. incorporated and listed on the Main Board of The Stock Exchange of Hong Kong Limited on 10 October 2007
- The SAP system launched to improve information management system
- Cooperation with University of Arts London started to strengthen research & development capabilities
- Co-branding with world class brands such as Pepsi and Peugeot Citroën

2002

- Beijing Dongxiang Sports Development Co., Limited ("Beijing Dongxiang") was established and Mr. Chen Yihong and Mr. Qin Dazhong became chairman and general manager respectively
- KAPPA entered into China

1990s

- Mr. Chen Yihong joined Li Ning Sporting Goods Company Limited and became one of the key executives
- Mr. Dazhong Qin joined Li Ning in 1997



Notes:

(1) Wise Finance Ltd., a company incorporated in the BVI on 5 July 2006 with its registered address at Akara Bldg., 24 De Castro Street, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands, is wholly-owned and controlled by Mr. Qin Dazhong, our chief executive officer and executive Director.

(2) Colour Billion Limited, a company incorporated in the BVI on 16 April 2007 with its registered address at Portcullis TrustNet Chambers, P.O. Box 3444, Road Town, Tortola, British Virgin Islands, is wholly-owned by Ms. Liu Peiying. Ms. Liu Peiying is the wife of Mr. Chen Yihong, our controlling shareholder and chairman. Mr. Chen Yihong is the sole director of Colour Billion Limited.

(3) Forever Step Investment Limited, a company incorporated in the BVI on 12 April 2007 with its registered address at Portcullis TrustNet Chambers, P.O. Box 3444, Road Town, Tortola, British Virgin Islands, is wholly-owned and controlled by Mr. Chen Yiliang.

(4) Talent Hill Group Limited, a company incorporated in the BVI on 12 April 2007 with its registered address at Portcullis TrustNet Chambers, P.O. Box 3444, Road Town, Tortola, British Virgin Islands, is wholly-owned by Mr. Chen Yiliang. Mr. Chen Yiyong is the sole director of Talent Hill Group Limited.

(5) Ease Luck Group Limited, a company incorporated in the BVI on 13 April 2007 with its registered address at Portcullis TrustNet Chambers, P.O. Box 3444, Road Town, Tortola, British Virgin Islands, is wholly-owned by Mr. Chen Yiliang. Mr. Chen Yizhong is the sole director of Ease Luck Group Limited.

(6) Harvest Luck Development Limited, a company incorporated in the BVI on 13 April 2007 with its registered address at Portcullis TrustNet Chambers, P.O. Box 3444, Road Town, Tortola, British Virgin Islands, is wholly-owned and controlled by Mr. Chen Yihong.

(7) Smart Stage Holdings Limited, a company incorporated in the BVI on 13 April 2007 with its registered address at Portcullis TrustNet Chambers, P.O. Box 3444, Road Town, Tortola, British Virgin Islands, is wholly-owned and controlled by Mr. Chen Yihong.

(8) Talent Rainbow Far East Limited, a company incorporated in the BVI on 13 April 2007 with its registered address at Portcullis TrustNet Chambers, P.O. Box 3444, Road Town, Tortola, British Virgin Islands, is wholly-owned and controlled by Mr. Chen Yihong.

* denotes an English translation of a Chinese name.

CHAIRMAN'S STATEMENT

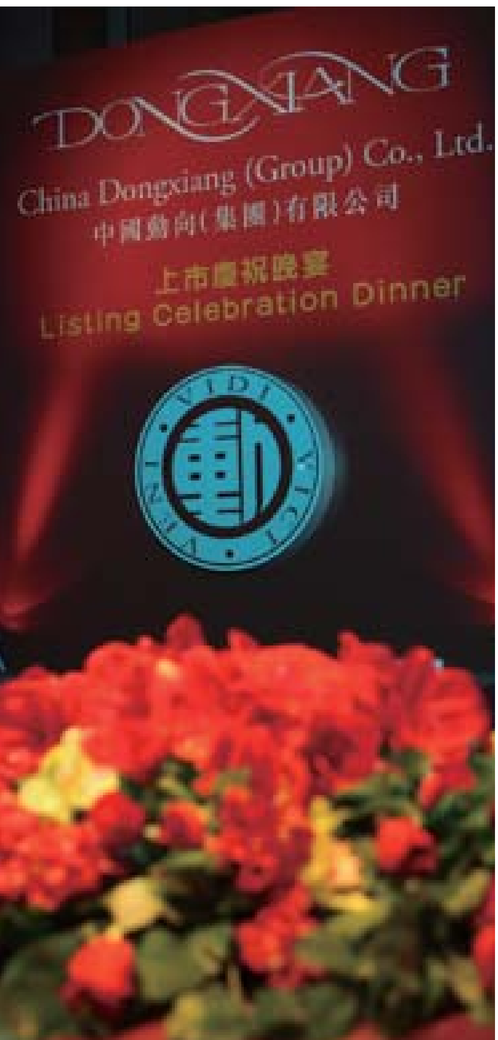
Dear Shareholders,

It has given me great pleasure and pride, for and on behalf of the board of directors (the "Board") of China Dongxiang (Group) Co., Ltd. ("China Dongxiang" or the "Company"), to present the results of the Company and its subsidiaries (collectively, "Dongxiang" or the "Group") for the year ended 31 December 2007.

I am pleased to report that the Group recorded annual turnover of RMB1,711.0 million, an increase of 99.2% over last year. Profit attributable to equity holders increased by 139.4% over 2006 to RMB733.6 million. Basic earnings per share reached to RMB15.89 cents.

With the unfailing trust of our shareholders, I am proud to say that we have successfully transformed ourselves into a public company on The Stock Exchange of Hong Kong Limited ("the Hong Kong Stock Exchange") during the year. Leveraging on our outstanding achievements, China Dongxiang triumphed the ranks of the Forbes' Potential 100 Chinese Companies due to the success of our product differentiation strategy, and it proved that the Company is entrusted with the right and reliable management team.

Underpinning the growth of a robust sport goods industry in the People's Republic of China ("PRC" or "China", excluding Hong Kong, Macau and Taiwan) is the buoyant Chinese economy, sustained consumption power and increasing attention on personal recreational activities. Steadfast to our spirit of "confidence, practice and innovation" and fully capitalising on our efficient organisation over product research and development, production organisation, marketing,



distribution channel building and sales execution of our unique branding of Kappa ("Kappa Brand" or "Kappa"), China Dongxiang was able to parade the following outstanding results in this industry.

Mindful of the immense trust conferred on the management of the Company by shareholders, the Board is delighted to share our achievements and the Company's robust growth value with our shareholders by recommending the distribution of a final dividend of RMB1.09 cents per ordinary share.

2008, being the first full year of our listing as well as post-listing corporate strategy, will herald the year of sophistication for China Dongxiang. Sustainable buoyant growth of the Chinese economy and the 2008 Beijing Olympic Games will create ample room for our growth. The listing proceeds will drive our expansion and a sophisticated corporate governance structure will safeguard our management efficiency.

Expansion of the Group's distribution channels will continue with planned openings of over 600 new retail shops in 2008. In order to enhance our brand image and promote sales growth, we will take our initiatives in retailing activities by investing directly in our distributors.

Capitalising on the opportunities presented by the 2008 Beijing Olympic Games, the Group is adamant in participating actively in sports activities and sponsoring more athletes and teams to break records on the tracks of the Olympiad. In the meantime, the Company will continue to leverage on our promotional advantages in fully integrating fashion and sports to enable more consumers to enjoy the charisma interwoven by Kappa.

The Group will continue to enhance its standards of supply chain management, integrate its fast response system of design, technology, production and retailing and capitalise on its competitive advantages in rolling forward its operation in order to create enormous room for profit.

The Group will place particular emphasis on its innovative concept of "R&D Decision Theory" by investing heavily in brand research and product development in order to sustain Kappa's premier position as the leader of "sports fashion" in China.

The Group will also actively and cautiously utilise its listing proceeds in developing corporate mergers and acquisition, integrating its global competitive advantages and resources in serving the PRC market, securing the premier position of Kappa, identifying opportunities for new brands and markets and building a more efficient organisation.

Our commitments to social responsibility are crucial to our success. The Group is not only devoted to make contribution to charitable activities and recompense society wholly-heartedly, but also endeavour to fulfil such belief with our suppliers and business partners jointly by complying with the moral practices of procurements.

I firmly believe that the current year's results of China Dongxiang will outshine with more benefits to be shared with our fellow shareholders. On behalf of the Board, I would like to present my heartfelt appreciation for the unfailing supports and trusts of our shareholders and business partners as well as my gratitude to the distinguished management team and staff of China Dongxiang.

CHEN Yihong
Chairman

Hong Kong, 1 April 2008

THREE-YEAR FINANCIAL HIGHLIGHTS

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

		Year ended 31 December		
	Note	**2007**	2006	2005
Turnover		**1,711,023**	858,921	147,712
Operating profit		**724,721**	385,608	40,517
Profit before income tax		**771,263**	372,076	39,936
Profit attributable to equity holders		**733,568**	306,459	37,806
Non-current assets		**407,613**	344,545	61,355
Current assets		**5,815,342**	506,096	119,074
Current liabilities		**315,218**	237,832	111,775
Net current assets		**5,500,124**	268,264	7,299
Total assets		**6,222,955**	850,641	180,429
Total assets less current liabilities		**5,907,737**	612,809	68,654
Equity holders' equity		**5,901,831**	307,504	43,873
Gross profit margin (%)		**58.5**	62.4	45.1
Net profit margin (%)		**42.9**	35.7	25.6
Earnings per share	2			
— basic (RMB cents)		**15.89**	7.10	0.88
— diluted (RMB cents)		**15.82**	7.07	0.87
Total assets per share (RMB cents)	3	**134.78**	19.70	4.18
Debt to equity holders' equity ratio	4	**0.05**	1.77	3.11

Note:

1. The major subsidiary of the Group, Beijing Dongxiang, which conducted the Group's core Kappa Brand business was not wholly acquired by the Group until 31 August 2005. Accordingly, the 2004 financial figures of the Group did not include the Kappa Brand business and it is not meaningful to disclose for comparison purpose.

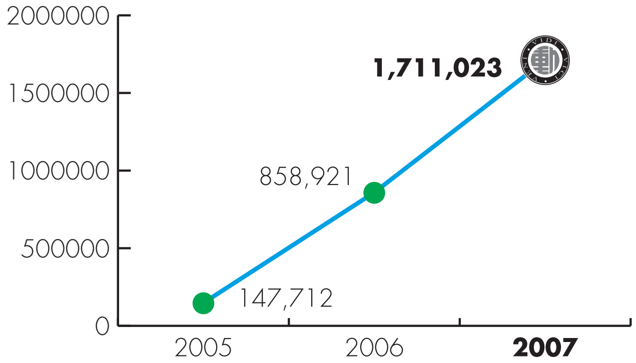
2. Please refer to Note 29 to the consolidated financial statements. The comparative figures for 2005 are calculated in the same method as for 2006 comparative figures.

3. The number of ordinary shares used in the calculation for the year ended 31 December 2007 is 4,617,162,000 shares, which is the weighted average number of shares in issue for the year. The comparative basic earnings per share for the year ended 31 December 2006 and 2005 are calculated based on the profit attributable to the equity holders of the Company and on the assumption that 4,319,000,000 shares had been in issue since 1 January 2005.

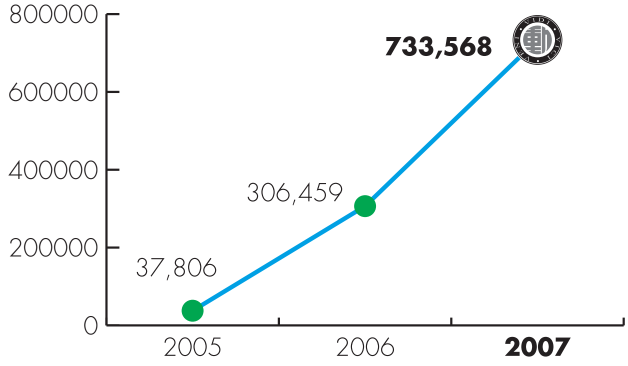
4. The debt to equity holders' equity ratio is based on total liabilities divided by equity holders' equity as at 31 December 2007, 2006 and 2005.

(All amounts in Renminbi thousands unless otherwise stated)

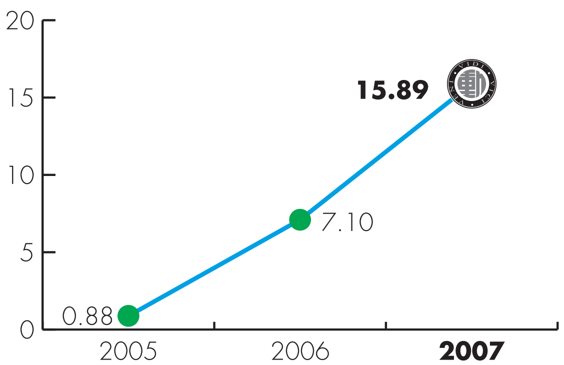
Turnover



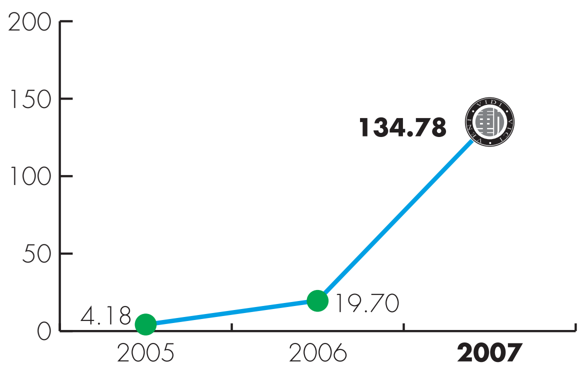
Profit attributable to equity holders



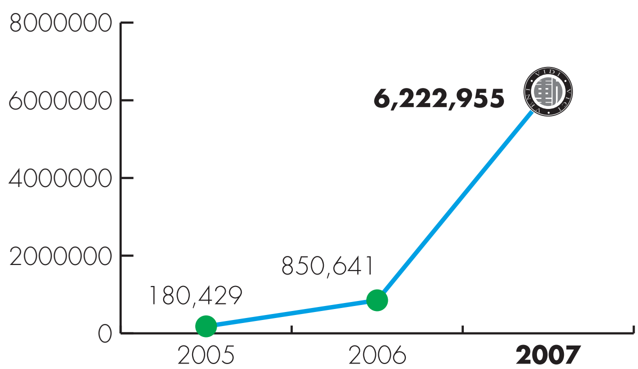
Earnings per share — basic (RMB cents)



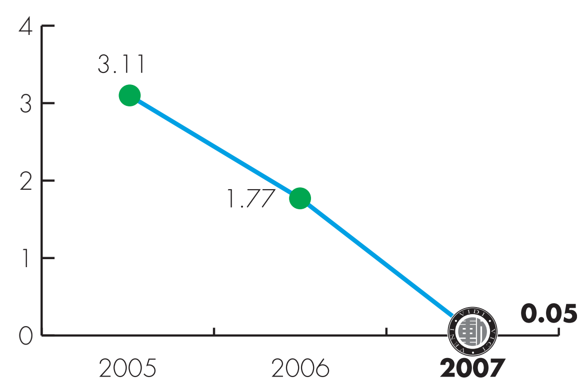
Total assets per share



Total assets



Debt to equity holders' equity ratio



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 Hong Kong Stock Exchange 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 2007 RMB'000	2006 RMB'000	Change
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.

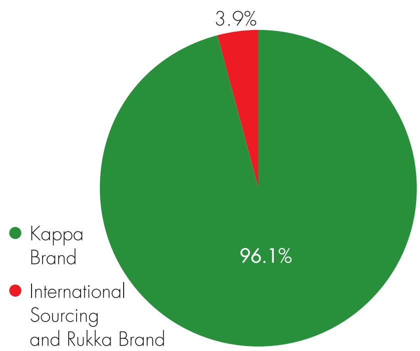
International Sourcing

The Group acted as a sourcing centre for BasicNet S.p.A. ("Basicnet"), the owner of the Kappa Brand worldwide other than in 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.

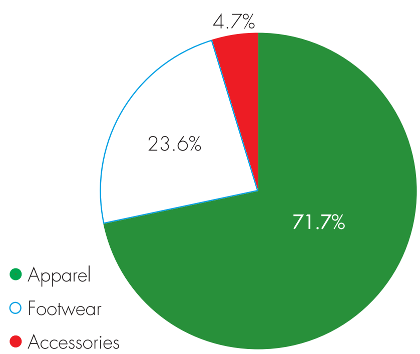
Rukka Brand

The Group was the exclusive distributor and licensee for the Rukka Brand in the PRC. Rukka ("Rukka Brand" or "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.

Revenue by business segment



Revenue by product category



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 %)**	
	Unit average selling prices RMB	**Total units sold in thousands**	Unit average selling prices RMB	Total units sold in thousands	**Unit 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%**

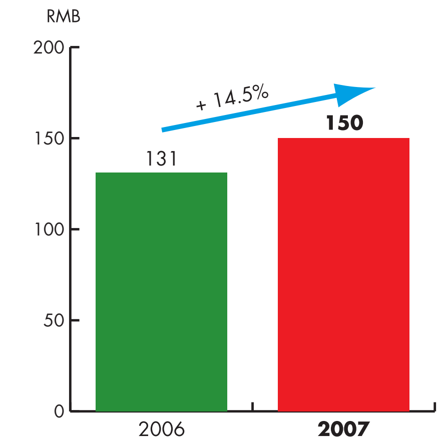
Note:

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

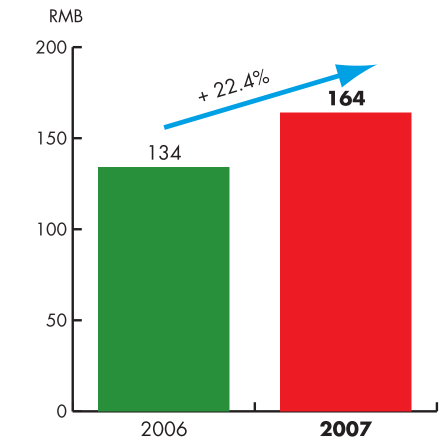
2. The accessories have a wide range of products that vary significantly in terms of unit average selling prices. We believe that the unit average selling price analysis of this product category would not be meaningful.

Growth in the unit average selling prices

Unit average selling prices — Apparel

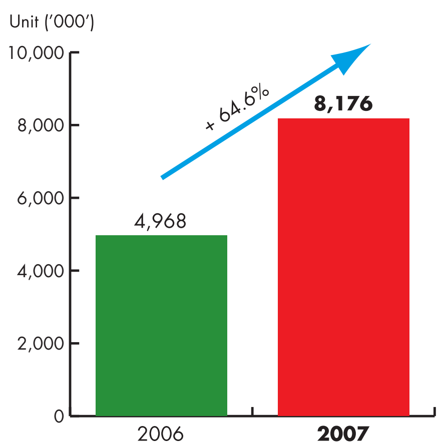


Unit average selling prices — Footwear

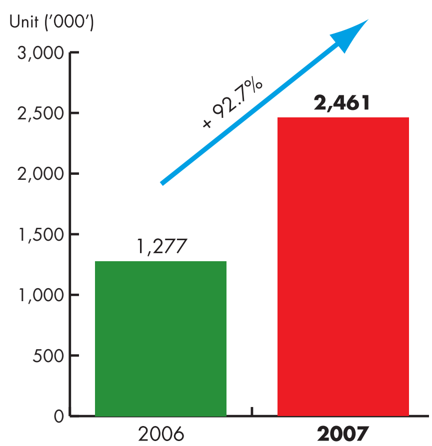


Growth in the total units sold

Total units sold — Apparel



Total units sold — Footwear



The increase in unit average selling prices of apparel products in 2007 was mainly due to the launch of more high-end products which had 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 profit margin of 62.4% in 2006.

The gross profit 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 profit 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 profit margin than apparel products, the increase in footwear sales as a percentage of total sales has served to lower overall gross profit margin of the Kappa Brand business.

The international sourcing and Rukka Brand businesses have lower gross profit margin 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 profit 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 profit margin for the Group in 2007.

The gross profit 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 profit 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 profit 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 margin, 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 Company's global initial public offering (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 in page 20 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 margin 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 cents 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 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 delegation wearing Kappa Brand products delivering Fuwa, the mascots for the 2008 Olympic Games;
- 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 Peugeot Citroën co-branding event; and
- Sponsorship of street dancing competition hosted by MTV.

Charity oriented

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

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 the Arts London ("UAL") and companies like Itochu Corporation ("Itochu"). The Group was the 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 the 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

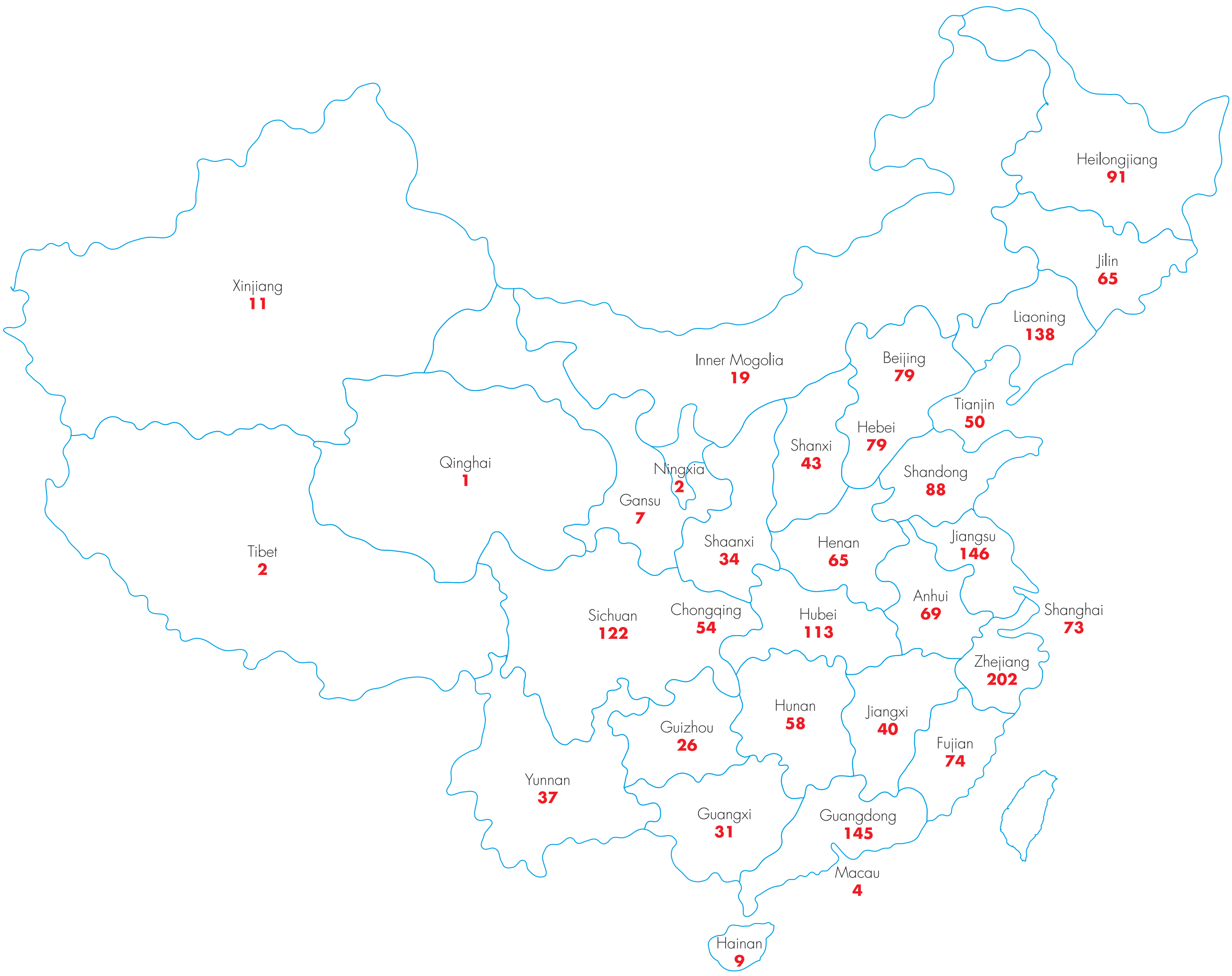
The Group has adopted a "primary distributor" policy to sell our products to a limited number of distributors. Under this scheme, the Group typically appoints only one primary distributor in one defined geographical area of a market. This policy effectively motivates distributors and enhances their loyalty. 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 by the end of 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

The following diagram illustrates the geographic distribution of the retail outlets of Kappa and Rukka Brands as at 31 December 2007:



Comprehensive Supply Chain Management

The Group has applied a comprehensive supply chain management approach for procurement, supplies as well as 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.

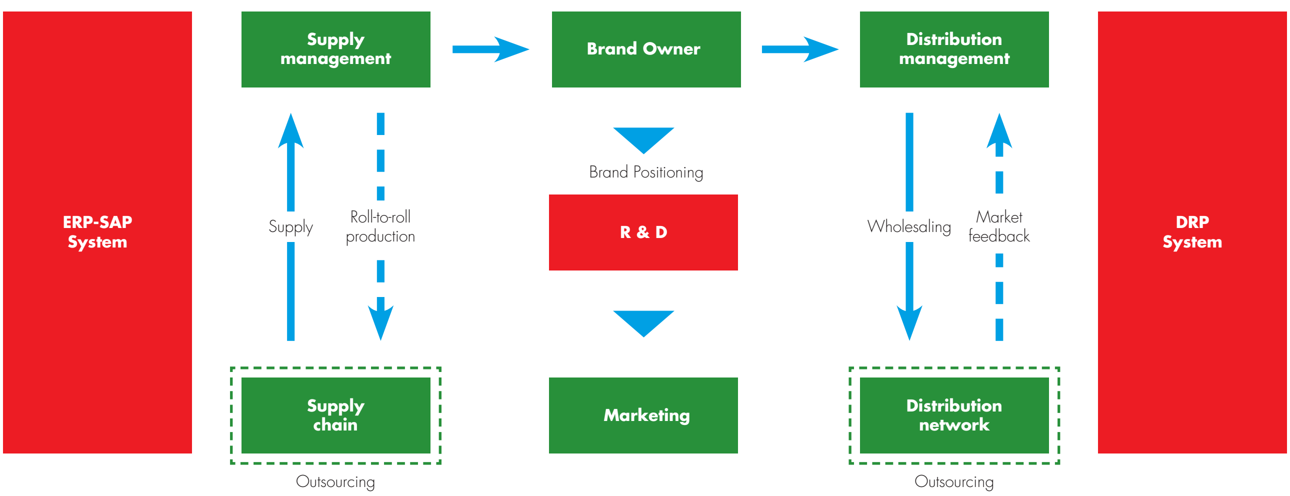
For sales of the Group's Kappa Brand products, we increased the frequency of sales fairs for distributors from twice to four times each year since 2007 to cover spring, summer, fall and winter collections.

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 receivables 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 trade payables turnover days in 2007 and 2006 were 75 days and 89 days 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 sales 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 subsequent to the commencement of international sourcing business. 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 skiing 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 un-precedented 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.

INVESTOR RELATIONS REPORT

OVERVIEW

Since its listing, the Company has emphasized on the importance of the investor relations ("IR") function and incorporated it as a part of the Company's management objective to establish and develop an effective Investor Relationships Department ("IR Department"). Since its inception, the IR Department has been leading by our chief financial officer and backed by the full support from the senior management team as well as the Board. The principal function of the IR Department is to maintain timely communication with fair and transparent disclosures to the investor communities globally.

In the future investor relations endeavor, we will continue to perfect our professionalism and enhance our corporate responsibilities by actively participating and hosting IR related events, in order to optimize the knowledge and understanding of the global investment communities about the Company's operating strategies, financial performances, and development prospects.

Since October 2007, the Company's IR activities are summarized as below:

INVESTOR RELATIONS ACTIVITIES REVIEW

1. Global Offering and Global Roadshow

China Dongxiang was successful listed on the Main Board of the Hong Kong Stock Exchange on 10 October 2007. The Company's shares have drawn unanimous recognition and support from the market and institutional investors, resulting in a considerable oversubscription in both the Hong Kong Public Offering and the International Placing. In the Hong Kong public offering, the Company's shares were oversubscribed by 124 times; whereas in the International Placing, the Company's shares were oversubscribed by 110 times.

In addition, our senior management met with global institutional investors and research analysts in Hong Kong, Singapore, London, New York and Boston during the global roadshow with approximately 70 one-on-one/group meetings/luncheon meetings, to deliver a clear message of our strategies, financial performances, development plans and future outlook.

2. Investment conferences

Since listing, we have attended 5 investment conferences that contain over 70 one-on-one/group meetings totally, hosted by various investment banks in Japan, Singapore, Europe and the PRC. We were able to stay close to the institutional investors and increase our exposure to the capital market during the investment conferences.

3. Continuous communication with shareholders, investors and analysts

The IR department strictly adheres to our corporate policies and relevant regulations so that we treat all shareholders, investors and research analysts in a fair and transparent manner. All information is disseminated promptly, non-selectively and accurately to ensure information relevance and reliability so that each investor can be informed of investment decisions.

So far, we have hosted over 150 physical meetings and conference calls with institutional investors and research analysts. The meetings and calls is a effective mean to enhance the mutual communication between the Company and the investment communities. On the other hand, we also responded promptly to the frequent inquiries from shareholders, institutional investors and analysts via telephone, email and fax on a daily basis.

4. Media relations

We have also increased our effort in building a stronger and closer relationship with the media through news releases, press conferences and management interviews to reach the public mass in a more efficient and effective manner to deliver our operating strategies and financial performances. Our strong media coverage has positively enhanced our brand recognition and corporate image.

5. Store visit and sales fair

The IR Department arranged numerous store visits for investors and research analysts to enable first-hand information gathering and product/store reviews.

We have also invited investors to attend our sales fairs. During these sales fairs, investors obtained a better understanding of our latest products offerings and their subsequent distributions to the market.

6. Company website

Since listing, the Company has activated the IR section on our company's website (www.dxsport.com). The IR Department is responsible for continuously updating the website so that all shareholders and potential investors have equal access to the most up-to-date information such as the latest corporate development, filings and reports, share performances, corporate governance, shareholder services and investor contacts.

We also update the IR section with major corporate announcement, dividend information, and investor's calendar among other crucial disclosures.

OUTLOOK

Looking forward, guided by the Company's senior management, the IR Department will proactively develop and maintain close relationship with investors, analysts, and the media to enhance the Company's access to the capital market and at the same time act responsibly to all investors by ensuring timely dissemination of fair, accurate and transparent information to the public and the investment communities.

INFORMATION FOR INVESTORS

1. Share information

Listing: Main Board of the Hong Kong Stock Exchange, 10 October 2007

Stock code: 3818

Number of ordinary shares issued as at 31 December 2007: 5,677,150,000

2. Important dates:

Announcement of 2007 annual results: 1 April 2008

Annual General Meeting: 15 May 2008

3. Recommended 2007 final dividend:

Recommended 2007 final dividend: RMB1.09 cents per ordinary share

Payment date: After 19 May 2008

4. IR Contact:

IR Department

China Dongxiang (Group) Co., Ltd.

Building 21, No. 2 Jingyuanbei Street

Beijing Economic-Techonology Development Area

Beijing 100176, China

Telephone: (8610) 6783 6585

Facsimile: (8610) 6785 6606

Email: ir@dxsport.com.cn

5. Website

http://www.dxsport.com/

http://www.kappa.com.cn

http://www.dxsourcing.com/

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Our Board is responsible and has general powers for the management and conduct of our business. The table below shows certain information in respect of members of our Board:

Name	Age	Position
Mr. Chen Yihong (陳義紅)	49	Chairman and Executive Director
Mr. Qin Dazhong (秦大中)	39	Chief Executive Officer and Executive Director
Mr. Gao Yu (高煜)	34	Non-executive Director
Dr. Xiang Bing (項兵)	45	Independent Non-executive Director
Mr. Xu Yudi (徐玉棣)	56	Independent Non-executive Director
Mr. Mak Kin Kwong (麥建光)	46	Independent Non-executive Director

Executive Directors

Mr. Chen Yihong (陳義紅), aged 49, is our founder, chairman and executive Director. Mr. Chen is primarily responsible for our overall corporate strategies, planning and business development. Mr. Chen has extensive experience in the sporting goods industry in China. From 1991 to 2005, Mr. Chen was the vice-general manager, general manager and chief executive officer of Beijing Li Ning Sports Goods Co., Ltd. (北京李寧體育用品有限公司) and the executive director of Li Ning Company Limited, a company listed on Hong Kong Stock Exchange. He was also appointed as the vice-chairman of the National Volleyball Association (中國排球協會) in 2002. Mr. Chen obtained an executive masters of business administration degree from Lincoln University in the United States in 2003.

Mr. Qin Dazhong (秦大中), aged 39, is our chief executive officer and executive Director. Mr. Qin is primarily responsible for our Company's overall strategic planning and the management of our Company's business. Mr. Qin joined Beijing Dongxiang as general manager since October 2002 and has over 10 years of experience in the operation of sportswear companies. From 1997 to 2002, he held various positions at Beijing Li Ning Sports Goods Co., Ltd. (北京李寧體育用品有限公司) where he was responsible for its corporate planning, international business and financial control. Prior to joining the sportswear industry, he worked for the National Audit Office of the PRC (中國國家審計署). He has a Bachelors degree in economics from Zhongshan University (中山大學) and an executive masters in business administration degree from Guanghua School of Management of Peking University (北京大學光華管理學院) in 2002.

Non-executive Director

Mr. Gao Yu (高煜), aged 34, is our non-executive Director. Mr. Gao joined our Company in May 2006. He is currently the Vice President of the Private Equity Division of Morgan Stanley Asia Limited, and he primarily focuses on private equity investment activities in China. He is also a non-executive director of Belle International Holdings Limited, a company listed on the main board of Hong Kong Stock Exchange. Prior to joining Morgan Stanley Asia Limited, he worked in Citigroup's Investment Banking Division in Asia for about five years. Mr. Gao had also worked in Donaldson, Lufkin & Jenrette's Capital Markets Group in New York. Mr. Gao graduated from Stanford University with a Masters degree in engineering-economic systems and operations research as well as from Tsinghua University (清華大學) in Beijing with dual Bachelors degrees in engineering and economics.

Independent Non-executive Directors

Dr. Xiang Bing (項兵), aged 45, is our independent non-executive Director. Dr. Xiang obtained a Doctoral degree in accounting from the University of Alberta in Canada. He has over 10 years of teaching experience in the academic field. Dr. Xiang is currently the founding dean and professor of the Cheung Kong Graduate School of Business (長江商學院). He is an independent non-executive director and a committee member of the audit committee of Dan Form Holdings Company Limited, HC International, Inc. and Jutal Offshore Oil Services Limited, all of which are companies listed on Hong Kong Stock Exchange. He is also an independent director of Qinchuan Machine Development Co., Ltd. (陝西秦川機械發展股份有限公司), Guangdong Midea Electric Appliances Co. Ltd. (廣東美的電器股份有限公司) and TCL Corporation (TCL 集團股份有限公司), all of which are listed on the Shenzhen Stock Exchange. He was a director of Wuhan Jianmin Pharmaceutical Groups Co., Ltd. which is a company listed on the Shanghai Stock Exchange.

Mr. Xu Yudi (徐玉棣), aged 56 is our independent non-executive Director. Mr. Xu obtained qualifications as a certified public accountant and senior auditor in China. He is a committee member of the Chinese Institute of Certified Public Accountants. Mr. Xu is currently the chairman of Citic International Cooperation Co., Ltd. (中信國際合作公司), a director of Citic Group (中國中信國際公司) and the vice-chairman of Citic Constructions Co. Ltd. (中信建設有限責任公司). During 1995 to 2005, Mr. Xu was the general manager of Citic International Cooperation Co., Ltd. and for the period between 2002 and 2004, he was the vice general manager of Citic Constructions Co. Ltd. Prior to that, he was the vice general manager and general accountant of China Leasing Company Limited (中國租賃公司). Mr. Xu graduated from the Tianjin Commercial School (天津財貿學校) and obtained his Master of Economics degree in accounting from the Institute for Fiscal Science Research under the State Ministry of Finance (財政部財政科學研究院). He was also an intern at the Office of the Auditor General of Canada.

Mr. Mak Kin Kwong (麥建光), aged 46, is our independent non-executive Director. Mr. Mak is the managing director of Venfund Investment, a boutique investment bank, which he co-founded in late 2001. Prior to 2001, he was a partner of Arthur Andersen Worldwide and the managing partner of Arthur Andersen Southern China. Mr. Mak serves as an independent non-executive director and the audit committee chairman of Trina Solar Limited (天合光能有限公司), China GrenTech Corp. Ltd. (國人通信股份有限公司) and Dragon Pharmaceutical Inc. (凱龍藥業股份有限公司), all of which are companies listed in the U.S., Shenzhen Victor Onward Textile Industrial Co. Ltd. (深圳中冠紡織印染股份有限公司), Gemdale Industries Ltd (金地集團股份有限公司), both are companies listed on the Shenzhen Stock Exchange, and Huabao International Holdings Ltd (華寶國際控股有限公司) a company listed on the Hong Kong Stock Exchange. Mr. Mak is also a non-executive director of Bright World Precision Machinery Ltd. (沃得精機股份有限公司), a company listed in the Republic of Singapore and Vinda International Holdings Limited (維達國際控股有限公司), a company listed on the Hong Kong Stock Exchange. Mr. Mak is a graduate of the Hong Kong Polytechnic University and a fellow member of the Association of Chartered Certified Accountants, United Kingdom, and the Hong Kong Institute of Certified Public Accountants.

SENIOR MANAGEMENT

Mr. Wong Chi Keung (王志強), FCCA, CPA, aged 41, is our chief financial officer, one of our joint company secretaries and the qualified accountant of our Company. Mr. Wong has over 15 years of experience in accounting, auditing and finance. He joined our Company in May 2007. Prior to joining us, Mr. Wong was appointed to various senior positions including the chief financial officer of a sino-foreign joint venture in Beijing, the senior finance manager of China Netcom Group Corporation (Hong Kong) Limited, which is a company listed on Hong Kong Stock Exchange, and the audit manager of an international accounting firm. Mr. Wong obtained a Bachelors degree in business administration from Chinese University of Hong Kong and a Masters degree in business administration from the Australian Graduate School of Management. He is also a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants.

Mr. Ren Yi (任軼), aged 34, is the vice general manager of Kappa business, and is primarily responsible for overseeing the sales and production of Kappa products of our Company. Mr. Ren joined our Company in 2006 and has over 13 years of experience in the sporting goods industry. Prior to joining us, Mr. Ren worked for Beijing Li Ning Sports Goods Co., Ltd. (北京李寧體育用品有限公司) from 1994 to 2006. Mr. Ren obtained a Bachelors degree in economics from Hubei University of Economics (湖北經濟學院) and is currently taking an executive masters of business administration program at the Guanghua School of Management of Peking University (北京大學光華管理學院).

Ms. Zhong Hua (鍾華), aged 38, is the head of our international sourcing department. She is also responsible for managing the logistics, footwear and accessory production of our Company. Ms. Zhong joined us in 2002. Prior to her current position, she worked for China North Industries Beijing Corporation (中國北方工業北京公司) and Beijing Li Ning Sports Goods Co., Ltd. (北京李寧體育用品有限公司), and was responsible for their international sales. Ms. Zhong has over seven years of experience in the sporting goods industry. She graduated from Beijing University of Technology (北京工業大學) with a Bachelors degree in engineering, specialising in industrial automation and has completed an executive masters of business administration program (高級管理人員工商管理碩士專業學位) at Peking University (北京大學).

Ms. Tang Lijun (湯麗軍), aged 45, is the head of our Kappa apparel production department, and is primarily responsible for its production process management of our Company. Ms. Tang joined our Company in 2005 and has been working in the apparel industry for about 17 years. Prior to joining us, Ms. Tang worked for Beijing Li Ning Sports Goods Co., Ltd. (北京李寧體育用品有限公司) and Beijing Hainaheng Trading Company (北京海納恒商貿公司). Ms. Tang graduated from the Beijing Radio and Television University (北京廣播電視大學) with a diploma in planning and statistics (統計專科) and is currently taking an executive master of business administration programme at the Cheung Kong Graduate School of Business (長江商學院).

Mr. Yang Chao (楊超), aged 32, is the head of our footwear equipment and accessory design and development centre, and is primarily responsible for the planning, creation, design and development of footwear equipment products. Mr. Yang joined our Company in 2006. Prior to his current position, he worked for Carbon-Studio (卡本運動產品設計有限公司) as its director of design for four years and at Beijing Li Ning Sports Goods Co., Ltd. (北京李寧體育用品有限公司) as the chief footwear designer for four years. Mr. Yang has over eight years of experience in the design industry.

As a member of the community, upholding the principle of being responsible for the country and community, the Group has been actively assuming various social responsibilities and making contributions to the community by participating and supporting different charities.

Subsequent to the large-scale charity campaigns in recent years, such as "Kappa All-star Charity Football Match for Deprived University Students" ("Kappa群星情系貧困大學生明星公益足球賽"), sponsorship of the "Dreamboat Star Team Car-racing Competition for Charity" ("夢舟明星賽車隊慈善義賽") and the successful completion of the "2006 I want to go to school"("2006我要上學 — 愛心向前走") campaign with the Music Radio, the Group, by leveraging the social influence of the Kappa Brand and in joint effort with the Music Radio again, appealed to the community to care for the "left-behind children" and donate funds for the establishment of Spring Bud Boarding School (春蕾寄宿學校) in 2007 so that the left-behind children can get education.

By promoting a positive attitude and a healthy and fashionable lifestyle, Kappa places high emphasis on the healthy growth of teenagers. "Upkeep the passion for life and dreams and never give up" is the motto Kappa has always been upholding.

Through various charity campaigns, the Group wishes to convey such message to the weak in the society, especially those deprived "left-behind children", to encourage them to live bravely and sturdily. Apart from providing financial and resource support to the poor children, with the help of the media and entertainment figures, Kappa also hopes to call on more people to care and help the deprived children to return to school and enjoy the happy life they deserve.

In addition, the Group also sponsored the "Lifeline Express", the mission of which is to deliver free cataract operations for those living in the remote, proverty-stricken, rural parts of China.



CORPORATE GOVERNANCE REPORT

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. This corporate governance report ("this Report") describes how the Company has applied the principles and the code provisions as set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules.

The Board of Directors

The overall management of the Company's business is vested in the Board. Pursuant to the Articles of Association and the Terms of Reference of the Executive Committee adopted by the Board, the Board has delegated the day-to-day management of the Company's business to the Executive Committee (see details in page 37 below), and focuses its attention on matters affecting the Company's overall strategic policies, finances and shareholders. These include financial statements, dividend policy, significant changes in accounting policy, annual operating budget, strategies for future growth, major financing arrangements, major investments and risk management strategies.

As at the date of this Report, the Board comprises six members, consisting of two executive Directors and four non-executive Directors, of whom three are independent non-executive Directors:

Executive Directors:
Mr. Chen Yihong
Mr. Qin Dazhong

Non-Independent Non-Executive Directors:
Mr. Gao Yu

Independent Non-Executive Directors:
Mr. Mak Kin Kwong
Dr. Xiang Bing
Mr. Xu Yudi

Biographies of the Directors are set out on pages 28–29. None of the Directors of the Board has any relationship (including financial, business, family or other material or relevant relationships) between each other. The composition of the Board is well balanced with each Director having sound knowledge, experience and/or expertise relevant to the business operations and the future development of the Company. All Directors are aware of their collective and individual responsibilities to the shareholders and each ensures that he can give sufficient time and attention to the affairs of the Company.

To ensure a balance of power and authority, the role of the chairman and the chief executive officer is segregated. There is a clear distinction between the chairman's responsibility for the management of the Board and the chief executive officer's responsibility for the management of the day-to-day operations of the Group's business.

The Company has received confirmation from each independent non-executive Director about his independence under the Listing Rules, and continues to consider each of them to be independent.

At each annual general meeting ("AGM") of the Company, at least one third of the Directors (or, if the number of Directors is not divisible by three, such number as is nearest to and less than one third) must retire as Directors by rotation, provided that every Director shall be subject to retirement at an AGM at least once every three years. A retiring Director shall be eligible for re election and shall continue to act as a Director throughout the meeting at which he retires.

As permitted under its Articles of Association, the Company has arranged directors' liability insurance for which the Directors do not have to bear any excess.

Board proceedings

The Board meets in person regularly, and all the Directors have full and timely access to relevant information and may take independent professional advice at the Company's expense, if necessary, in accordance with the approved procedures. Notice is required to be given to the Directors at least 14 days prior to such meeting. The draft agenda for regular Board meetings is prepared by the joint company secretaries and approved by the chairman of the Board. The agenda together with board papers is sent in full at least 3 days before the intended date of the Board meeting.

All the Directors have access to the advice and services of the joint company secretaries, who are responsible for ensuring that the correct Board procedures are followed and advise the Board on all corporate governance matters.

The minutes of Board meetings are prepared by the joint company secretaries with details of the matters considered by the Board and decisions reached, including any concerns raised by the Directors or dissenting views expressed. The draft minutes of the meeting are circulated to all Directors for their comment within a reasonable time after the meeting, and the final version shall be signed by the chairman of the Board and the person documenting such proceedings. Minutes of Board meetings are kept by the joint company secretaries and open for inspection by all Directors of the Board at the Company's head office.

The Board convened one meeting, which was on 17 December 2007, since the date of listing of the Company to discuss and approve, among others, the 2008 operation budget, the procedures for convening a meeting of the board of directors, and the establishment of the Executive Committee of the Company. All Directors attended this meeting.

Responsibility for financial statements

The Directors are responsible for the preparation of the financial statements of the Company for each financial year and ensuring that these financial statements give a true and fair view of the financial position of the Company and its subsidiaries, its financial performance and cash flows for that period. The Directors are also responsible for ensuring that proper accounting records of the Company which disclose the financial position of the Company and its subsidiaries are kept at all times.

Board committees

As an integral part of good corporate governance, the Board has established the following Board Committees to oversee particular aspects of the Company's affairs. Each of the Audit, Remuneration and Executive Committee is governed by its respective Terms of Reference, which are available on the Company's website at www.dxsport.com. All Committees are provided with sufficient resources to discharge their duties, and they are also authorised to obtain outside legal or other independent professional advice if they consider it necessary to do so.

Audit Committee

Members: Mr. Mak Kin Kwong (chairman), Dr. Xiang Bing and Mr. Xu Yudi. The Committee consists solely of independent non-executive Directors, all of whom have extensive financial experience. All the members held office since 12 September 2007.

Under its Terms of Reference, the duties of the Audit Committee include financial and efficiency aspects as described below. Amongst other things, the Committee is required to oversee the relationship with the Company's external auditor, to review the financial information of the Company, and to review and monitor the Company's financial reporting system and internal control. The Committee is primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and approving the remuneration and terms of such engagement. The 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. Apart from giving pre-approval of all audit services, the Committee also develops and implement policy on the engagement of external auditor to supply non-audit services. With respect to financial information of the Company, the Committee monitors the integrity of financial statements, annual and interim reports and accounts, together with the preliminary announcement of results and other announcements regarding the Company's financial information to be made public. Apart from considering issues arising from the audit, the Committee discusses any matters that auditor(s) may wish to raise either privately or together with executive director and any other person. The Committee is also required to review the effectiveness of the Company's financial controls, internal control and risk management systems. In addition, the Committee has to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function.

The minutes of the Audit Committee meetings are prepared by the joint company secretaries with details of the matters considered by the Committee members and decisions reached, including any concerns raised by the Committee members and dissenting views expressed. The draft minutes are circulated to the Committee members for comments and the final version of the minutes is sent to the Committee members for their records within a reasonable time after the meeting and the minutes are open for inspection by the Audit Committee and the Board of Directors. The Committee shall meet at least twice a year, and the external auditor may request a meeting if he considers it necessary.

On 17 December 2007, the Audit Committee held one meeting since the date of listing of the Company to discuss and consider the report on audit plan of the Company prepared by the external auditor and the report on internal control of the Company prepared by Protiviti Independent Risk Consulting ("Protiviti"), an external consulting firm. All members attended this meeting.

Remuneration Committee

Members: Mr. Chen Yihong (chairman), Dr. Xiang Bing and Mr. Xu Yudi. Among the three members, Mr. Chen Yihong is an executive Director and the remaining two members are independent non-executive Directors.

Under its Terms of Reference, the principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration, determining the remuneration packages of all executive Directors and make recommendations to the Board of the remuneration of non-executive Directors, and reviewing and approving performance-based remuneration by reference to the Company's goals and objectives.

The minutes of the Remuneration Committee meetings are prepared by the joint company secretaries with details of the matters considered by the Committee members and decisions reached, including any concerns raised by the Committee members and dissenting views expressed. The draft minutes are circulated to the Committee members for comments and the final version of the minutes is sent to the Committee members for their records within a reasonable time after the meeting and the minutes are open for inspection by the Remuneration Committee and the Board of Directors. Meetings of the Committee shall be held as and when appropriate, but at least once annually.

The three members of the Remuneration Committee met on 17 December 2007. During that meeting, the adjustment of the employee's remuneration structure of the Company was approved. All members attended this meeting.

Executive Committee

Members: Mr. Qin Dazhong (chairman), Mr. Chen Yihong, Mr. Wong Chi-keung and Mr. Ren Yi. Unlike other Committees whose members are Directors only, the members of the Executive Committee comprise of two senior management, that is, Mr. Wong Chi-Keung, chief financial officer and joint company secretary, and Mr. Renyi, the vice general manager of Kappa business.

The Board of Directors decided to establish the Executive Committee on 17 December 2007 to enhance its efficiency. The Board is responsible for the overall management and performance of the Company and the approval of the long-term objectives and commercial strategy. The Executive Committee reports to the Board and is accountable for the day-to-day management of the operations and the implementation of strategy. This Committee is responsible to the Board for driving high level performance of the growth, efficiency and capability programs as well as for resource allocation. Detailed functions of the Executive Committee as delegated by the Board mainly include:

1. to monitor and oversee the implementation of the budget as approved by the Board;

2. to monitor and oversee the financial and operational performance of the Company and its subsidiaries;

3. to ascertain the business plan and company strategies as approved by the Board and develop specific implementation plan; and

4. to appoint or remove senior management of the Company or any of its subsidiaries other than chief executive officer and chief financial officer of the Company, and to recommend the appointment of chief executive officer and chief financial officer of the Company.

The Executive Committee is requested to meet at least four times each year to better discharge its duties. To ensure the proper and appropriate delegation of authority to the Executive Committee, the Board must review the Terms of Reference of the Executive Committee annually.

Internal control and risk management

The Board of the Company is responsible for maintaining the reliability and effectiveness of the Group's internal control system covering all controls, including financial, operational and compliance controls and risk management. During the year under review, the Board and the Audit Committee have reviewed the effectiveness of the Group's internal control systems on all major operations by appointing an independent external consulting firm. Protiviti has reported major internal control review findings to the Board and the Audit Committee. No major issue but areas for improvement have been identified. All recommendations from Protiviti will be properly followed up to ensure that they are implemented within a reasonably period of time. The Board and the Audit Committee considered that the key areas of the Group's internal control systems were reasonable implemented and the Group has fully complied with the code provisions regarding internal control systems in general for the year ended 31 December 2007.

In 2007, the Company newly established an Internal Audit Department, which aims at providing reasonable assurance to the Board and the Audit Committee by ensuring the appropriateness and effectiveness of internal control. The Internal Audit Department reports to the Audit Committee in functional aspect and reports to the Chief Financial Officer in administrative aspect.

The Internal Audit Department formulates an annual internal audit plan on the basis of risk assessment. Implementation of the annual internal audit plan is subject to the approval of the Audit Committee. Duties of the Internal Audit Department include regular reviews on the implementation and procedures of financial and operational activities and the internal control systems of the Group, with resources focusing on high risk projects. In addition, the Internal Audit Department conducts special audits and investigation on any concerns raised by the Audit Committee and the management.

The Internal Audit Department submits the audit findings together with rectification and improvement plans to the Audit Committee and the management and maintains regular communication. It regularly tracks all audit findings and performs follow-up to ensure all matters are implemented in accordance with the rectification and improvement plans. The Internal Audit Department is also responsible for assessing the internal control system of the Group and providing independent advice on the effectiveness of such system.

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

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code governing securities transactions of the Directors and, having made specific enquiry, confirms that the Directors of the Board have complied with the Model Code since the Company is listed on the Main Board of the Hong Kong Stock Exchange on 10 October 2007. Senior Managements who, because of their office in the Company, are likely to be in possession of unpublished price sensitive information, have also been requested to comply with the provisions of the Model Code.

External auditor

The Company engages PricewaterhouseCoopers ("PwC") as its external auditor. In order to maintain PwC's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, the Audit Committee, under its Terms of Reference, pre-approves all audit services to be provided by PwC and discusses with PwC the nature and scope of their audit and reporting obligations before the audit commences.

Auditor's remuneration for the year ended 31 December 2007 is set out in Note 24 to the consolidated financial statements.

Communication with shareholders

Our shareholders are very important to us. It is our responsibility to ensure that all shareholders receive clear, timely and effective informations from us.

Our website, www.dxsport.com, is a primary source of information on the Company. The site includes an archive of our business development, financial announcements, as well as detailed information on our corporate governance practices. Regular trading updates are published via the Hong Kong Stock Exchange and by press release, and also appear on our website.

The Board views the AGM one of the principal channels to communicate with the shareholders of the Company and an opportunity for the shareholders to question the Board. Our first AGM is expected to be held on 15 May 2008. The chairman of the Board, chief executive officer and some other senior managements will be present at the meeting to explain to the shareholders the Company's business performance, financial situation and future strategies and answer questions from the shareholders.

To further enhance our relationship with the shareholders and investors and to ensure that our investors have a better understanding of the Company, we have established an IR Department to handle regular contact with our investors. A Investor Relations Report is produced hereto on pages 24–26 to provide a more comprehensive overview of the work done by the IR Department in 2007.

The Directors have pleasure in presenting to the shareholders their report together with the audited financial statements for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The Company is an investment holding company and also provides international sourcing services. The principal activities of the Group are design, development, marketing and wholesale of branded sportswear in the PRC and Macau. The Group has owned all the rights to Kappa Brand in the PRC and Macau and have obtained the sole and exclusive right to design, develop, manufacture and distribute Rukka Brand products in the PRC. In addition, we also operate as a sourcing centre for Basicnet, the owner of the Kappa Brand worldwide other than in the PRC, Macau and Japan, and generate sales revenue from organizing design, development, production and manufacturing of Kappa Brand products for sale to Kappa licensees.

GROUP PROFIT

The Group's profit for the year ended 31 December 2007 is set out in the consolidated income statement on page 53.

DIVIDENDS

An interim dividend of RMB150,000,000 and a special dividend of RMB230,000,000 in respect of the 5 months ended 31 May 2007 were declared to shareholders on 28 May 2007 and 12 September 2007, and paid in August 2007 and October 2007, respectively.

The Directors recommend a 2007 final dividend of RMB1.09 cents per ordinary share of the Company, amounting to approximately RMB61,881,000, subject to approval by the shareholders of the Company at the AGM 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.

FIXED ASSETS

Movements in the fixed assets of the Group during the year are set out in Note 6 to the consolidated financial statements.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2007 are set out in Note 20 to the consolidated financial statements.

THREE-YEAR SUMMARY

A summary of the results and assets and liabilities of the Company for the last three years is set out on pages 6–7.

SHARE CAPITAL

Movements in the share capital during the year are set out in Note 16 to the consolidated financial statements.

RESERVES

Movements in reserves of the Group and the Company during the year are set out in Note 17 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2007 amounted to approximately RMB5,040,255,000, which is the total of the share premium account and retained earnings of the Company calculated in accordance with Companies Law of the Cayman Islands.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of Cayman Islands where the Company is incorporated.

CHARITABLE DONATIONS

Donations made by the Group during the year amounted to HK$1,000,000.

MATERIAL CONTRACT

No contract of significance has been entered into between the Company or any of its subsidiaries and the controlling shareholders.

DIRECTORS

The Directors of the Company during the year and up to the date of this report are:

Executive Directors

Mr. CHEN Yihong	(appointed on 23 March 2007)
Mr. QIN Dazhong	(appointed on 23 March 2007)

Non-executive Director

Mr. GAO Yu	(appointed on 12 July 2007)

Independent non-executive Directors

Dr. XIANG Bing	(appointed on 12 September 2007)
Mr. XU Yudi	(appointed on 12 September 2007)
Mr. MAK Kin Kwong	(appointed on 12 September 2007)

In accordance with Article 87 of the Company's Articles of Association and the Code on Corporate Governance Practices of Listing Rules, Mr. Chen Yihong, Mr. Qin Dazhong, Mr. Gao Yu and Mr. Xu Yudi will retire from office by rotation and are eligible for re-election at the forthcoming AGM.

The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to the independence guidelines under the Listing Rules and the Company still considers such Directors to be independent. Particulars of the Directors' remuneration disclosed pursuant to Appendix 16 of the Listing Rules are set out in Note 25 to the consolidated financial statements.

DIRECTORS' SERVICE CONTRACTS

None of the directors has a service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed under the Connected Transactions below, no contracts of significance to which the Company, any of its subsidiaries, its holding companies or fellow subsidiaries were a party and in which a director of the Company had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors of the Company is or was interested in any business apart from the Group's business, that competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business at any time during the year ended 31 December 2007 and up to and including the date of this report.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of Directors and senior management are set out on pages 28 to 31.

SHARE OPTION SCHEMES

(a) Pre-IPO Share Option Scheme

The Company has adopted a Pre-IPO Share Option Scheme ("Pre-IPO Share Option Scheme") on 12 September 2007 for the purpose of giving the employees an opportunity to share in the success of the Company and to motivate the employees to optimize their performance and efficiency, and also to retain the employees whose contributions are important to the long-term growth and profitability of the Company. Options to subscribe for 18,700,000 shares were granted to three independent non-executive Directors and 50 employees on 17 September 2007. The exercise price per Share is HK$2.786, being a discount of 30% to the Global Offering price. HK$1.00 was payable by the grantee who accepted the grant of options. The options granted under the Pre-IPO Share Option Scheme will vest 6 months after the listing date of 10 October 2007 and accordingly there is no exercise of the share options granted for the year ended 31 December 2007.

(b) Share Option Scheme

The Company has adopted a Share Option Scheme ("Share Option Scheme") for the purpose of providing an incentive for employees and persons contributing to the Company to work with commitment towards enhancing the value of the Company and the Shares for the benefit of the Shareholders of the Company and to retain and attract calibres and working partners whose contribution are or may be beneficial to the growth and development of the Company and its subsidiaries.

The Board may from time to time grant options to any individual who is an employee of the Group (including executive Directors) or any entity in which the Company holds any equity interest and such other persons who has or will contribute to the Company as approved by the Board from time to time on the basis of their contribution to the development and growth of the Group.

The Share Option Scheme was adopted on 12 September 2007. Unless otherwise terminated or amended, the Share Option Scheme will remain in force for a period of 10 years.

Participants of the Share Option Scheme are required to pay HK$1.00 for each option granted upon acceptance of the grant. The exercise price of the options is determined by the Board in its sole and absolute discretion and being at least the highest of:

(i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheets on the Offer Date;

(ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date; and

(iii) the nominal value of the Shares.

The maximum number of Shares available for issue upon exercise of all options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of total number of issued shares as of the Listing Date ("Scheme Mandate").

The Company may renew this limit at any time, subject to shareholders' approval provided that the total number of shares in respect of which may be granted under the Share Option Scheme and any schemes of the Company under the Scheme Mandate as renewed must not exceed 10% of the total number of shares in issue as of the date of shareholders' approval.

RETIREMENT SCHEMES

Particulars of the retirement schemes operated by the Group are set out in Note 2.16 to the consolidated financial statements.

ARRANGEMENT TO PURCHASE SHARES AND DEBENTURES

Apart from the Pre-IPO Share Option Scheme and Share Option Scheme, at no time during the year 2007 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of acquisition of shares in, or debenture of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2007, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), which have been notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 & 8 Part XV of the SFO, including interests and short positions which the Directors and chief executive of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Model Code contained in the Listing Rules were as follows:

Interests in shares, underlying shares and debentures of the Company

		Number and class of securities		
Name of Directors	Nature of interest	Long position	Short position	Approximate percentage of total issued shares
Mr. Chen Yihong	Interest of a controlled corporation	2,587,081,000 shares	–	45.57%
Mr. Chen Yihong	Deemed interest	345,520,000 shares	–	6.09%
Mr. Qin Dazhong	Interest of a controlled corporation	241,864,000 shares	–	4.26%

Save as disclosed above, as at 31 December 2007, none of the Directors and chief executive of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2007, other than the interests and short positions as disclosed above, the following persons have interests or short positions in the shares, underlying shares and debentures of the Company which fall to be disclosed to the Company under Divisions 2 & 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under Part XV (s.336) of the SFO, or otherwise known to the Directors:

Name of shareholders	Nature of interest	Number and class of securities: Long position	Short position	Approximate percentage of shareholding (%)
Poseidon Sports Limited	Corporate interest	2,587,081,000 shares	–	45.57%
Talent Rainbow Far East Limited (1)	Interest in a controlled corporation	2,587,081,000 shares	–	45.57%
Harvest Luck Development Limited (1)	Interest in a controlled corporation	2,587,081,000 shares	–	45.57%
Mr. Chen Yihong (1)	Interest in a controlled corporation, deemed interest	2,932,601,000 shares	–	51.66%
Colour Billion Limited (2)	Corporate interest	345,520,000 shares	–	6.09%
Ms. Liu Peiying (2)	Interest in a controlled corporation, deemed interest	2,932,601,000 shares	–	51.66%
MS Apparel Limited	Corporate interest	632,961,000 shares	–	10.62%
Morgan Stanley Private Equity Asia, L.P. (3)	Interest in a controlled corporation	632,961,000 shares	–	10.62%
Morgan Stanley Private Equity Asia, L.L.C. (3)	Interest in a controlled corporation	632,961,000 shares	–	10.62%
Morgan Stanley Private Equity Asia, Inc. (3)	Interest in a controlled corporation	632,961,000 shares	–	10.62%
Morgan Stanley (3)	Interest in a controlled corporation	632,961,000 shares	–	10.62%

Notes:

(1) Mr. Chen Yihong, Harvest Luck Development Limited and Talent Rainbow Far East Limited are deemed to be interested in the shares held by Poseidon Sports Limited by virtue of Harvest Luck Development Limited and Talent Rainbow Far East Limited being entitled to exercise or control the exercise of one-third or more of the voting power at generate meetings of Poseidon Sports Limited and are in turn wholly-owned and controlled by Mr. Chen Yihong. Mr. Chen Yihong, the husband of Ms. Liu Peiying, is also deemed to be interested in his wife's interests in our Company.

(2) Colour Billion Limited is wholly-owned by Ms. Liu Peiying, who is the wife of Mr. Chen Yihong. Ms. Liu Peiying is deemed to be interested in the Shares held by Colour Billion Limited and Mr. Chen Yihong's interests in our Company.

(3) MS Apparel Limited is controlled by Morgan Stanley Private Equity Asia, L.P. ("MSPEA"), a fund managed by the private equity arm of Morgan Stanley. The general partner of MSPEA is Morgan Stanley Private Equity Asia, L.L.C, the managing member of which is Morgan Stanley Private Equity Asia, Inc., a wholly-owned subsidiary of Morgan Stanley. Each of MSPEA, Morgan Stanley Private Equity Asia, L.L.C., Morgan Stanley Private Equity Asia, Inc., and Morgan Stanley is deemed to be interested in the Shares held by MS Apparel Limited.

Save as disclosed above, as at 31 December 2007, the Directors are not aware of any other person or corporation having an interest or short position in shares and underlying shares of the Company representing 5% or more of the issued share capital of the Company.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

CONNECTED TRANSACTIONS

During the year ended 31 December 2007, the Group conducted certain transactions with connected parties which constituted "continuing connected transactions' under the Listing Rules. Details of those continuing connected transactions which are subject to the reporting requirements under Rules 14A.46 of the Listing Rules are summarised as follows:

Pursuant to a framework agreement dated 18 September 2007, the Group appointed Beijing Dong Gan Jing Ji Company Limited (("Dong Gan Jing Ji") an associate of Mr. Chen Yihong, the Company's substantial shareholder, chairman and executive Director, and hence a connected person of the Group) as its non-exclusive distributor of Kappa Brand products at retail outlets in Beijing, Shandong and Shaanxi in China and as a consignee in relation to sale of the Rukka Brand products at one of its Beijing outlets. The framework agreement took effect from the date of the Global Offering and has a term of three years. The sales of goods to Dong Gan Jing Ji for the year ended 31 December 2007 is of RMB157,513,000.

The independent non-executive Directors of the Company have reviewed the above continuing connected transactions and confirm:

(1) the above transactions are in the ordinary course of business of the Group;

(2) the above transactions are on normal commercial terms, or if there are insufficient comparable transactions to judge whether the terms of those transactions are normal commercial terms, as far as the Company is concerned, the terms of the above transactions are no less favourable than that available from or provided by independent third parties (as the case may be); and

(3) the above transactions are entered into under the terms of the agreement in respect of the relevant transactions and the transaction terms are fair and reasonable and are in the interest of shareholders of the Company as a whole.

In addition, in accordance with paragraph 14A.38 of the Listing Rules the Board of Directors engaged the auditor of the Company to perform certain factual finding procedures on the above continuing connected transactions on a sample basis in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed — Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has reported this factual findings for the selected samples based on the agreed procedures to the Board of Directors that the aforesaid continuing connected transactions:

(1) have been approved by the Board of the Company;

(2) have been entered into in accordance with the pricing policies of the Group;

(3) have been entered into in accordance with the relevant agreements governing the transactions; and

(4) have not exceeded the cap amount as disclosed in the Company's prospectus dated 25 September 2007.

The related party transactions are set out in Note 34 to the consolidated financial statements. Apart from the connected transactions disclosed above, all the other related party transactions did not fall under the scope of "Continuing Connected Transaction" under Chapter 14A of the Listing Rules which are required to comply with the reporting, announcement or independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

TRANSACTION IN SECURITIES OF THE COMPANY AND SUBSIDIARIES

Details of the share options issued or granted during the year 2007 by the Company are set out in Note 16 to the consolidated financial statements.

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the year under review.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its Directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

MAJOR SUPPLIERS AND CUSTOMERS

During the year ended 31 December 2007, the respective percentage of the aggregate purchases attributable to the Group's five largest suppliers and the aggregate sales attributable to the Group's five largest customers were less than 40% of the Group's total value of purchases and total sales respectively.

Other than Dong Gan Jing Ji, which is an associate of Mr. Chen Yihong, who is the chairman and executive Director of the Company, at no time during the year have the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in the Group's five largest suppliers or customers.

POST BALANCE SHEET DATE EVENTS

Details of the significant post balance sheet date events of the Group are set out in Note 35 to the consolidated financial statements.

AUDITOR

PwC will retire at the forthcoming AGM and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PwC as auditors of the Company until the conclusion of next AGM is to be proposed at the forthcoming AGM.

On behalf of the Board
CHEN Yihong
Chairman

Hong Kong, 1 April 2008

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

Independent Auditor's Report
To the shareholders of China Dongxiang (Group) Co., Ltd.
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Dongxiang (Group) Co., Ltd. (the "Company") and its subsidiaries (together the "Group") set out on pages 51 to 104, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and of the Group as at 31 December 2007, and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTERS

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 1 April 2008

CONSOLIDATED BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

	Note	As at 31 December 2007	2006
ASSETS			
Non-current assets			
Property, plant and equipment	6	**94,474**	42,835
Lease prepayments	7	**30,080**	14,001
Intangible assets	8	**279,751**	286,287
Deferred income tax assets	10	**3,308**	1,422
		407,613	344,545
Current assets			
Inventories	11	**88,173**	87,846
Financial assets	12	**201,505**	20,000
Trade receivables	13	**138,319**	84,374
Prepayments, deposits and other receivables	14	**46,764**	19,127
Cash and bank balances	15		
— 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
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	16	**54,904**	—
Share premium	16	**5,000,710**	—
Reserves	17	**846,217**	307,504
Total equity		**5,901,831**	307,504
LIABILITIES			
Non-current liabilities			
Borrowings	20	**—**	3,357
Licence fees payable	21	**5,906**	6,434
Financial liability	22	**—**	295,514
		5,906	305,305
Current liabilities			
Trade payables	18	**177,619**	112,850
Accruals and other payables	19	**112,804**	81,869
Borrowings	20	**—**	1,833
Licence fees payable — current portion	21	**1,557**	638
Amounts due to related parties	34(c)	**—**	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

The notes on pages 56 to 104 are an integral part of these consolidated financial statements.

(All amounts in Renminbi thousands unless otherwise stated)

	Note	As at 31 December 2007
ASSETS		
Non-current assets		
Investments in subsidiaries	9	**10,082,680**
Current assets		
Prepayments, deposits and other receivables	14	**13,422**
Amounts due from subsidiaries	9	**247,927**
Cash and cash equivalents	15	**4,710,223**
		4,971,572
Total assets		**15,054,252**
EQUITY		
Share capital	16	**54,904**
Share premium	16	**5,000,710**
Reserves	17	**9,974,832**
Total equity		**15,030,446**
LIABILITIES		
Current liabilities		
Accruals and other payables	19	**23,806**
Total liabilities		**23,806**
Total equity and liabilities		**15,054,252**
Net current assets		**4,947,766**
Total assets less current liabilities		**15,030,446**

The notes on pages 56 to 104 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Year ended 31 December 2007	2006
Sales	5	**1,711,023**	858,921
Cost of sales	24	**(710,450)**	(323,360)
Gross profit		**1,000,573**	535,561
Other income	23	**20,144**	9,937
Distribution costs	24	**(210,101)**	(124,145)
Administrative expenses	24	**(85,895)**	(35,745)
Operating profit		**724,721**	385,608
Finance income/(costs), net	26	**46,542**	(13,532)
Profit before income tax		**771,263**	372,076
Income tax expense	27	**(37,695)**	(65,617)
Profit 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	29	**15.89**	7.10
— Diluted	29	**15.82**	7.07
Dividends	30	**441,881**	—

The notes on pages 56 to 104 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Attributable to equity holders of the Company				
		Share capital	Share premium	Other reserves	Retained earnings	Total
Year ended 31 December 2006						
At 1 January 2006		–	–	10,749	33,124	43,873
Distributions to equity holders	17(a)	–	–	(36,910)	–	(36,910)
Capital injection from equity holders	17(b)	–	–	24,082	–	24,082
Appropriation of statutory reserves		–	–	742	(742)	–
Profit for the year		–	–	–	306,459	306,459
Dividend relating to 2005 paid		–	–	–	(30,000)	(30,000)
At 31 December 2006		–	–	(1,337)	308,841	307,504
Representing:						
Reserves		–	–	(1,337)	308,841	307,504
2006 proposed dividends		–	–	–	–	–
At 31 December 2006		–	–	(1,337)	308,841	307,504
Year ended 31 December 2007						
At 1 January 2007		**–**	**–**	**(1,337)**	**308,841**	**307,504**
Contribution by the Investors	22	**–**	**–**	**23,203**	**–**	**23,203**
Derecognition of a financial liability	22	**–**	**–**	**295,514**	**–**	**295,514**
Issue of new shares	16, 17	**13,249**	**5,000,710**	**–**	**–**	**5,013,959**
Issue of shares pursuant to the Capitalisation Issue	16(a)(ii)	**41,655**	**–**	**(41,655)**	**–**	**–**
Appropriation of statutory reserves	17(b)	**–**	**–**	**10,000**	**(10,000)**	**–**
Share-based compensation	17(c)	**–**	**–**	**14,279**	**–**	**14,279**
Foreign currency translation differences	17	**–**	**–**	**(106,196)**	**–**	**(106,196)**
Profit for the year		**–**	**–**	**–**	**733,568**	**733,568**
Dividends paid	30	**–**	**–**	**–**	**(380,000)**	**(380,000)**
At 31 December 2007		**54,904**	**5,000,710**	**193,808**	**652,409**	**5,901,831**
Representing:						
Share capital and reserves		**54,904**	**4,938,829**	**193,808**	**652,409**	**5,839,950**
Proposed final dividend (Note 30)		**–**	**61,881**	**–**	**–**	**61,881**
At 31 December 2007		**54,904**	**5,000,710**	**193,808**	**652,409**	**5,901,831**

The notes on pages 56 to 104 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Year ended 31 December 2007	2006
Operating activities			
Cash generated from operations	31(a)	**627,784**	376,333
Interest received		**84,977**	2,645
Interest paid	26	**(149)**	(121)
Income tax paid		**(56,258)**	(30,951)
Net cash generated from operating activities		**656,354**	347,906
Investing activities			
Purchase of property, plant and equipment		**(55,834)**	(27,437)
Addition of lease prepayments		**–**	(9,410)
Purchases of intangible assets		**(26,549)**	(264,796)
Proceeds from disposal of property, plant and equipment	31(b)	**129**	–
Increase in restricted bank deposit		**(9,521)**	(20,000)
Sales/(purchase) of held-to-maturity financial assets		**20,584**	(20,000)
Increase in financial assets at fair value through profit and loss		**(200,000)**	–
Net cash used in investing activities		**(271,191)**	(341,643)
Financing activities			
Proceeds from issue of ordinary shares	16(a)	**5,013,862**	–
Cash paid to equity holders of the Company for acquisition of subsidiaries pursuant to the internal restructuring	17	**–**	(36,910)
Capital injections from equity holders of the Company	17	**–**	24,082
Proceeds from bank borrowings		**–**	5,780
Repayments of bank borrowings		**(5,190)**	(590)
Repayment of borrowings from minority shareholders		**–**	(6,310)
Borrowing from directors	34(b)	**6,200**	–
Repayment of borrowings from directors		**(6,927)**	–
Repayment of borrowings from third parties		**–**	(6,700)
Contribution from the Investors	17	**23,203**	280,069
Dividends paid	17	**(380,000)**	(30,000)
Net cash generated from financing activities		**4,651,148**	229,421
Net increase in cash and cash equivalents		**5,036,311**	235,684
Cash and cash equivalents at beginning of the year		**274,749**	39,065
Cash and cash equivalents at end of the year	15	**5,311,060**	274,749

The notes on pages 56 to 104 are an integral part of these consolidated financial statements.

(All amounts in Renminbi thousands unless otherwise stated)

1 GENERAL INFORMATION OF THE GROUP AND REORGANISATION

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 footwear, apparel and accessories in the People's Republic of China (excluding Hong Kong Special Administrative Region, Macau and Taiwan) (the "PRC") and Macau.

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.

Pursuant to a group reorganisation (the ''Reorganisation'') which included exchange of shares to rationalise the structure of the group in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited, the Company acquired the entire issued share capital of Hong Kong Dongxiang Sports Development Holdings Limited ("Hong Kong Dongxiang"), the then holding company of all other companies comprising the Group, and became the holding company of the Group. The Reorganisation was completed on 29 June 2007. The details of the subsidiaries of the Company are set out in Note 9 below.

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

The Reorganisation represented a business combination involving entities under common control. Accordingly the Reorganisation has been accounted for as a business combination under common control in a manner similar to the uniting of interests method. The consolidated financial statements of the Group have been prepared as if the current group structure had been in existence throughout both years presented, or since the respective dates of incorporation or establishment of the group companies.

These consolidated financial statements have been authorised for issue by the Board of Directors on 1 April 2008.

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 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. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

(All amounts in Renminbi thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) Standards, amendment and interpretations effective in 2007 and relevant to the Group

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.

(b) 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.

(c) Standards, amendments and interpretations effective in 2007 but not relevant to the Group

The following 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'.

(All amounts in Renminbi thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(d) 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.

- 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.

- 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.

(All amounts in Renminbi thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(d) *Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group* (continued)

- 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 programme.

- 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.

(All amounts in Renminbi thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

With the exception of business combinations involving entities under common control which are accounted for on the uniting of interests basis, the purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost which represents the fair value of the equity instruments issued by the Company. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(b) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from equity. Gains or losses on disposals to minority interests are also recorded in equity. For disposals to minority interests, differences between any proceeds received and the relevant share of minority interests are also recorded in equity.

(All amounts in Renminbi thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Segment reporting

A business segment is a Group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

The Group's primary format for reporting segment information is business segment, with secondary information reported geographically. Since less than 10% of the Group's sales and operating profit are attributable to overseas market, no analysis of business segment or geographical segment is presented.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the Company is USD and the functional currency of its subsidiaries is "Renminbi" ("RMB"). The consolidated financial statements are presented in RMB, which is the presentation currency of the financial statements of the Company and the Group.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sale reserve in equity.

(All amounts in Renminbi thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Foreign currency translation (continued)

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

- income and expenses for each income statement are translated at average exchange rates of the financial reporting period unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions; and

- all resulting exchange differences are recognised in exchange reserve as a separate component of equity.

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Construction-in-progress represents buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition. No provision for depreciation is made on construction-in-progress until such time the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated below.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Buildings	20 years
Vehicles	5 years
Office equipment and others	5 years
Leasehold improvements	2 to 5 years

(All amounts in Renminbi thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other income, net', in the income statement.

When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

2.6 Intangible assets

(a) Trademarks

Acquired trademarks are shown at historical cost. Trademarks have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives of 40 years.

(b) Licence rights

Licence rights are stated at historical cost less accumulated amortisation and impairment losses, if any. They are initially measured as the fair values of the future obligation to pay fixed periodic payments and the expected variable payments based on pre-determined criteria on future revenues from the licensed business that can be reliably estimated at inception of the licence periods. Amortisation is calculated using the straight-line method to allocate the cost of the licence rights over the periods of the respective contractual rights.

(c) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 2 to 5 years.

(All amounts in Renminbi thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets and financial liabilities

(a) Financial assets

The Group classifies its financial assets in the following categories: held-to-maturity, at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

- *Held-to-maturity*

  Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available for sale. Held-to maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date, which are classified as current assets.

- *Financial assets at fair value through profit or loss*

  Financial assets at fair value through profit or loss are managed and their performances are evaluated on a fair value basis. A financial asset is classified in this category in accordance with investment strategy. Assets in this category are classified as current assets.

- *Loans and receivables*

  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. The Group's loans and receivables comprise 'trade receivables', 'prepayments, deposits and other receivables' and 'cash and bank balances' in the balance sheet.

(All amounts in Renminbi thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets and financial liabilities (continued)

(b) Financial liability

The Group's financial liability arose due to the contractual liability to repay the Investors according to the notes issued to the Investors and an option granted to the Investors to demand the Group to repurchase all or a portion of the shares held by the Investors.

The financial liability was recognised initially at fair value plus transaction costs that are directly attributable to the issuance of the financial liability. After initial recognition, the Group measured the financial liabilities at amortised cost using the effective interest method. The Group derecognises a financial liability from its combined balance sheet when, and only when, it was extinguished, such as when the obligation specified in the contract was discharged or cancelled or expired.

2.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods comprises raw materials and other direct costs but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses.

2.10 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'administrative expenses'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'administrative expenses' in the income statement.

2.11 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks.

(All amounts in Renminbi thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.13 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.15 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax liabilities are provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(All amounts in Renminbi thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Employee benefits

(a) Pension obligations

The Group's companies participate in various defined contribution retirement benefit plans administered by the relevant municipal and provincial governments in the PRC. The relevant municipal and provincial governments undertake to assume the retirement benefit obligation payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made.

The Group's monthly contributions to the defined contribution retirement benefit plans are expensed in the income statement as incurred.

(b) Share-based compensation

The Group operates equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.17 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(All amounts in Renminbi thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Revenue recognition

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 recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods — wholesale

Sales of goods are recognised when a group entity has delivered products to the wholesaler, the wholesaler has full discretion over the channel to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

(b) Sales of goods — consignment sales

Consignment sales are the sales of certain goods of the Group under which the recipient undertakes to sell the goods on behalf of the Group. Revenue is recognised by the Group when the goods are sold by the recipient to a third party.

(c) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

2.19 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(All amounts in Renminbi thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and cash flow and fair value interest rate risk. The Group's risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group has not used derivative financial instruments to hedge the risk exposures.

(i) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB, while very limited purchases are from overseas and settled mainly in USD. Foreign exchange risk also arises from certain bank deposits denominated in foreign currencies (Note 15), mainly Hong Kong Dollars ("HKD"), the payable for purchase of Kappa trademark (Note 19), the licence fees payables (Note 21) and the financial liabilities (Note 22), which are denominated in USD. The Group currently does not hedge its foreign exchange exposure. The functional currency of the Company is USD and as at 31 December 2007, most of the bank deposits of the Company are denominated in HKD. As exchange rate of HKD is closely linked to USD, the fluctuation of foreign exchange rate would have no significant impact on the financial statements of the Group.

As at 31 December 2007, if RMB had strengthened/weakened by 5% against the USD with all other variables held constant, profit for the year and equity of the Group would have been approximately RMB337,000 higher/lower mainly as a result of foreign exchange gains/losses on translation of USD denominated payables.

As at 31 December 2007, if RMB had strengthened/weakened by 5% against the HKD with all other variables held constant, profit for the year would have been approximately RMB1,464,000 lower/higher mainly as a results of foreign exchange losses/gains on translation of HKD denominated cash and bank balances. In addition, the translation of the financial statements of companies with the Group that have financial currency other than RMB to the Company's presentation currency of RMB would result in equity of the Group to decrease/increase by approximately RMB234,259,000 mainly because HKD denominated cash and bank deposits are the major assets on the financial statements of companies within the Group that have functional currency other than RMB.

(All amounts in Renminbi thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(ii) Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of restricted bank balances, cash and cash equivalents, trade receivables and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets. As at 31 December 2007, all the bank deposits are deposited in the high quality financial institutions without significant credit risk.

The table below shows the bank deposits balance at 4 major banks as at 31 December 2007 and 2006. Management does not expect any losses from non-performance by these banks.

		As at 31 December	
	Rating (i)	**2007**	2006
Industrial and Commercial Bank of China	A-	**5,174,367**	224,310
Bank of Communications	BBB	**12,371**	14,575
HSBC Bank PLC	AA	**20,985**	—
Morgan Stanley Private Wealth Management	(i)	**90,048**	—
		5,297,771	238,885

(i) The source of the current credit rating is from Standard & Poor. The credit rating information for Morgan Stanley Private Wealth Management is not available.

The Group's credit sales are only made to customers with appropriate credit history and at credit period of 45 to 60 days.

(All amounts in Renminbi thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(iii) Liquidity risk

The liquidity risk of the Group is controlled by maintaining sufficient cash and cash equivalents, which is generated from the operating cash flow and financing cash flow.

The table below analyses the Group's financial liabilities that will be settled on a net basis by relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
The Group					
At 31 December 2007					
Licence fees payable	**1,951**	**1,653**	**5,037**	**–**	**8,641**
Trade payables	**177,619**	**–**	**–**	**–**	**177,619**
Accruals and other payables	**112,804**	**–**	**–**	**–**	**112,804**
	292,374	**1,653**	**5,037**	**–**	**299,064**
At 31 December 2006					
Borrowings	2,111	2,111	1,407	–	5,629
Licence fees payable	740	1,211	6,690	–	8,641
Financial liabilities	–	–	421,814	–	421,814
Trade payables	112,850	–	–	–	112,850
Accruals and other payables	81,869	–	–	–	81,869
	197,570	3,322	429,911	–	630,803
The Company					
At 31 December 2007					
Accruals and other payables	**23,806**	**–**	**–**	**–**	**23,806**

(All amounts in Renminbi thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(iv) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from financial assets at fair value through profit or loss. Financial assets and liabilities at fixed rates expose the Group to fair value interest rate risk. The Group currently does not hedge its exposure to interest rate risk. Financial assets and liabilities at variable rates expose the Group to cash flow interest rate risk. The Group's exposure to changes in interest rates is mainly attributable to its cash in bank. Details of the Group's cash in bank balances are disclosed in Note 15.

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by equity holders' equity as shown in the balance sheet. The Group did not have any borrowings as at 31 December 2007 (2006: gearing ratio was 0.02).

3.3 Fair value estimation

The carrying amounts of the Group's financial assets including cash and cash equivalents, restricted bank balances, trade and other receivables, financial assets at fair value through profit or loss and held-to-maturity financial assets and financial liabilities including trade and other payables and current borrowings, are assumed to approximate their fair values due to their short maturities. The fair values of financial liabilities for disclosure purposes are estimated by discounting the future contractual cash flows at the current market interest rates available to the Group for similar financial instruments.

(All amounts in Renminbi thousands unless otherwise stated)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgements are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Useful life of trademark

The Group's management determines that the useful life of Kappa trademark is 40 years (Note 8). This estimate is based on the management's experiences in the sportswear industry. The Group will increase or decrease the amortisation charge where useful lives are less or longer than previously estimated lives. The estimate of useful life of the trademark and the amortisation charge could change significantly as a result of changes in the sportswear market, market trend and competition. Management will increase the amortisation charge where useful life is less than the previously estimated, or the trademark asset will be write-off or write-down to the recoverable amount when there is any indication that the carrying amount is not recoverable.

(ii) Licence rights and licence fees payable

Licence rights (Note 8) and licence fees payable (Note 21) are initially recognised at their estimated fair value which represent the present values of the fixed periodic payments and expected various payments to be made in the future years that can be reliably estimated at inception. The future expected payments are estimated by management with reference to internal financial budgets and cash flow projections in relation to the licensed businesses. These budgets and forecast are prepared by management based on a number of assumptions which are assessed by management as appropriate. The discount rate used is determined with reference to the interest rate of the Group's borrowings. Judgment is required in the determination of these key assumptions adopted. Changes to the key assumptions can cause significantly effect to the budgets and forecast, and therefore the fair value of the licence rights and related licence fees payable.

(iii) Income taxes

The Group is mainly subject to income taxes in the PRC. Judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination may be uncertain during the ordinary course of business. The Group recognises liabilities based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(All amounts in Renminbi thousands unless otherwise stated)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(iv) Classification of liability and equity

The Group recognised a financial liability during the year ended 31 December 2006 in respect of an obligation to repay the Investors pursuant to an option granted to the Investors to demand the Group to repurchase all or a portion of the shares held by the Investors (Note 22). The Group's management has assessed the terms of the investment agreements, as amended, and other relevant agreements and the facts and circumstances, and concluded that a financial liability shall be recognised in year 2006 and subsequently be de-recognised and classified to equity in year 2007, in respect of the funds contributed by the Investors. The financial liability was recognised initially at fair value plus related transaction costs. After initial recognition, the financial liability was measured at amortised cost using the effective interest method. The Group derecognised the financial liability from its consolidated balance sheet when the obligation specified in the contract was discharged. The recognition of the financial liability and the subsequent de-recognition and transfer to equity required significant judgements.

5 SALES AND SEGMENT INFORMATION

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

	Group Year ended 31 December	
	2007	2006
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

The Group is principally engaged in brand development, design, and sale of sport-related footwear, apparel 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. 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.

(All amounts in Renminbi thousands unless otherwise stated)

6 PROPERTY, PLANT AND EQUIPMENT

	Group					
	Buildings	Vehicles	Office equipment and others	Leasehold improvements	Construction in progress	Total
Year ended 31 December 2006						
Opening net book amount	14,606	171	2,450	353	—	17,580
Additions	24,345	966	2,126	—	—	27,437
Disposals (Note 31(b))						
— Cost	—	—	(342)	—	—	(342)
— Depreciation	—	—	168	—	—	168
Depreciation (Note 24)	(770)	(131)	(754)	(353)	—	(2,008)
Closing net book amount	38,181	1,006	3,648	—	—	42,835
At 31 December 2006						
Cost	38,951	1,450	5,196	—	—	45,597
Accumulated depreciation	(770)	(444)	(1,548)	—	—	(2,762)
Net book amount	38,181	1,006	3,648	—	—	42,835
Year ended 31 December 2007						
Opening net book amount	**38,181**	**1,006**	**3,648**	**—**	**—**	**42,835**
Additions	**5,357**	**4,704**	**6,722**	**—**	**39,051**	**55,834**
Transfer	**6,070**	**—**	**89**	**—**	**(6,159)**	**—**
Disposals (Note 31(b))						
— Cost	**—**	**(353)**	**(204)**	**—**	**—**	**(557)**
— Depreciation	**—**	**342**	**181**	**—**	**—**	**523**
Depreciation (Note 24)	**(1,883)**	**(734)**	**(1,544)**	**—**	**—**	**(4,161)**
Closing net book amount	**47,725**	**4,965**	**8,892**	**—**	**32,892**	**94,474**
At 31 December 2007						
Cost	**50,378**	**5,801**	**11,803**	**—**	**32,892**	**100,874**
Accumulated depreciation	**(2,653)**	**(836)**	**(2,911)**	**—**	**—**	**(6,400)**
Net book amount	**47,725**	**4,965**	**8,892**	**—**	**32,892**	**94,474**

(All amounts in Renminbi thousands unless otherwise stated)

6 PROPERTY, PLANT AND EQUIPMENT (continued)

Depreciation expenses have been charged to the consolidated income statement as follows:

	Year ended 31 December	
	2007	2006
Distribution costs	**285**	5
Administrative expenses	**3,876**	2,003
	4,161	2,008

There is no pledge of property, plant and equipment of the Group as at 31 December 2007. A bank borrowing amounting to RMB5,190,000 (Note 20) as at 31 December 2006 was secured by the pledge of a building of the Group with net book value amounting to approximately RMB11,870,000.

The Group's buildings are located in Beijing and Jiangsu Province, the PRC and on land with use rights lease at period within 50 years.

7 LEASE PREPAYMENTS

	Group		
	Lease prepayments for land use rights	Lease prepayments for stores	Total
Year ended 31 December 2006			
Opening net book amount	4,852	—	4,852
Additions	9,410	—	9,410
Amortisation (Note 24)	(261)	—	(261)
Closing net book amount	14,001	—	14,001
At 31 December 2006			
Cost	14,262	—	14,262
Accumulated amortisation	(261)	—	(261)
Net book amount	14,001	—	14,001
Year ended 31 December 2007			
Opening net book amount	**14,001**	**—**	**14,001**
Additions	**—**	**19,630**	**19,630**
Amortisation (Note 24)	**(280)**	**(3,271)**	**(3,551)**
Closing net book amount	**13,721**	**16,359**	**30,080**
At 31 December 2007			
Cost	**14,262**	**19,630**	**33,892**
Accumulated amortisation	**(541)**	**(3,271)**	**(3,812)**
Net book amount	**13,721**	**16,359**	**30,080**

(All amounts in Renminbi thousands unless otherwise stated)

7 LEASE PREPAYMENTS (continued)

Amortisation expenses of the Group's lease prepayments for land use rights and for stores has been charged to administrative expenses and distribution costs in the consolidated income statements, respectively.

Lease prepayments for land use rights represent the Group's interests in land which are held in the PRC and on leases within 50 years.

Lease prepayments for stores represent prepayment of rental for lease of flagship stores.

8 INTANGIBLE ASSETS

	Group			
	Licence rights (Note (b))	Kappa trademarks (Note (c))	Computer software	Total
Year ended 31 December 2006				
Opening net book amount	38,522	—	344	38,866
Addition	—	280,994	7,228	288,222
De-recognition (Note 22)				
— Cost	(68,400)	—	—	(68,400)
— Accumulated amortisation	36,021	—	—	36,021
Amortisation (Note 24)	(1,024)	(7,024)	(374)	(8,422)
Closing net book amount	5,119	273,970	7,198	286,287
At 31 December 2006				
Cost	6,314	280,994	8,355	295,663
Accumulated amortisation	(1,195)	(7,024)	(1,157)	(9,376)
Net book amount	5,119	273,970	7,198	286,287
Year ended 31 December 2007				
Opening net book amount	**5,119**	**273,970**	**7,198**	**286,287**
Additions	**—**	**—**	**3,123**	**3,123**
Amortisation (Note 24)	**(1,024)**	**(7,025)**	**(1,610)**	**(9,659)**
Closing net book amount	**4,095**	**266,945**	**8,711**	**279,751**
At 31 December 2007				
Cost	**6,314**	**280,994**	**11,478**	**298,786**
Accumulated amortisation	**(2,219)**	**(14,049)**	**(2,767)**	**(19,035)**
Net book amount	**4,095**	**266,945**	**8,711**	**279,751**

(All amounts in Renminbi thousands unless otherwise stated)

8 INTANGIBLE ASSETS (continued)

Amortisation expenses in relation to licence rights and trademark have been charged to distribution costs and in relation to computer software have been charged to administrative expenses in the consolidated income statement.

The licence rights represent the capitalisation of the licence fees, including the guaranteed minimum payments and the expected variable payments based on the future revenue from the licensed Kappa and Rukka businesses that can be reliably estimated at inception of the licences. They are recognised based on a discount rate of 5.85% per annum, which approximated the then external bank borrowing rate at inception of the respective licences. The Kappa licence right was terminated in 2006 pursuant to the Group's purchase of the Kappa trademarks (Note (c) below). Accordingly, the Kappa licence rights intangible asset, the related licence fees payable liability (Note 21) and the related deferred income tax liabilities (Note 10) were de-recognised in 2006, resulting in a net gain of RMB6,866,000 (Note 23) for the year ended 31 December 2006.

The Kappa trademarks represent the perpetual rights of the use of Kappa trademarks in the PRC and Macau. The trademarks were purchased from a third party in year 2006 at a consideration of USD35,000,000, equivalent to approximately RMB280,994,000. The Kappa trademarks intangible asset is subject to amortisation on a straight-line basis over an estimated useful life of 40 years.

9 INTERESTS IN SUBSIDIARIES – THE COMPANY

	Company As at 31 December 2007
Investments in subsidiaries	
Unlisted investments, at cost	**10,068,859**
Contribution to the Pre-IPO Share Option Scheme (Note 16(b))	**13,821**
	10,082,680
Amounts due from subsidiaries	
Advance to subsidiaries	**17,927**
Dividends receivable	**230,000**
	247,927

The amounts due from subsidiaries are unsecured, interest free and repayable on demand.

(All amounts in Renminbi thousands unless otherwise stated)

9 INTERESTS IN SUBSIDIARIES – THE COMPANY (continued)

The following is a list of the principal subsidiaries at 31 December 2007:

Company name	Place of incorporation	Particulars of Issued/registered capital	Interest held	Principal activities and place of operation
Directly held:				
Hong Kong Dongxiang Sports Development Holdings Limited ("Hong Kong Dongxiang")	Hong Kong	10,000 ordinary shares of HKD1 each	100%	Investment holdings, Hong Kong
Indirectly held:				
Gaea Sports Limited ("Gaea Sports")	Hong Kong	1 ordinary share of HKD1	100%	Investment holdings, Hong Kong
Achilles Sports Pte. Ltd. ("Achilles")	Singapore	100,000 ordinary shares of USD1 each	100%	Own trademark, Singapore
上海雷德體育用品有限公司 Shanghai Leide Sporting Goods Co., Limited ("Shanghai Leide")	Shanghai, the PRC	RMB1,110,000	100%	Design and consulting services, the PRC
上海泰坦體育用品有限公司 Shanghai Taitan Sporting Goods Co., Limited ("Shanghai Taitan")	Shanghai, the PRC	RMB3,000,000	100%	Design, production and sales of sport-related footwear, apparel and accessories, the PRC
上海卡帕體育用品有限公司 Shanghai Kappa Sporting Goods Co., Limited ("Shanghai Kappa")	Shanghai, the PRC	RMB20,000,000	100%	Design, production and sales of sport-related footwear, apparel and accessories, the PRC
北京動向體育發展有限公司 Beijing Dongxiang Sports Development Co., Limited ("Beijing Dongxiang")	Beijing, the PRC	RMB10,000,000	100%	Design and sales of sport-related footwear, apparel and accessories, the PRC

(All amounts in Renminbi thousands unless otherwise stated)

10 DEFERRED INCOME TAX ASSETS

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority. The amounts of deferred income tax items are as follows:

	Group As at 31 December	
	2007	2006
Deferred income tax assets		
— To be recovered after more than 12 months	**468**	183
— To be recovered within 12 months	**2,840**	1,239
	3,308	1,422

The movements in deferred income tax assets and deferred income tax liabilities during the years ended 31 December 2007 and 2006, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred income tax assets:

	Group				
	Provision for impairment of trade receivables	**Provision for write-down of inventories**	**Amortisation of intangible assets**	**Others**	**Total**
At 1 January 2006	475	777	2,950	899	5,101
Recognised in the income statement (Note 27)	(13)	—	(2,826)	(840)	(3,679)
At 31 December 2006	462	777	124	59	1,422
Recognised in the income statement (Note 27)	**(462)**	**2,063**	**246**	**39**	**1,886**
At 31 December 2007	**—**	**2,840**	**370**	**98**	**3,308**

Deferred income tax liabilities:

	Fair value gains
At 1 January 2006	(5,044)
De-recognition (Note 8(b))	5,044
At 31 December 2006 and 2007	—

(All amounts in Renminbi thousands unless otherwise stated)

11 INVENTORIES

	Group As at 31 December 2007	2006
Finished goods		
— Carried at cost	**68,855**	74,677
— Carried at net realizable value	**18,590**	1,542
Raw materials and others		
— Carried at cost	**230**	1,767
— Carried at net realizable value	**498**	9,860
	88,173	87,846

For the year ended 31 December 2007, the cost of inventories recognised as cost of sales and distribution costs amounted to approximately RMB696,559,000 (2006: RMB323,442,000) respectively (Note 24).

The Group realized a loss of approximately RMB9,007,000 (2006: nil) (Note 24) for the year ended 31 December 2007 in respect of the write-down of inventories to their net realizable value. The amount has been included in administrative expenses in the consolidated income statement.

12 FINANCIAL ASSETS

	Group As at 31 December 2007	2006
Financial assets at fair value through profit or loss	**201,505**	—
Held-to-maturity financial assets	**—**	20,000
	201,505	20,000

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 three months.

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, had a maturity of six months and bears interests at rates of nil to 2.65%.

(All amounts in Renminbi thousands unless otherwise stated)

13 TRADE RECEIVABLES

	Group As at 31 December	
	2007	2006
Trade receivables		
— Third parties	**113,755**	80,944
— Related parties (Note 34(c))	**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:

	Group As at 31 December	
	2007	2006
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

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

14 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group As at 31 December		Company As at 31 December
	2007	2006	**2007**
Prepayments — advance to suppliers	**15,563**	15,603	**—**
Prepaid advertising fee	**9,044**	—	**—**
Interest receivables	**16,173**	—	**13,412**
Deposits and other receivables	**5,984**	3,524	**10**
	46,764	19,127	**13,422**

The carrying amounts of prepayments, deposits and other receivables approximated their fair values as at the balance sheet dates.

(All amounts in Renminbi thousands unless otherwise stated)

15 CASH AND BANK BALANCES

	Group As at 31 December		Company As at 31 December
	2007	2006	2007
Restricted bank deposits (Note (a))	29,521	20,000	–
Cash and cash equivalents (Note(b))	5,311,060	274,749	4,710,223
	5,340,581	294,749	4,710,223

Notes:

(a) The restricted bank deposits as at 31 December 2007 of approximately RMB29,521,000 were held in a commercial bank account as guarantee deposit for the advertising fee payable to a third party. The restriction will be released when the advertising fee is paid.

The restricted bank deposits as at 31 December 2006 of RMB20,000,000 were restricted for capital injection to a subsidiary to be set up. The subsidiary was set up on 26 January 2007 and the restriction was released on the same date.

As at 31 December 2007, the interest rate on the restricted bank deposits was 0.99% (2006: 0.72%) per annum.

(b) The cash and cash equivalents represent cash at bank and in hand. As at 31 December 2007 and 2006 cash and cash equivalents were denominated in the following currencies:

	Group As at 31 December		Company As at 31 December
	2007	2006	2007
RMB	599,701	264,842	–
USD	1,072	9,880	–
HKD	4,710,287	27	4,710,223
	5,311,060	274,749	4,710,223

As at 31 December 2007 and 2006, all cash and cash equivalents were deposits held at call with bank and the applicable interest rates were as follows:

	Group As at 31 December		Company As at 31 December
	2007	2006	2007
RMB	0.72~1.71%	0.72~1.62%	–
United States Dollars	1.00~3.95%	5.10%	1.00%
Hong Kong Dollars	0.65~5.38%	–	0.65~5.38%

RMB is currently not a freely convertible currency in the international market. The conversion of RMB into foreign currency and remittance of RMB out of the PRC are subject to the rules and regulations of exchange controls promulgated by the PRC authorities.

(All amounts in Renminbi thousands unless otherwise stated)

16 SHARE CAPITAL AND SHARE PREMIUM

(a) Share capital and share premium

	Company	
	Number of ordinary shares of par value HKD0.01	Nominal value of ordinary shares HKD'000
Authorised		
At 31 December 2007	10,000,000,000	100,000

At the date of incorporation of 23 March 2007, the authorised share capital of the Company was USD 50,000 divided into 5,000,000 shares of par value USD 0.01 ("USD Share"). On 27 March 2007, a subscriber's resolution was passed to re-denominate the authorised capital of the Company from USD 50,000 to HKD 390,000 by the creation of 390,000 shares of par value HKD 1 ("HKD Share"), and the 5,000,000 USD Shares were cancelled. On 9 May 2007, shareholders' resolutions were passed to approve the subdivision of each HKD Share to 100 shares of par value HKD 0.01. On 12 September 2007, shareholders' resolutions were passed to increase the authorised share capital of the company to HKD 100,000,000 divided into 10,000,000,000 shares of par value HKD0.01.

	Group and Company				
	Number of ordinary shares of par value HKD0.01	Nominal value of ordinary shares HKD'000	Equivalent nominal value of ordinary shares RMB'000	Share premium account RMB'000	Total RMB'000
Issued and fully paid					
Issued HKD Shares (Note (i))	10,000,000	100	97	–	97
Issued HKD Shares pursuant to the Capitalisation Issue (Note (ii))	4,309,000,000	43,090	41,655	–	41,655
Issue of new shares upon initial public offering (Note (iii))	1,358,150,000	13,582	13,152	5,000,710	5,013,862
At 31 December 2007	5,677,150,000	56,772	54,904	5,000,710	5,055,614
Represented by:					
Share premium				4,938,829	
Proposed final dividend (Note 30)				61,881	
				5,000,710	

(All amounts in Renminbi thousands unless otherwise stated)

16 SHARE CAPITAL AND SHARE PREMIUM (continued)

(a) Share capital and share premium (continued)

The movements in the Company's issued share capital and share premium for the period from 23 March 2007 (date of incorporation of the Company) to 31 December 2007 are as follows:

(i) Upon incorporation on 23 March 2007, one share of par value USD0.01 of the Company was allotted and issued as fully paid to Mapcal Limited as the initial subscriber for a consideration of USD0.01. On 27 March 2007, upon the re-denomination of the authorized share capital of the Company from USD50,000 to HKD390,000 by the creation of 390,000 HKD Shares of par value HKD1, one HKD Share was issued to Mapcal Limited and the one USD Share held by Mapcal Limited was repurchased with the proceeds received from the issue of the one HKD Share.

On 5 April 2007, the one HKD Share held by Mapcal Limited was transferred to Poseidon at par value and the Company allotted and issued a further of nine HKD Shares to Poseidon for a consideration of HKD9.

On 9 May 2007, shareholders' resolutions were passed to approve the subdivision of each HKD Share to 100 HKD Shares of par value HKD0.01.

On 29 June 2007, pursuant to the Reorganisation (Note 1), the Company allotted and issued to Poseidon Sports Limited, MS Apparel Limited and MS Apparel II Limited 7,999,000, 1,890,000 and 110,000 Shares respectively, credited as fully paid, in exchange for the transfer of the companies now comprising the Group from the then shareholders.

Subsequent to 29 June 2007, the issued share capital of the Company became HKD100,000 divided into 10,000,000 shares of par value HKD 0.01.

(ii) Pursuant to the resolutions of shareholders passed on 12 September 2007, the Company allotted and issued a total of 4,309,000,000 shares credited as fully paid at par to the then shareholders of the Company by way of capitalisation of a sum of HKD43,090,000 (approximately RMB41,655,000) standing to the credit of the capital reserve account of the Company. The shares allotted and issued rank pari passu in all respects with the previous issued shares (the "Capitalisation Issue").

(iii) The Company's shares were listed on The Stocks Exchange of Hong Kong Limited on 10 October 2007 and 1,358,150,000 new shares with par value of HKD0.01 were issued at HKD3.98 per share to investors in Hong Kong and overseas by way of global initial public offering and upon the exercise of the over-allotment option. The Company raised net proceeds of HKD5,177 million (approximately RMB5,014 million), after offsetting listing expenses, of which approximately RMB13,152,000 and RMB5,000,710,000 were recorded in paid-up share capital and share premium accounts respectively.

(iv) Under the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business of the Company.

(All amounts in Renminbi thousands unless otherwise stated)

16 SHARE CAPITAL AND SHARE PREMIUM (continued)

(b) Share option schemes

Pre-IPO Share Option scheme

Pursuant to a shareholders' resolution passed on 17 September 2007, the Company adopted a share option scheme (the "Pre-IPO Share Option Scheme") and granted a total of 18,700,000 pre-IPO share options to independent non-executive directors and employees at a subscription price representing a discount of 30% to the global initial public offering price. All options granted under the Pre-IPO Share Option Scheme are subject to a vesting period of six months commencing from the date of listing of the Company's shares on The Stocks Exchange of Hong Kong Limited. These options are exercisable during a period of two years ending 9 April 2010. The Group has no legal and constructive obligation to repurchase or settle these options in cash. No further options can be granted under the Pre-IPO Share Option Scheme.

The movement in the number of share options outstanding and their related weighted average exercise prices during the year ended 31 December 2007 are as follows:

	Average exercise price per share HKD	Number of share options
At 1 January	—	—
Granted to non-executive directors	2.786	600,000
Granted to employees	2.786	18,100,000
At 31 December	2.786	18,700,000
Share option granted at 31 December 2007	2.786	18,700,000

All the options outstanding at the end of the year have a vesting period of six months commencing from the date of listing of the Company's shares and the options are exercisable during a period of two years ending 9 April 2010.

The weighted average fair value of options granted in 2007 as determined using the Black-Scholes valuation model was HKD1.55 per option. The significant inputs into the model were spot price of HKD3.76, exercise price as shown above, volatility of 50%, option life of two and a half years, annual risk-free interest rate of 3.9%.

(All amounts in Renminbi thousands unless otherwise stated)

16 SHARE CAPITAL AND SHARE PREMIUM (continued)

(b) Share option schemes (continued)

Pre-IPO Share Option scheme (continued)

Based on the above, the fair value of the above options granted during the year was approximately HKD29,000,000 (2006: nil), of which the attributable amount charged to the consolidated income statement as employee benefit expenses during the year ended 31 December 2007 was approximately RMB14,279,000 (Note 25) (2006: nil).

Share Option Scheme

The Company has adopted a share option scheme (the "Share Option Scheme"), the purpose of which is to provide an incentive for employees of and persons contributing to the Group.

The Share Option Scheme shall be valid and effective for 10 years from the date of listing of the Company, after which time no further option may be granted but the provisions of the Share Option Scheme shall remain in full force and effect in all other respects. The maximum number of shares that may be granted under the Share Option Scheme and other share option schemes of the Group shall not exceed 10% of the number of issued shares of the Company.

No share options have been granted under the Share Option Scheme during the year ended 31 December 2007 and up to date of this report.

(All amounts in Renminbi thousands unless otherwise stated)

17 RESERVES

	Capital reserve	Share-based compensation reserve	Special reserve	Statutory reserves	Exchange reserve	Retained earnings	Total
Year ended 31 December 2006							
At 1 January 2006	5,599	–	–	5,150	–	33,124	43,873
Distributions to equity holders (Note (a))	(36,910)	–	–	–	–	–	(36,910)
Capital injection from equity holders	24,082	–	–	–	–	–	24,082
Appropriation of statutory reserves (Note (b))	–	–	–	742	–	(742)	–
Contribution by the Investors (Note 22)	280,069	–	(280,069)	–	–	–	–
Profit for the year	–	–	–	–	–	306,459	306,459
Dividend relating to 2005 paid	–	–	–	–	–	(30,000)	(30,000)
At 31 December 2006	272,840	–	(280,069)	5,892	–	308,841	307,504
Year ended 31 December 2007							
At 1 January 2007	**272,840**	**–**	**(280,069)**	**5,892**	**–**	**308,841**	**307,504**
Contribution by the Investors (Note 22)	**23,203**	**–**	**–**	**–**	**–**	**–**	**23,203**
Derecognition of a financial liability (Note 22)	**15,445**	**–**	**280,069**	**–**	**–**	**–**	**295,514**
Issue of shares pursuant to the Capitalisation Issue (Note 16 (a)(ii))	**(41,655)**	**–**	**–**	**–**	**–**	**–**	**(41,655)**
Appropriation of statutory reserves (Note (b))	**–**	**–**	**–**	**10,000**	**–**	**(10,000)**	**–**
Share-based compensation (Note (c))	**–**	**14,279**	**–**	**–**	**–**	**–**	**14,279**
Foreign currency translation differences (Note (d))	**–**	**–**	**–**	**–**	**(106,196)**	**–**	**(106,196)**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**733,568**	**733,568**
Dividends paid (Note 30)	**–**	**–**	**–**	**–**	**–**	**(380,000)**	**(380,000)**
At 31 December 2007	**269,833**	**14,279**	**–**	**15,892**	**(106,196)**	**652,409**	**846,217**

(All amounts in Renminbi thousands unless otherwise stated)

17 RESERVES (continued)

Company

	Capital reserves	Share-based compensation reserve	Exchange reserve	Retained earnings	Total
Period from 23 March 2007 to 31 December 2007					
At 23 March 2007, the date of incorporation	–	–	–	–	–
Issue of shares pursuant to the Capitalisation Issue (Note (16 (a)(ii))	(41,655)	–	–	–	(41,655)
Reserve resulted from the share swap pursuant to the Reorganisation (Note 16(a)(i))	10,068,859	–	–	–	10,068,859
Share-based compensation (Note (c))	–	14,279	–	–	14,279
Foreign currency translation differences (Note (d))	–	–	(106,196)	–	(106,196)
Profit for the period	–	–	–	269,545	269,545
Dividends paid (Note (30))	–	–	–	(230,000)	(230,000)
At 31 December 2007	10,027,204	14,279	(106,196)	39,545	9,974,832

Note:

(a) Distributions to equity holders of the Company during the years ended 31 December 2006 represented cash payments totaling RMB36,910,000 made to then shareholders for the acquisitions of the entire interests in Shanghai Taitan and Shanghai Leide by Gaea Sports pursuant to the Reorganisation (Note 1). These transactions were considered to be transfer of business under common control and the cash considerations paid by Gaea Sports were treated as deemed distributions to the equity holders.

(b) Subsidiaries of the Company incorporated in the PRC are required to make appropriations to certain statutory reserves namely, statutory reserve fund, enterprise expansion fund and discretionary reserve fund from their statutory profit for the year after offsetting accumulated losses as determined under the PRC accounting regulations from prior years and before profit distribution to equity holders. The percentages to be appropriated to such statutory reserve funds are determined according to the relevant regulations in the PRC at rates ranging from 5% to 10%, or at the discretion of the board of directors of the respective companies.

(c) Share-based compensation reserve represents value of employee services in respect of share options granted under the Pre-IPO Share Option Scheme, the details of which are set out note 16(b).

(d) Exchange reserve represents the difference arising from the translation of the financial statements of companies within the Group that have a functional currency different from the RMB presentation currency of the financial statements of the Group.

(All amounts in Renminbi thousands unless otherwise stated)

18 TRADE PAYABLES

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

	Group As at 31 December	
	2007	2006
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

The trade payables are denominated in RMB. The carrying amounts of trade payables approximated their fair values as at the balance sheet dates.

19 ACCRUALS AND OTHER PAYABLES

	Group As at 31 December		Company As at 31 December
	2007	2006	**2007**
Advance from customers			
— Third parties	**30,442**	20,583	**–**
— Related parties (Note 34 (c))	**–**	2,177	**–**
Payable for purchase of Kappa trademark	**–**	23,426	**–**
Other taxes and levies payable	**20,171**	20,704	**–**
Listing expenses payables	**22,905**	–	**22,905**
Salary and welfare payables	**12,645**	7,420	**–**
Advertising fee payables	**5,600**	–	**–**
Accruals and other payables	**21,041**	7,559	**901**
	112,804	81,869	**23,806**

The carrying amounts of accruals and other payables approximated their fair values as at the balance sheet dates.

(All amounts in Renminbi thousands unless otherwise stated)

20 BORROWINGS

	Group As at 31 December	
	2007	2006
Bank borrowing, secured — current	–	1,833
Bank borrowing, secured — non-current	–	3,357
	–	5,190

The bank borrowing was denominated in RMB and bore interest at 6.03% per annum. It was secured by a pledge of the Group's building with net book value amounting to approximately RMB11,870,000 (Note 6).

The bank borrowing was repayable as follows:

	Group As at 31 December	
	2007	2006
Within one year	–	1,833
In the second year	–	2,098
In the third to fifth years	–	1,259
	–	5,190

The carrying amounts of the borrowing approximated their fair values as at the balance sheet dates.

21 LICENCE FEES PAYABLE

	Group As at 31 December	
	2007	2006
Rukka licence fees payable	**7,463**	7,072
	7,463	7,072

(All amounts in Renminbi thousands unless otherwise stated)

21 LICENCE FEES PAYABLE (continued)

The payment terms of licence fees payable are as follows:

	As at 31 December	
	2007	2006
Within one year	**1,557**	638
In the second year	**1,308**	965
In the third to fifth years	**4,598**	5,469
	7,463	7,072
Less: Current portion	**(1,557)**	(638)
Long-term portion	**5,906**	6,434
Estimated fair value of:		
Current portion	**1,455**	625
Long-term portion	**5,695**	5,936
	7,150	6,561

The movement in licence fees payable during the years ended 31 December 2007 and 2006 is as follows:

	Year ended 31 December	
	2007	2006
At 1 January	**7,072**	48,209
Imputed interest expenses (Note 26)	**391**	388
Payment	**–**	(7,324)
De-recognition (Note 8 (b), 23)	**–**	(34,201)
At 31 December	**7,463**	7,072

The licence fees payable represents the expected licence fees, including periodic payment and expected variable payments that will be payable through end of the respective licence periods based on pre-determined criteria on future revenues from the Kappa and Rukka licensed businesses that can be reliably estimated at the inception of the licences. They are recognised based on a discount rate of 5.85% per annum, which approximated the then external bank borrowing rate at inception of the respective licences. The licence fees payable are denominated in USD.

The estimated fair values are calculated based on discount rates of 7.74% per annum as at 31 December 2007 (2006: 6.48%), which approximated the then external bank borrowing rates available to the Group.

(All amounts in Renminbi thousands unless otherwise stated)

22 FINANCIAL LIABILITY

	Group and the Company As at 31 December	
	2007	2006
Financial liability to the Investors	–	295,514

The financial liability recognised in the balance sheet is calculated as follows:

Initial recognition during the year ended 31 December 2006	280,069
Imputed finance costs (Note 26)	22,789
Translation difference	(7,344)
At 31 December 2006	295,514

On 10 May 2006, the Company, Achilles, Poseidon, the Equity Holders and the Investors entered into an investment agreement, and other relevant agreement (collectively the "Investment Agreements"). Pursuant to the Investment Agreements, between May 2006 and September 2006, the Investors contributed a total of USD 35,000,000 (equivalent to approximately RMB280,069,000) to the Group, and in return, Achilles issued Notes amounting to USD 29,000,000 and the Company issued Bridge Notes amounting to USD6,000,000 to the Investors. In March 2007, the Investors contributed an additional USD 3,000,000 (equivalent to approximately RMB23,203,000) to the Group making the Investors' total contributions amounting to USD 38,000,000 (equivalent to approximately RMB303,272,000), and in return, Achilles issued Trademark Recordation Notes to the same amount to the Investors. Upon the completion of the pre-conditions set out in the Investment Agreements including, inter alia, the acquisition and successful registration of the Kappa trademarks, in April 2007, the Company allotted and issued 2,000 ordinary shares, representing 20% of its issued share capital, to the Investors. The consideration for the share issue was satisfied by the Investors assigning their rights under the Notes and the Trademark Recordation Notes to the Company and the Company canceling the Bridge Notes.

Given that the notes issued would effectively be exchanged for the issuance of a fixed number of ordinary shares of the Company upon occurrence of future events which were under the control of the Group, in accordance with IFRS and the Group's accounting policies, the notes were regarded as equity instruments upon issuance, and accordingly RMB280,069,000 was deemed to be capital contribution from the Investors during the year ended 31 December 2006 (Note 17).

Also pursuant to the terms of the Investment Agreements, if, among others, the Company could not successfully complete the listing of its shares on an internationally recognised stock exchange outside the PRC or on the main board of the Stock Exchange of Hong Kong Limited on or before 20 May 2009, the Investors had rights to have all or a portion of the shares held by them to be repurchased by the Company or Poseidon at predetermined prices, including a price equal to the amount that will yield a fixed internal rate of return of 15% on the amount of total contributions by the Investors. Since successful listing was not an event within the control of the Group, accordingly, the Group was regarded as not having an unconditional right to avoid the delivery of cash to settle the share re-purchase contractual obligation on 20 May 2009. A financial liability has therefore been recognised concurrently with the recognition of the capital contribution equity upon the issue of the notes.

(All amounts in Renminbi thousands unless otherwise stated)

22 FINANCIAL LIABILITY (continued)

The financial liability of RMB280,069,000 had been recognised at the present value of the amount that Hong Kong Dongxiang would have been required to pay for the re-purchase of the 20% equity interest from the Investors, based on a discount rate of 15% which represented the rate of return demanded by the Investors.

The carrying amount of the financial obligation as at 31 December 2006 approximated its fair values.

On 17 April 2007, the parties to the Investment Agreements entered into an Amendment No. 1 Deed to formalise an agreement arrived at between the Company and the Investors on 9 February 2007, pursuant to which Hong Kong Dongxiang was not a party to re-purchase the equity interest held by the Investors while Poseidon remains obliged to provide the re-purchase option to the Investors. Also pursuant to the Amendment No. 1 Deed, Hong Kong Dongxiang agreed to provide Poseidon an irrevocable line of standby credit which could be utilized by Poseidon, as and if needed, solely for the purpose of settling Poseidon's share re-purchase obligation to the Investors. The irrevocable line of credit shall bear interest at the then applicable market interest rate, compounded annually, from the date of drawdown to the date of repayment. The drawdowns shall be repayable by Poseidon to Hong Kong Dongxiang within such period of time as requested by Hong Kong Dongxiang depending on the amount of the drawdowns but in any event shall be no later than the third anniversary of the first drawdown date. Based on the terms of the Amendment No. 1 Deed, the financial liability has been derecognised and reclassified to equity in 2007 according to IAS 32, Financial instruments: Disclosure and presentation, since Hong Kong Dongxiang was no longer obliged to provide the share re-purchase option to the Investors.

23 OTHER INCOME

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

The gain on de-recognition of Kappa licence right represented the charging to income statement of the net credit balance of the carrying value of the intangible asset of RMB32,379,000 (Note 8), the licence fees payable of RMB34,201,000 (Note 21) and the related un-realised deferred tax liabilities of RMB5,044,000 (Note 10) which were de-recognised in 2006 upon the termination of the Kappa licence rights (Note 8 (b)).

(All amounts in Renminbi thousands unless otherwise stated)

24 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
Cost of inventories recognised as expenses included in cost of sales and distribution costs (Note 11)	**696,559**	323,442
Depreciation of property, plant and equipment (Note 6)	**4,161**	2,008
Loss on disposal of property, plant and equipment (Note 6)	**—**	174
Amortisation of lease prepayments (Note 7)	**3,551**	261
Amortisation of intangible assets (Note 8)	**9,659**	8,422
Advertising and marketing expenses	**111,026**	69,682
Employee salary and benefit expense (Note 25)	**60,192**	25,650
Withholding business tax on licence fees payable to overseas subsidiary	**8,247**	4,247
Design and product development expense	**30,795**	7,925
Legal and consulting expense	**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 (Note 11)	**9,007**	—
(Reversal of)/Provision for impairment of trade and other receivables (Note 13)	**(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

25 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2007	2006
Wages and salaries	**33,770**	20,760
Pension cost	**3,242**	1,223
Staff quarters and housing benefit	**1,166**	544
Expenses recognised in relation to Pre-IPO Share Option (Note 16)	**14,279**	—
Other benefit	**7,735**	3,123
	60,192	25,650

(All amounts in Renminbi thousands unless otherwise stated)

25 EMPLOYEE BENEFIT EXPENSES (continued)

(a) Pensions — defined contribution plans

The employees of the subsidiaries of the Group in the PRC participate in defined contribution retirement benefit plans organised by the relevant provincial governments. For the year ended 31 December 2007, the Group is required to make monthly contributions to these plans at 20% (2006: 20%) of the basic salary amounts subject to a certain ceiling.

The Group has no other obligations for the payment of retirement and other post-retirement benefits of employees or retirees other than the defined contribution payments as disclosed above.

(b) Directors' and senior management's emoluments

The remuneration of each Director for the year ended 31 December 2007 is set out below:

Name of Director	Fees	Salary	Discretionary bonuses	Other benefits*	Employer's contribution to pension scheme	Total
Mr. Chen Yihong	37	1,503	—	13	21	1,574
Mr. Qin Dazhong	37	998	—	13	21	1,069
Mr. Xiang Bing	37	—	—	153	—	190
Mr. Xu Yudi	37	—	—	153	—	190
Mr. Mak Kin Kwong	37	—	—	153	—	190
	185	2,501	—	485	42	3,213

The remuneration of each director for the year ended 31 December 2006 is set out below:

Name of Director	Fees	Salary	Discretionary bonuses	Other benefits*	Employer's contribution to pension scheme	Total
Mr. Chen Yihong	—	549	—	21	19	589
Mr. Qin Dazhong	—	350	140	21	19	530
Mr. Xiang Bing	—	—	—	—	—	—
Mr. Xu Yudi	—	—	—	—	—	—
Mr. Mak Kin Kwong	—	—	—	—	—	—
	—	899	140	42	38	1,119

* Other benefits include insurance premium, housing allowance and the fair value of share options charged to the consolidated income statement during the year.

(All amounts in Renminbi thousands unless otherwise stated)

25 EMPLOYEE BENEFIT EXPENSES (continued)

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2006: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2006: three) individuals during the year are as follows:

	2007	2006
Basic salaries, bonus, share options, other allowances and benefits in kind	**6,709**	1,031
Pension costs	**63**	53
	6,772	1,084

The emoluments fell within the following bands:

	Number of individuals	
	2007	2006
Emolument bands (in HK dollar)		
Below HKD1,000,000	**–**	3
HKD1,000,000 – HKD2,000,000	**1**	–
HKD2,000,000 – HKD3,000,000	**1**	–
Over HKD3,000,000	**1**	–
	3	3

26 FINANCE INCOME/(COSTS), NET

	Year ended 31 December	
	2007	2006
Interest income from subscription money upon initial public offering	**44,742**	–
Interest income from bank deposits	**56,408**	2,645
Total interest income	**101,150**	2,645
Interest expense on bank borrowings repayable within five years	**(149)**	(121)
Interest expense on financial obligation (Note 22)	**–**	(22,789)
Interest expense on licence fees payable (Note 21)	**(391)**	(388)
Total interest expenses	**(540)**	(23,298)
Foreign exchange (losses)/gains, net	**(54,068)**	7,121
	46,542	(13,532)

(All amounts in Renminbi thousands unless otherwise stated)

27 INCOME TAX EXPENSE

	Year ended 31 December	
	2007	2006
Current income tax		
— PRC enterprise income tax ("EIT")	**39,581**	61,938
Deferred income tax (Note 10)	**(1,886)**	3,679
	37,695	65,617

The Company was incorporated in the Cayman Islands. Under the laws of the Cayman Islands, there are 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 and 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 the PRC will be subject to corporate income tax at the rate of 25% in accordance with the Corporate Income Tax Law of the PRC as approved by the National People's Congress on 16 March 2007. The preferential tax rates available to the Group's PRC subsidiaries will no longer be available since 1 January 2008. In addition, the distribution of profits of PRC subsidiaries since 1 January 2008 will be subject to withholding income tax.

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:

	Year ended 31 December	
	2007	2006
Profit before income tax	**771,263**	372,076
Tax calculated at the statutory tax rate of 33%	**254,517**	122,785
Preferential tax rates on the profits of certain subsidiaries	**(227,018)**	(70,149)
Expenses not deductible for tax purpose	**25,377**	11,218
Non-taxable income	**(13,724)**	—
Others	**(1,457)**	1,763
Income tax expense	**37,695**	65,617

The weighted average applicable tax rate was 4.9% (2006: 17.6%).

(All amounts in Renminbi thousands unless otherwise stated)

28 PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

The profit attributable to the equity holders of the Company for the year ended 31 December 2007 presented in the financial statements of the Company is of approximately RMB269,545,000 (Note 17).

29 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 for the year ended 31 December 2006 is calculated based on the profit attributable to the equity holders of the Company and on the assumption that the 4,319,000,000 shares issued upon the incorporation of the Company and in connection with the Reorganisation and Capitalization Issue (note 16(a)(ii)) 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 are 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 for 18,700,000 shares of the Company which are the dilutive potential ordinary shares. The comparative diluted earnings per share for the year ended 31 December 2006 are calculated based on the profit attributable to the equity holders of the Company and on the assumption that the 4,319,000,000 shares issued upon the incorporation of the Company and in connection with the Reorganisation and Capitalization Issue (Note 16(a)(ii)), and shares in relation to the pre-IPO share options upon exercise, have 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

(All amounts in Renminbi thousands unless otherwise stated)

30 DIVIDENDS

	2007
Interim dividend	150,000
Special dividend	230,000
Final dividend proposed, of RMB1.09 cents per ordinary share	61,881
	441,881

The Company was incorporated on 23 March 2007 and became the holding company of the companies now comprising the Group on 29 June 2007. The interim dividend of RMB150,000,000 represented dividend declared by Hong Kong Dongxiang, a subsidiary of the Group, on 28 May 2007 to its then shareholders. The dividend was paid in August 2007.

Pursuant to a resolution passed on 12 September 2007, the Company declared a special dividend of RMB230,000,000 in relation to the profit of the Group for the five months ended 31 May 2007. The dividend was paid in October 2007.

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

(All amounts in Renminbi thousands unless otherwise stated)

31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS

(a) Reconciliation of profit for the year to net cash generated from operations

	Year ended 31 December	
	2007	2006
Profit before income tax for the year	**771,263**	372,076
Adjustments for:		
— Depreciation of property, plant and equipment (Note 6)	**4,161**	2,008
— (Gain)/Loss on disposal of property, plant and equipment	**(95)**	174
— Amortisation of lease prepayment (Note 7)	**3,551**	261
— Amortisation of intangible assets (Note 8)	**9,659**	8,422
— Gain on de-recognition of intangible assets (Note 23)	**—**	(6,866)
— Write-down of inventories to net realisable value (Note 11)	**9,007**	—
— (Reversal of)/provision for impairment of trade receivables (Note 13)	**(1,595)**	604
— Interest income (Note 26)	**(101,150)**	(2,645)
— Interest expenses (Note 26)	**540**	23,298
— Investment income on held-to-maturity	**(584)**	—
— Fair value change on financial assets at fair value through profit or loss	**(1,505)**	—
— Expenses recognised in relation to Pre-IPO Share Option (Note 25)	**14,279**	—
— Exchange losses/(gains), net (Note 26)	**54,068**	(7,121)
	761,599	390,211
Changes in working capital:		
— Inventories	**(9,334)**	(56,640)
— Trade receivables, prepayments, deposits and other receivables	**(63,717)**	(55,302)
— Trade payables, accruals and other payables	**(60,428)**	104,273
— Licence fees payable	**391**	(6,936)
— Amounts due to related parties	**(727)**	727
Cash generated from operations	**627,784**	376,333

(b) In the consolidated cash flow statements, proceeds from disposal of property, plant and equipment comprise:

	Year ended 31 December	
	2007	2006
Net book amount (Note 6)	**34**	174
Gain on disposal of property, plant and equipment	**95**	(174)
Proceeds from disposal of property, plant and equipment	**129**	—

(All amounts in Renminbi thousands unless otherwise stated)

32 CONTINGENCIES

The Group had no significant contingent liabilities as at 31 December 2007 and 2006.

33 COMMITMENTS — THE GROUP

(a) Operating lease commitments

The Group leases certain of its office premises, plant and equipment under non-cancellable operating lease agreements. The leases have various terms and renewal rights. The Group's future aggregate minimum lease payments under non-cancellable operating leases were as follows:

	As at 31 December	
	2007	2006
Not later than 1 year	**17,980**	737
Later than 1 year and not later than 5 years	**57,892**	—
	75,872	737

34 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control. The ultimate controlling party of the Group is Mr. Chen Yihong, the Chairman and Executive director of the Company.

(All amounts in Renminbi thousands unless otherwise stated)

34 RELATED PARTY TRANSACTIONS (continued)

During the years ended and as at 31 December 2007 and 2006, the Group had the following transactions and balances with related parties:

(a) Transactions with related parties

	Year ended 31 December	
	2007	2006
Discontinued:		
Reimbursement of interest expenses		
— Mr. Chen Yihong	**–**	727
Borrowings from directors		
— Mr. Chen Yihong	**5,766**	–
— Mr. Qin Dazhong	**434**	–
	6,200	–
Continuing:		
Sales of goods:		
— Beijing Dong Gan Jing Ji Company Limited ("Beijing Dong Gan Jing Ji")	**157,513**	97,963

Beijing Dong Gan Jing Ji is a company beneficially owned by Mr. Chen Yihong's brother, Mr. Chen Yiliang.

(b) Balances with related parties

	As at 31 December	
	2007	2006
Trade receivables (Note 13):		
— Beijing Dong Gan Jing Ji	**25,108**	5,569
Accruals and other payables:		
— Beijing Dong Gan Jing Ji	**–**	2,177
Amounts due to related parties:		
— Mr. Chen Yihong	**–**	727

The above balances with related parties were unsecured, non-interest bearing and had no fixed repayment terms.

(All amounts in Renminbi thousands unless otherwise stated)

34 RELATED PARTY TRANSACTIONS (continued)

(c) Key management compensation

	Year ended 31 December	
	2007	2006
Salaries, bonus and other welfares	**13,874**	2,445
Pension — defined contribution plans	**126**	109
	14,000	2,554

35 EVENTS AFTER THE BALANCE SHEET DATE

Save as disclosed elsewhere in this report, the following significant events took place subsequent to 31 December 2007:

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 proposed 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 (the "Acquisition"). Pursuant to the LOI, ORIX agreed to negotiate with the Company on an exclusive basis, and if agreement is reached, the Parties intend to 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 upon the execution of the definitive agreements. 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.