DONGXIANG

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3818)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2008

Results Highlights

For the year ended 31 December	**2008**	2007	**Change**
	(RMB million)	*(RMB million)*	
Sales	**3,322.2**	1,711.0	+94.2%
Gross profit	**1,943.8**	1,000.6	+94.3%
Gross profit margin	**58.5%**	58.5%	+0.0% pts
Operating profit	**1,331.7**	724.7	+83.7%
Gain on negative goodwill on acquisition of Phenix Co., Ltd. ("Phenix") (one-off gain)	**146.0**	—	N/A
Profit attributable to equity holders	**1,367.7**	733.6	+86.4%
	(RMB cents)	*(RMB cents)*	
Basic earnings per share	**24.12**	15.89	+51.8%
Proposed final dividend per share *(Note)*	**3.76**	1.09	N/A
Proposed final special dividend per share *(Note)*	**5.59**	—	N/A

Operational Highlights

Solid & sustainable financial performance	• Sales and profit attributable to equity holders surged by 94.2% and 86.4% respectively, propelled by strong brand equity and unique fashion sport products offering
Stable gross margin	• Gross profit margin maintained at 58.5% despite the inclusion of lower profit margin Japan segment. The gross profit margin for Kappa Brand in China segment, the Group's core business, increased by 2.8% pts from 59.9% to 62.7%
Fast-growing retail network	• The number of Kappa Brand retail outlets in China segment directly and indirectly operated by the Group's distributors increased by 863 to 2,808
Strengthened product design and R&D capabilities	• Acquisition of Phenix offered immediate access to a world-class design team and technical centre to strengthen product design and R&D
Efficient working capital management	• Further strengthened working capital management, inventory turnover days and trade receivables turnover days for China segment shorten by 7 days and 1 day respectively, to 42 days and 23 days respectively

Note: An interim and interim special dividends for the six months ended 30 June 2008 totaling RMB3.59 cents per share have been paid in October 2008. Therefore, the total interim, interim special, proposed final and proposed final special dividends will be amounted to RMB12.94 cents per share for the year ended 31 December 2008.

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of China Dongxiang (Group) Co., Ltd. (the "Company"), I am pleased to present the annual results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2008.

During the year, the Group recorded a total sales of RMB3,322.2 million, representing an increase of 94.2% year-on-year. Profit attributable to equity holders increased by 86.4% to RMB1,367.7 million (2007: RMB733.6 million) compared to the corresponding period in 2007. Basic earnings per share was RMB24.12 cents (2007: RMB15.89 cents).

According to our dividend policy, we propose to distribute 30.0% of profit attributable to equity holders for the year ended 31 December 2008 as dividends in appreciation for our shareholders' ongoing support. At the same time, given the outstanding financial performance and strong cash position of the Group, the Board has decided to distribute an additional 30.0% of the profit attributable to equity holders for the year ended 31 December 2008 to share with them our splendid achievements. As a result, the total dividend payout ratio for the year ended 31 December 2008 will be 60.0%. The one-off gain of RMB146.0 million from acquisition of Phenix was a non-cash item, therefore, it has been excluded from the profit attributable to equity holders in our calculations of dividend payout ratio.

YESTERDAY… We performed miracles in China's sportswear industry by virtue of innovation

Over the past five years, China's economy along with its domestic sportswear industry has experienced dynamic, and astounding growth with exceptionally high efficiency; with GDP increased by an average of 10.8% per annum. China's sportswear sector also emerged as an outstanding industry. Renowned for its youthful image, the Group was able to carve out its own niche amidst a ferociously competitive environment through innovative development of its branding, channels, markets as well as internal management.

We realised a compound annual growth rate ("CAGR") of 96.7% and 111.3% in sales and net profit respectively from 2006 to 2008. On 10 October 2007, the Company successfully listed on The Stock Exchange of Hong Kong Ltd. and went on to perform miracles within China's sportswear industry.

TODAY… Pragmatism is the key as we face a highly unpredictable market and foster our strengths for future growth.

2008 was a year of challenges for the PRC economy with the rampages of snowstorms and earthquakes as well as the financial tsunami and economic crisis. In response the Group sought to weather the abrupt market upheavals in a pragmatic manner, cautiously examine its spending and investments while carefully managing the Group's assets. With sound strategies in place, the Group has outperformed its industry peers in both accounts receivable turnover and inventory turnover, the turnover days for China segment were maintained at a level of 23 days and 42 days, respectively, as of 31 December 2008. In addition, we have kept ourselves away from investments in any non-principal protected financial products which helped preserve our asset values to the largest extent.

Prudent as we were, however, we did not remain inactive. Based on our comprehensive analysis of development opportunities and growth potential available in today's sportswear industry at home and abroad, we adopted a target oriented merger and acquisition strategy that aims to "enhance proprietary research & development ("R&D"), technology and operating capabilities as a whole" and not focus only on business expansion. In line with such a strategy, we acquired Phenix, a Japanese company with 52 years of history, and prepared to introduce a number of premium brands to the China market, including — Phenix, X-NIX and Inhabitant. More importantly, we are poised to integrate and leverage the excellent capabilities in product planning, design, technology implementation and production control of our Japanese team to act as our core competencies in order to foster greater competitive advantages in the years ahead.

TOMORROW… With full confidence we will tap the enormous opportunities that exist in the sportswear industry

The 29th Olympic Games was a grand international sporting event and also a perfect platform for China to showcase its burgeoning economy that has provided prosperity in every sector of the most populous country in the world. Today China is set to emerge as the world's largest sportswear market in line with rising domestic purchasing power and increased consumer spending. Given this scenario, the Group will seize every opportunity amidst these promising market circumstances to embrace an even brighter future.

During the year ended 31 December 2008, the Group has opened 863 (net) retail outlets through its distributors, bringing the total number of Kappa brand retail outlets in China segment to 2,808. Despite this expansion, it could be realised that the Group still has ample room to grow compared with other sportswear brands, especially international brand names. Leveraging our superior capabilities in brand management, innovative R&D, strong financial position and healthy asset management, we will utilise our core competencies to create a solid foundation for the Group, which will help sustain the momentum of rapid growth.

Finally, on behalf of the Board, I would like to express my heartfelt appreciation to our shareholders and business partners for their ongoing support and trust. In addition, I wish to extend my gratitude to our distinguished management team and our staff.

CHEN Yihong
Chairman

Hong Kong, 25 March 2009

ANNUAL RESULTS

The board of directors (the "Board") of China Dongxiang (Group) Co., Ltd. (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2008, together with the comparative figures for 2007, as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008
(All amounts in Renminbi ("RMB") thousands unless otherwise stated)

	Note	**2008**	2007
Sales	*3*	**3,322,237**	1,711,023
Cost of goods sold	*8*	**(1,378,475)**	(710,450)
Gross profit		**1,943,762**	1,000,573
Other gains, net	*7*	**72,887**	20,144
Distribution costs	*8*	**(506,962)**	(210,101)
Administrative expenses	*8*	**(178,036)**	(85,895)
Operating profit		**1,331,651**	724,721
Negative goodwill on an acquisition	*13*	**145,950**	—
Finance income, net	*9*	**139,876**	46,542
Share of losses of jointly controlled entities		**(1,412)**	—
Profit before income tax		**1,616,065**	771,263
Income tax expense	*10*	**(248,343)**	(37,695)
Profit attributable to equity holders of the Company		**1,367,722**	733,568
Earnings per share for profit attributable to equity holders of the Company (expressed in RMB cents per share)			
— Basic	*11*	**24.12**	15.89
— Diluted	*11*	**24.11**	15.82
Dividends	*12*	**733,154**	441,881

CONSOLIDATED BALANCE SHEET

As at 31 December 2008

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

	Note	**2008**	2007
ASSETS			
Non-current assets			
Property, plant and equipment		**121,283**	94,474
Lease prepayments		**42,063**	30,080
Intangible assets	*4*	**307,129**	279,751
Investments in jointly controlled entities		**25,926**	—
Prepayment of considerations for investments in associates	*14*	**19,390**	—
Deferred income tax assets		**3,547**	3,308
Prepayments, deposits and other receivables — non-current portion		**23,638**	—
		542,976	407,613
Current assets			
Inventories		**232,166**	88,173
Financial assets		**—**	201,505
Trade receivables	*5*	**367,880**	138,319
Prepayments, deposits and other receivables		**86,736**	46,764
Cash and bank balances			
— Restricted bank balances		**121,653**	29,521
— Cash and cash equivalents		**5,942,048**	5,311,060
		6,750,483	5,815,342
Total assets		**7,293,459**	6,222,955

CONSOLIDATED BALANCE SHEET

As at 31 December 2008

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

	Note	**2008**	2007
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		**54,805**	54,904
Share premium account	*11*	**4,910,138**	5,000,710
Reserves		**1,754,420**	846,217
Total equity		**6,719,363**	5,901,831
LIABILITIES			
Non-current liabilities			
License fees payable		**—**	5,906
Deferred income tax liabilities		**4,177**	—
		4,177	5,906
Current liabilities			
Trade payables	*6*	**292,068**	177,619
Accruals and other payables		**190,927**	112,804
License fees payable — current portion		**—**	1,557
Provisions		**49,364**	—
Current income tax liabilities		**37,560**	23,238
		569,919	315,218
Total liabilities		**574,096**	321,124
Total equity and liabilities		**7,293,459**	6,222,955
Net current assets		**6,180,564**	5,500,124
Total assets less current liabilities		**6,723,540**	5,907,737

Notes:

1 GENERAL INFORMATION OF THE GROUP

China Dongxiang (Group) Co., Ltd. (the "Company") and its subsidiaries (together the "Group") are principally engaged in brand development, design and sales of sport-related apparel, footwear and accessories in Mainland of the People's Republic of China (the "PRC") and Macau. The Group commenced operations in Japan subsequent to the completion of the acquisition of a subsidiary in Japan on 30 April 2008.

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

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

In April 2008, the Company, Orix Corporation ("Orix") (a company incorporated under the laws of Japan and whose shares listed on the stock exchanges in Tokyo, Osaka and New York) and OPI2002 Toushi Jigyou Kumiai ("OPI") (a partnership established under the laws of Japan) entered into several agreements whereby the Company, through a wholly owned subsidiary, agreed to acquire from Orix and OPI the entire equity interest in Phenix Co., Ltd. ("Phenix"), and to receive the assignment of the outstanding balance of a loan of Japanese Yen ("JPY") 5,937,000,000 provided by Orix to Phenix. Phenix is a limited liability company established under the laws of Japan and principally engaged in brand development, design and sales of sport-related products under the brand names of Kappa, Phenix and other brands in Japan. On 30 April 2008, the Company, through a wholly owned subsidiary, and Orix further agreed to subscribe new shares in Phenix. Upon completion of the acquisition and the subscription of new shares, on 1 May 2008, Phenix became a 91% indirectly owned subsidiary of the Company (the "Acquisition").

2 BASIS OF PREPARATION

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"). They have been prepared under the historical cost convention.

3 REVENUE AND SEGMENT INFORMATION

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

During the year ended 31 December 2008, the Group acquired Phenix in Japan and accordingly the Group determined that its primary format for reporting segment information is geographical segments, with business segments reported as secondary format.

(a) Primary reporting format — geographical segments

The Group is principally engaged in brand development, design and sales of sport-related apparel, footwear and accessories in the PRC, Macau and Japan. The sales of the Group in China and Japan comprise the following:

China — distribution of sport-related products under Kappa and Rukka Brands and international sourcing which includes the provision of Kappa Brand products for other Kappa licensees in other countries.

Japan — sales of sport-related products under Kappa, Phenix, and other Brands.

The segment results, other segment items included in the income statements and capital expenditures for the year ended 31 December 2008 and 2007 were as follows:

	Year ended 31 December 2008				
	China	**Japan**	**Unallocated**	**Inter-segment elimination**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue	**2,908,008**	**414,229**	**—**	**—**	**3,322,237**
Segment results/operating profit	**1,317,090**	**14,561**	**—**	**—**	**1,331,651**
Negative goodwill on an acquisition	**—**	**145,950**	**—**	**—**	**145,950**
Finance income, net	**17,582**	**(5,277)**	**127,571**	**—**	**139,876**
Share of losses of jointly controlled entities	**—**	**(1,412)**	**—**	**—**	**(1,412)**
Profit before income tax	**1,334,672**	**153,822**	**127,571**	**—**	**1,616,065**
Income tax expense	**(248,172)**	**(171)**	**—**	**—**	**(248,343)**
Profit attributable to equity holders of the Company	**1,086,500**	**153,651**	**127,571**	**—**	**1,367,722**
Other items in income statement					
Depreciation	**7,913**	**1,883**	**—**	**—**	**9,796**
Amortization	**11,895**	**1,362**	**—**	**—**	**13,257**
Reversal of impairment losses of inventories	**(6,564)**	**(22,198)**	**—**	**—**	**(28,762)**
(Reversal of)/provision for impairment losses of trade and other receivables	**(15)**	**9,987**	**—**	**—**	**9,972**
Capital expenditures	**11,707**	**64,843**	**—**	**—**	**76,550**

	Year ended 31 December 2007				
	China	Japan	Unallocated	Inter-segment elimination	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue	1,711,023	—	—	—	1,711,023
Segment results/operating profit	724,721	—	—	—	724,721
Finance income, net	6,603	—	39,939	—	46,542
Profit before income tax	731,324	—	39,939	—	771,263
Income tax expense	(37,695)	—	—	—	(37,695)
Profit attributable to equity holders of the Company	693,629	—	39,939	—	733,568
Other items in income statement					
Depreciation	4,161	—	—	—	4,161
Amortization	9,939	—	—	—	9,939
Provision for impairment losses of inventories	9,007	—	—	—	9,007
Reversal of impairment losses of trade and other receivables	(1,595)	—	—	—	(1,595)
Capital expenditures	58,957	—	—	—	58,957

The segment assets and liabilities as at 31 December 2008 and 31 December 2007 were as follows:

	As at 31 December 2008				
	China	**Japan**	**Unallocated**	**Inter-segment elimination**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment assets	**3,436,169**	**404,729**	**3,516,159**	**(93,071)**	**7,263,986**
Deferred income tax assets	**3,547**	**—**	**—**	**—**	**3,547**
Investments in jointly controlled entities	**—**	**25,926**	**—**	**—**	**25,926**
Total assets	**3,439,716**	**430,655**	**3,516,159**	**(93,071)**	**7,293,459**
Segment liabilities	**(364,382)**	**(170,307)**	**(90,102)**	**92,432**	**(532,359)**
Deferred income tax liabilities	**—**	**(4,177)**	**—**	**—**	**(4,177)**
Current income tax liabilities	**(36,007)**	**(1,553)**	**—**	**—**	**(37,560)**
Total liabilities	**(400,389)**	**(176,037)**	**(90,102)**	**92,432**	**(574,096)**

	As at 31 December 2007				
	China	Japan	Unallocated	Inter-segment elimination	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment assets	1,509,424	—	4,710,223	—	6,219,647
Deferred income tax assets	3,308	—	—	—	3,308
Total assets	1,512,732	—	4,710,223	—	6,222,955
Segment liabilities	(297,886)	—	—	—	(297,886)
Current income tax liabilities	(23,238)	—	—	—	(23,238)
Total liabilities	(321,124)	—	—	—	(321,124)

Segment assets consist primarily of tangible and intangible assets, other non-current assets, financial assets, inventories, receivables and operating cash, and exclude deferred income tax assets. Unallocated assets represent inter-company financing receivables and cash and bank balances held by the Company.

Segment liabilities comprise operating liabilities including license fees payable, provision and other liabilities. They exclude taxation liabilities. Unallocated liabilities represent intercompany financing payables.

Capital expenditure comprises additions to property plant and equipment, intangible assets, and additions resulted from acquisition of Phenix.

(b) Secondary reporting format — business segments

The Group operates three business segments:

Distribution of sport-related products in China — including brand development, design and sales of sport-related apparel, footwear and accessories of Kappa and Rukka Brands in the PRC and Macau.

Distribution of sport-related products in Japan — including brand development, design and sales of sport-related apparel and accessories of Kappa, Phenix and other Brands in Japan.

International sourcing — including the provision of Kappa Brand products for Kappa licensees in other countries.

The Group's sales are generated from the three business segments as follows:

	Year ended 31 December	
	2008	2007
	RMB'000	*RMB'000*
Distribution of sport-related products in China		
Kappa Brand	**2,802,624**	1,645,237
Rukka Brand	**10,429**	5,662
	2,813,053	1,650,899
Distribution of sport-related products in Japan		
Kappa Brand	**99,031**	—
Phenix Brand	**312,139**	—
Other Brands	**3,059**	—
	414,229	—
International sourcing	**94,955**	60,124
Total sales of the Group	**3,322,237**	1,711,023

The Group's total assets by business segments were as follows:

	As at 31 December	
	2008	2007
	RMB'000	*RMB'000*
Distribution of sport-related products in China	**3,254,486**	1,458,931
Distribution of sport-related products in Japan	**430,655**	—
International sourcing	**129,737**	50,493
Unallocated assets	**3,571,652**	4,713,531
Inter-segment elimination	**(93,071)**	—
Total assets	**7,293,459**	6,222,955

The Group's total capital expenditure by business segments were as follows:

	Year ended 31 December	
	2008	2007
	RMB'000	*RMB'000*
Distribution of sport-related products in China	**11,707**	58,957
Distribution of sport-related products in Japan	**64,843**	—
Total capital expenditures	**76,550**	58,957

4 INTANGIBLE ASSETS

	KAPPA trademarks	Phenix trademark and others	License rights	Computer software	Total
At 31 December 2007					
Net book amount	266,945	—	4,095	8,711	279,751
At 31 December 2008					
Net book amount	**282,501**	**8,462**	**—**	**16,166**	**307,129**

5 TRADE RECEIVABLES

	As at 31 December	
	2008	2007
	RMB'000	*RMB'000*
Trade receivables		
— Third parties	**366,789**	113,755
— Related parties	**24,742**	25,108
	391,531	138,863
Less: provision for impairment	**(23,651)**	(544)
Trade receivables, net	**367,880**	138,319

The Group's sales are mainly made on credit terms ranging from 30 to 60 days.

The ageing analysis of trade receivables as at 31 December 2008 and 2007 were as follows:

	As at 31 December	
	2008	2007
	RMB'000	*RMB'000*
Current	**320,988**	129,054
Overdue by:		
1 to 30 days	**58,227**	6,804
31 to 120 days	**10,541**	1,447
Over 120 days	**1,775**	1,558
	391,531	138,863

6 TRADE PAYABLES

The ageing analysis of trade payables as at 31 December 2008 and 2007 were as follows:

	As at 31 December	
	2008	2007
	RMB'000	*RMB'000*
Current	**251,535**	136,281
Overdue by:		
1 to 30 days	**38,613**	35,334
31 to 120 days	**809**	3,768
Over 120 days	**1,111**	2,236
	292,068	177,619

7 OTHER GAINS, NET

	Year ended 31 December	
	2008	2007
	RMB'000	*RMB'000*
Government subsidy income	**66,690**	17,734
Gain on termination (include derecognition of asset, liabilities and compensation) of Rukka license right	**721**	—
Gain from financial assets at fair value through profit and loss	**3,398**	1,505
Others	**2,078**	905
	72,887	20,144

8 EXPENSES BY NATURE

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

	Year ended 31 December	
	2008	2007
	RMB'000	*RMB'000*
Cost of inventories recognized as cost of goods sold and distribution costs	**1,347,504**	696,559
Depreciation of property, plant and equipment	**9,796**	4,161
Loss on disposal of property, plant and equipment	**2,056**	—
Amortisation of lease prepayments	**285**	3,551
Amortisation of intangible assets	**12,972**	9,659
Advertising and marketing expenses	**257,073**	111,026
Employee salary and benefit expenses	**161,533**	60,192
Withholding business tax on license fees payable for an overseas subsidiary	**10,005**	8,247
Design and product development expenses	**62,959**	30,795
Legal and consulting expenses	**18,137**	8,952
Operating lease in respect of buildings	**23,556**	7,771
Logistic fees	**64,203**	18,249
(Reversal of)/provision for impairment losses of inventories	**(28,762)**	9,007
Provision for/(reversal of) impairment losses of trade and other receivables	**9,972**	(1,595)
Reversal of impairment of property, plant and equipment	**(200)**	—
Travelling expenses	**22,587**	11,203
Donation	**7,500**	—
Auditors' remuneration	**4,291**	2,032
Others	**78,006**	26,637
Total of cost of goods sold, distribution costs and administrative expenses	**2,063,473**	1,006,446

9 FINANCE INCOME, NET

	Year ended 31 December	
	2008	2007
	RMB'000	*RMB'000*
Interest income from subscription money upon Global Offering	**—**	44,742
Interest income from bank deposits	**137,802**	56,408
Total interest income	**137,802**	101,150
Interest expenses on bank borrowings repayable within five years	**—**	(149)
Interest expense on license fees payable	**(246)**	(391)
Total interest expenses	**(246)**	(540)
Foreign exchange gains/(losses), net	**3,944**	(54,068)
Others	**(1,624)**	—
	139,876	46,542

10 INCOME TAX EXPENSE

	Year ended 31 December	
	2008	2007
	RMB'000	*RMB'000*
Current income tax		
— PRC enterprise income tax ("EIT")	**248,411**	39,581
— Taxation in Japan	**699**	—
Deferred income tax	**(767)**	(1,886)
	248,343	37,695

The Company was incorporated in the Cayman Islands. Under the laws of the Cayman Islands, there is no income, estate, corporation, capital gains or other taxes payable by the Company.

Hong Kong profits tax and Singapore profits tax have not been provided as there are no estimated assessable profits arising in or derived from Hong Kong and Singapore during the year ended 31 December 2008 (2007: nil).

The subsidiaries incorporated in the PRC are subject to income tax at the applicable rates ranging from 18% to 25% (2007: from 15% to 33%) during the year ended 31 December 2008. Shanghai Taitan and Shanghai Kappa are entitled to preferential income tax at a rate of 18% as residents in Shanghai Pudong New Area. In respect of 2007, Shanghai Kappa obtained the 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 of the Group incorporated in the PRC are subject to corporate income tax at the rate of 25% in accordance with the Corporate Income Tax Law of the PRC (the "New EIT Law") as approved by the National People's Congress on 16 March 2007. The EIT rate applicable to subsidiaries of the Group established in the PRC is reduced to 25% for those with original applicable EIT rates higher than 25%, or gradually increase to 25% over a 5-year period from 2008 to 2012 for those with original applicable EIT rates lower than 25%, where appropriate.

According to the New EIT Law, the profits of the PRC subsidiaries of the Group derived since 1 January 2008 will be subject to withholding tax at a rate of 5% upon the distribution of such profits to foreign investors incorporated in Hong Kong and Singapore, or at a rate of 10% for other foreign investors. The

Group determined that no deferred withholding tax liabilities shall be recognised in respect of the profits of the PRC subsidiaries for the year ended 31 December 2008 since the Group has no plan to distribute such profits in the foreseeable future.

The subsidiary incorporated in Japan is subject to income tax and local inhabitant tax. The corporate income tax rate for the year ended 31 December 2008 applicable to the subsidiary is 30% based on the assessable profit. The inhabitant tax is determined based on rates (determined by the prefecture and city where the company maintains its operations) on the income tax payable, subject to a certain minimum payment. As there was no assessable profit derived during the year ended 31 December 2008, the subsidiary was subject to the minimum inhabitant tax payments.

11 EARNINGS PER SHARE

(a) Basic

Basic earnings per share are 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 2007 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 since the incorporation of the Company on 23 March 2007 till the completion of the reorganization and Capitalization Issue had been in issue since 1 January 2007.

	2008	2007
Profit attributable to equity holders of the Company *(RMB'000)*	**1,367,722**	733,568
Weighted average number of ordinary shares in issue *(thousands)*	**5,671,551**	4,617,162
Basic earnings per share *(RMB cents per share)*	**24.12**	15.89

(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 outstanding of 600,000 shares of the Company which are the potential dilutive ordinary shares as at 31 December 2008. The comparative diluted earnings per share for the year ended 31 December 2007 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 since the incorporation of the Company and in connection with the Reorganization and Capitalization Issue, and the 18,700,000 shares in relation to the pre-IPO share option upon exercise, have been in issue since 1 January 2007.

	2008	2007
Profit attributable to equity holders of the Company *(RMB'000)*	**1,367,722**	733,568
Weighted average number of ordinary shares in issue *(thousands)*	**5,671,551**	4,617,162
Adjustment for Pre-IPO Share Options *(thousands)*	**600**	18,700
Weighted average number of ordinary shares in issue for diluted earnings per share *(thousands)*	**5,672,151**	4,635,862
Diluted earnings per share *(RMB cents per share)*	**24.11**	15.82

12 DIVIDENDS

	2008	2007
	RMB'000	*RMB'000*
Interim dividend paid of RMB2.71 cents (2007: Not applicable) per ordinary share	**153,543**	—
Interim special dividend paid of RMB0.88 cents (2007: Not applicable) per ordinary share	**49,859**	—
Interim and special dividends before Global Offering	**—**	380,000
Proposed final dividend of RMB3.76 cents (2007: 1.09 cents) per ordinary share	**213,034**	61,881
Proposed final special dividend of RMB5.59 cents (2007: nil) per ordinary share	**316,718**	—
	733,154	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. An interim dividend of RMB150,000,000 (being dividend declared by Hong Kong Dongxiang, a subsidiary of the Group, on 28 May 2007 to its then shareholders) and a special dividend of RMB230,000,000 (in relation to the profit of the Group for the five months ended 31 May 2007) was declared before the Global Offering of the Company's shares on 10 October 2007. The dividends were paid in August and October 2007 respectively.

Pursuant to a resolution passed on 25 March 2009, the directors of the Company recommend the payment of a final dividend and final special dividend of RMB3.76 cents and RMB5.59 cents per ordinary share for the year ended 31 December 2008, amounting to RMB213,034,000 and RMB316,718,000 respectively, from the share premium account of the Company. Such dividends are to be approved by the shareholders at the forthcoming Annual General Meeting. These financial statements do not reflect a dividend payable as at 31 December 2008.

13 BUSINESS COMBINATION

As mentioned in Note 1, in April 2008, the Company, Orix and OPI, entered into several agreements whereby the Company, through a wholly owned subsidiary, agreed to acquire from Orix and OPI the entire equity interest in Phenix and receive the assignment of the outstanding balance of a loan of JPY 5,937,000,000 provided by Orix to Phenix for a cash consideration of JPY1 respectively. On 30 April 2008, the Company, through a wholly owned subsidiary, and Orix further agreed to subscribe certain new shares in Phenix for a subscription price of the JPY499,799,993 (representing 71,399,999 shares, equivalent to approximately RMB33,601,000) and JPY63,000,000 (representing 9,000,000 shares, equivalent to approximately RMB4,235,000), respectively. Upon completion of the acquisition and the subscriptions of new shares, on 1 May 2008, Phenix became a 91% indirectly owned subsidiary of the Company.

The acquired business contributed revenues of RMB414,229,000 and net profit of RMB7,701,000 (excluding gain from negative goodwill) to the Group for the period from date of acquisition on 1 May 2008 to 31 December 2008. If the acquisition had occurred on 1 January 2008, consolidated revenue and consolidated profit attributable to equity holders of the Company for the year ended 31 December 2008 would have been RMB3,546,672,000 and RMB1,296,937,000 respectively.

Details of the goodwill arising from the Acquisition are as follows:

	RMB'000
Cost of acquisition:	
— Cash consideration paid	33,601
— Direct costs attributable to the acquisition	14,000
	47,601
Fair value of net assets acquired:	
— Fair value of net identifiable liabilities of Phenix	(205,588)
— Shareholder's loan assigned	399,139
	193,551
Negative goodwill	(145,950)

14 EVENTS AFTER THE BALANCE SHEET DATE

On 1 January 2009, the Group acquired 30% equity interests in each of six joint ventures in the PRC. The joint ventures were set up by the six major distributors of the Group in Hangzhou, Shanxi, Shenyang, Tianjin, Nanjing and Ningbo. The six joint ventures are mainly engaged in distribution and retailing of sport-related apparel, footwear and accessories of various brands including Kappa of the Group in the PRC. The total cash considerations for the acquisition is RMB152,100,000 and will be injected into the six joint ventures as additional capital injection. As at 31 December 2008, RMB19,390,000 were paid and the remaining considerations will be paid in 2009. Up to the date of this announcement, management is still in the process of measuring the fair values of assets and liabilities of the joint ventures acquired on the date of acquisition, accordingly no details of such assets and liabilities are disclosed.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

Following the Company's global initial public offering (the "Global Offering") and successful listing on the Main Board of the Hong Kong Stock Exchange on 10 October 2007, Year 2008 was another remarkable year for the Group. As driven by continuous strong economic growth in mainland of the People's Republic of China (the "PRC") as well as widespread acceptance of Kappa Brand products by the PRC's fast-growing high spending consumers, the Group achieved an 94.2% surge in sales from RMB1,711.0 million for the year ended 31 December 2007 to RMB3,322.2 million for the year ended 31 December 2008. Profit attributable to equity holders reached a record high of RMB1,367.7 million for the year ended 31 December 2008, representing a 86.4% growth compared to RMB733.6 million for the year ended 31 December 2007. In 2008 and 2007, the Group recorded an one-off gain of RMB146.0 million from acquisition of Phenix and an one-off interest income of RMB44.7 million from over-subscription monies to the Global Offering respectively. Should the one-off gain or income be excluded, our core operations still enjoyed a high growth in profit attributable to equity holders of 77.4%.

On 1 May 2008, we completed the acquisition of 91% shareholdings of Phenix, a Japanese company whose core operations focus on the design, development and sales of sports apparel. The major self-owned brands of Phenix include "Phenix" for global ski and outdoor sportswear markets, and "Kappa" for football, golf and athletic sportswear markets in Japan. We believe that the acquisition was a crucial milestone for the Group to further strengthen its research and development capabilities and deploy its multi-brand strategy.

Financial review

Key Financial Performance

		Group			China Segment *(Note 1)*			Japan Segment *(Note 2)*
		Year ended 31 December			Year ended 31 December			Year ended 31 December
	Note	**2008** ***RMB'000***	2007 *RMB'000*	**Change**	**2008** ***RMB'000***	2007 *RMB'000*	**Change**	**2008** ***RMB'000***
Key items of consolidated income statement								
Sales		**3,322,237**	1,711,023	94.2%	**2,908,008**	1,711,023	70.0%	**414,229**
Gross profit		**1,943,762**	1,000,573	94.3%	**1,774,979**	1,000,573	77.4%	**168,783**
Operating profit		**1,331,651**	724,721	83.7%	**1,317,090**	724,721	81.7%	**14,561**
Profit attributable to equity holders	*3*	**1,367,722**	733,568	86.4%	**1,214,071**	733,568	65.5%	**153,651**
		RMB cents	*RMB cents*					
Basic earnings per share	*3*	**24.12**	15.89	51.8%				
Diluted earnings per share	*3*	**24.11**	15.82	52.4%				
Profitability ratios								
Gross profit margin		**58.5%**	58.5%	0.0% pts	**61.0%**	58.5%	2.5% pts	**40.7%**
Operating profit margin		**40.1%**	42.4%	–2.3% pts	**45.3%**	42.4%	2.9% pts	**3.5%**
Effective tax rate	*3*	**15.4%**	4.9%	10.5% pts	**17.0%**	4.9%	12.1% pts	**0.1%**
Net profit margin	*3*	**41.2%**	42.9%	–1.7% pts	**41.7%**	42.9%	–1.2% pts	**37.1%**
Key operating expenses ratios (as a percentage of sales)								
Advertising and marketing expenses		**7.7%**	6.5%	1.2% pts	**7.8%**	6.5%	1.3% pts	**7.1%**
Employee salary and benefit expenses		**4.9%**	3.5%	1.4% pts	**3.8%**	3.5%	0.3% pts	**12.4%**
Design and products development expenses		**1.9%**	1.8%	0.1% pts	**1.7%**	1.8%	–0.1% pts	**3.3%**
		In days	In days	**Change In days**	**In days**	In days	**Change In days**	**In days**
Working capital efficiency ratios								
Average trade receivables turnover days	*4, 7*	**29**	24	5	**23**	24	–1	**75**
Average trade payables turnover days	*5, 7*	**62**	75	–13	**62**	75	–13	**103**
Average inventory turnover days	*6, 7*	**49**	49	0	**42**	49	–7	**125**
Asset ratios								
Current ratio	*8*	**11.8 times**	18.4 times		**16.0 times**	18.4 times		**1.9 times**

Notes:

1. The China segment is engaged in the distribution of sport-related products under Kappa and Rukka Brands in the PRC and Macau. It is also engaged in international sourcing business which includes the provision of Kappa Brand products for other Kappa licensees in other countries. For the sake of simplicity, the finance income,net and exchange gain/(loss) of the Company, being the unallocated part, are included in the China segment as well. In 2007, China segment was the only segment of the Group.

2. The Japan segment is engaged in sales of sport-related products under Kappa, Phenix and other brands in Japan. Prior to the acquisition of Phenix on 1 May 2008, the Japan segment did not exist in the Group.

3. Excluding the one-off gain of RMB146.0 million from the acquisition of Phenix and one-off interest income of RMB44.7 million from over-subscription monies to the Global Offering in 2008 and 2007 respectively, the key items of the consolidated income statement would be as follows:

	Year ended 31 December		
	2008	2007	**Change**
	RMB'000	*RMB'000*	
Key items of consolidated income statement			
Profits attributable to equity holders	**1,221,772**	688,826	**77.4%**
	RMB cents	*RMB cents*	
Basic earnings per share	**21.54**	14.92	**44.4%**
Diluted earnings per share	**21.54**	14.86	**45.0%**
Profitability ratios			
Effective tax rate	**16.9%**	5.2%	**11.7% pts**
Net profit margin	**36.8%**	40.3%	**–3.5% pts**

4. Average trade receivables turnover days equal to the average of the opening and closing trade receivable balances divided by sales then multiplied by the number of days in the relevant periods.

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

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

7. For Japan segment, the calculations of working capital efficiency ratios were based on the opening balances as at 1 May 2008 (date of acquisition of Phenix) and closing balances as at 31 December 2008. The number of days in the relevant period was 245 days from 1 May to 31 December 2008.

8. Current ratio equals to the closing current assets divided by the closing current liabilities.

Sales

Sales analyzed by geographical segments, business segments and product categories

	Year ended 31 December						
	2008			2007			
	RMB'000	***% of product/ brand mix***	***% of total Group sales***	*RMB'000*	*% of product/ brand mix*	*% of total Group sales*	**Change**
CHINA SEGMENT							
Kappa Brand							
Apparel	**2,011,014**	**71.8%**	**60.5%**	1,181,253	71.8%	69.0%	**70.2%**
Footwear	**671,335**	**23.9%**	**20.2%**	389,638	23.7%	22.8%	**72.3%**
Accessories	**120,275**	**4.3%**	**3.6%**	74,346	4.5%	4.3%	**61.8%**
Kappa Brand total	**2,802,624**	**100.0%**	**84.3%**	1,645,237	100.0%	96.1%	**70.3%**
International sourcing	**94,955**		**2.9%**	60,124		3.6%	**57.9%**
Rukka Brand	**10,429**		**0.3%**	5,662		0.3%	**84.2%**
CHINA SEGMENT TOTAL	**2,908,008**		**87.5%**	1,711,023		100.0%	**70.0%**
JAPAN SEGMENT							
Phenix Brand	**312,139**	**75.4%**	**9.4%**	—	—	—	**—**
Kappa Brand	**99,031**	**23.9%**	**3.0%**	—	—	—	**—**
Others	**3,059**	**0.7%**	**0.1%**	—	—	—	**—**
JAPAN SEGMENT TOTAL	**414,229**	**100.0%**	**12.5%**	—	—	—	**—**
THE GROUP TOTAL	**3,322,237**		**100.0%**	1,711,023		100.0%	**94.2%**

China Segment

Kappa Brand

The Kappa Brand business, the major business of the Group, accounted for 84.3% (2007: 96.1%) of the total Group sales for the year ended 31 December 2008. The strong growth in sales of Kappa Brand products by RMB1,157.4 million (or 70.3%) compared to the year ended 31 December 2007 was mainly attributable to the on-going successful positioning and marketing of the brand. The Kappa Brand has been successfully positioned at the forefront of sportswear fashion in China market. It conveys an active, fashionable and youthful image that appeals to a fast-growing customer base. The Kappa Brand products have a widespread acceptance from the targeted customer group in China. Driven by strong demand, the number of Kappa Brand retail outlets directly or indirectly operated by the Group's distributors increased substantially from 1,945 as of 31 December 2007 to 2,808 as of 31 December 2008; a net increase of 863 (or 44.4%).

Apparel was the major product of Kappa Brand in China and its sales represented 71.8% (2007: 71.8%) of the brand's total sales. The proportions of footwear and accessories were 23.9% (2007: 23.7%) and 4.3% (2007: 4.5%) respectively. The product mix remained fairly steady in both years.

International Sourcing

The Group acted as a sourcing centre for BasicNet S.p.A. ("BasicNet"), owner of the Kappa Brand worldwide except for the PRC, Macau and Japan. The Group organized the design and development, as well as production and manufacturing of products in the PRC for Kappa licensees of BasicNet. These products were then shipped to the licensees for sale in their designated regions. For the year ended 31 December 2008, sales of the international sourcing business accounted for 2.9% (2007: 3.6%) of the Group's total sales and it enjoyed a growth of 57.9% compared to the year ended 31 December 2007.

Although sales and profit contribution from the international sourcing business were insignificant, it gave the Group exposure to international market trends, overseas new opportunities as well advanced business practices. Since the acquisition of Phenix, its export business has been providing the similar international exposure to the Group, therefore, the Group has decided to reallocate the staff resources of international sourcing business to other business segments and the international sourcing business will be largely scaled down in 2009.

Rukka Brand

The Group was the exclusive distributor and licensee for Rukka Brand products in China. Rukka Brand is a Finnish sportswear brand specialising in high-quality function-focused products. The Group has been operating sales of Rukka Brand products through the retail outlets of consignees since late 2006. However, following the acquisition of Phenix, the Group terminated its Rukka Brand business in 2008 because its products are similar to the ski and outdoor sportswear lines of Phenix Brand. The Group is planning to introduce Phenix Brand products to China market in 2009. The termination of Rukka Brand business would streamline and focus the Group's efforts in launching its self-owned skiwear and outdoor product brands. The sales of Rukka Brand products for the year ended 31 December 2008 was only RMB10,429,000 (or 0.3% of total Group sales), an insignificant amount for the Group.

Japan Segment

On 1 May 2008, the Group completed the acquisition of 91% shareholdings of Phenix, a company primarily engaged in the design, development, marketing and sales of its owned branded products in Japan. These brands include two major brands: "Phenix" in the ski and outdoor sportswear markets and "Kappa" in the football, athletic and golf wear markets. Other small brands include "X-NIX" in the snowboard sportswear market and "Inhabitant" in the casual wear market. The sales in Japan segment for the year ended 31 December 2008 represented eight months sales of Phenix from 1 May to 31 December 2008.

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

The unit average selling prices and total units sold of Kappa Brand products in China segment are analysed as follows:

	Year ended 31 December					
	2008		2007		**Change**	
	Average selling prices	**Total units sold**	Average selling prices	Total units sold	Average selling prices	Total units sold
	RMB	***In '000***	*RMB*	*In '000*		
Apparel	**161**	**12,476**	156	7,564	3.2%	64.9%
Footwear	**184**	**3,655**	179	2,173	2.8%	68.2%

Notes:

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

2. 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 is not meaningful.

The increases in unit average selling prices of apparel and footwear products by 3.2% and 2.8% respectively from year ended 31 December 2007 to 31 December 2008 were mainly due to general increase in selling prices of autumn and winter products. In particular, for apparel products, we have launched more high-end "Rugby" series in our autumn collection and the proportion of higher price jacket products has been increased in our winter collection.

Total apparel and footwear product units sold increased by 64.9% and 68.2% respectively for the year ended 31 December 2008 compared with the year ended 31 December 2007. The strong demand for the Kappa Brand products has driven the high growth in sales volume.

Cost of Goods Sold and Gross Profit

For the year ended 31 December 2008, the cost of goods sold of the Group amounted to RMB1,378,475,000 (2007: RMB710,450,000), represented an increase of RMB668,025,000 (or 94.0%). This trend was in line with the overall increase in sales. The gross profit of the Group amounted to RMB1,943,762,000 (2007: RMB1,000,573,000), represented an increase of RMB943,189,000 (or 94.3%). The overall gross profit margin of the Group for the year ended 2008 was 58.5%, remained the same as the overall gross margin for the year ended 31 December 2007. The gross profit margin analyzed by geographical and business segments are detailed as follows:

	Year ended 31 December		
	2008	2007	
	Gross profit margin	Gross profit margin	**Change**
China segment			
Kappa Brand	**62.7%**	59.9%	**2.8% pts**
International sourcing and Rukka Brand	**17.8%**	22.5%	**–4.7% pts**
China segment overall	**61.0%**	58.5%	**2.5% pts**
Japan segment	**40.7%**	N/A	**N/A**
Group overall	**58.5%**	58.5%	**0.0% pts**

The gross profit margin of Kappa Brand in China segment increased by 2.8% from 59.9% for the year ended 31 December 2007 to 62.7% for the year ended 31 December 2008. The increase in gross profit margin was mainly due to the general increase in unit average selling prices of our apparel products, the major class of our products which accounted for 71.8% of Kappa Brand's total sales in China segment, in 2008 whilst costs have been reduced due to tighter cost control has been exercised. As a result, the gross profit margin for apparel products rose by 3.8% from 62.4% for the year ended 31 December 2007 to 66.2% for the year ended 31 December 2008. For footwear and accessories products, the gross profit margins remained fairly stable in 2007 and 2008. The gross profit margin of Kappa Brand products in China segment analysed by product category are as follows:

	Year ended 31 December		
	2008	2007	
	Gross profit margin	Gross profit margin	**Change**
Apparel	**66.2%**	62.4%	**3.8% pts**
Footwear	**52.3%**	52.1%	**0.2% pts**
Accessories	**61.3%**	61.8%	**–0.5% pts**
Overall	**62.7%**	59.9%	**2.8% pts**

The international sourcing and Rukka Brand businesses have lower gross profit margins compared with Kappa Brand business. The combined gross margin of these two small business segments for the year ended 31 December 2008 was 17.8%, a decrease of 4.7% compared to 22.5% for the year ended 31 December 2007. The purchases for the international sourcing business were mainly denominated in Renminbi and sales were mainly denominated in US Dollar. As a result of the rapid appreciation of the Renminbi against the US Dollar in 2008, the gross profit margin of our international sourcing business was diminished.

The gross profit margin in Japan segment for the year ended 31 December 2008 was 40.7%. It was relatively lower than the gross profit margin 62.7% of Kappa Brand products in China segment due to keen competition and higher production cost in Japan. In order to lower the production cost and enhance the gross profit margin of Japan segment, the Group will integrate the production function of Japan segment with the Group's extensive production network in the PRC. The integration has been commenced on a trial basis in late 2008 with a satisfactory result. A thorough production integration will be done in 2009.

Other Gains, Net

Other gains for the year ended 31 December 2008 and 2007 mainly representing subsidy income from the government amounted to RMB66,690,000 and RMB17,734,000 respectively.

Distribution Costs and Administrative Expenses

Distribution costs and administrative expenses mainly comprised advertising and marketing expenses, employee salaries and benefit expenses, design and product development expenses, legal and consulting fees as well as logistic fees. For the year ended 31 December 2008, total distribution costs and administrative expenses amounted to RMB684,998,000 (2007: RMB295,996,000), accounted for 20.6% of the Group's total sales. This represented an increase of 3.3% against 17.3% for the year ended 31 December 2007. The increase is mainly due to the increase in advertising and marketing expenses as a percentage of sales by 1.2% from 6.5% for the year ended 31 December 2007 to 7.7% for the same period in 2008. During 2008, the Group had strategically increased spending on promotional activities surrounding the Beijing Olympics Games and opening of flagship stores. Moreover, the Group's employee salaries and benefit expenses as a percentage of the Group's sales also increased from 3.5% in 2007 to 4.9% in 2008. This was mainly attributable to the inclusion of Japan segment's salaries and benefit expenses in 2008 which accounted for 12.4% of Japan segment's sales. For the China segment, the salaries and benefit expenses only accounted for 3.8% of the sales of China segment in 2008.

Operating Profit

For the year ended 31 December 2008, operating profit of the Group was RMB1,331,651,000, an increase of RMB606,930,000 (or 83.7%) compared with RMB724,721,000 for the year ended 31 December 2007. The operating profit margin was 40.1% for the year ended 31 December 2008 compared with 42.4% for the year ended 31 December 2007. The decrease in the operating profit margin by 2.3% from 42.4% to 40.1% was mainly attributable to the increase in total distribution costs and administrative expenses as a percentage of the Group's sales by 3.3% from 17.3% for the year ended 31 December 2007 to 20.6% for the year ended 31 December 2008 while gross margin remained fairly stable during these two years.

Gain from Negative Goodwill on Acquisition

This represented a negative goodwill of RMB145,950,000 arose from the acquisition of Phenix during the year ended 31 December 2008 and recognized as an one-off gain in the consolidated income statement.

Finance Income, Net

For the year ended 31 December 2008, finance income mainly comprised interest income of RMB137,802,000 and foreign exchange gains of RMB3,944,000.

The interest income mainly comprises interest income from unutilised Global Offering proceeds and cash generated from operating activities deposited into licenced banks and financial institutions in Hong Kong and the PRC.

In 2007, finance income included RMB44,742,000 one-off interest income from over-subscription monies to the Global Offering.

Taxation

For the year ended 31 December 2008, income tax expense of the Group amounted to RMB248,343,000 (2007: RMB37,695,000). The effective tax rate was 15.4% (2007: 4.9%). If the one-off gain from the acquisition of Phenix and the one-off interest income from over-subscription monies to the Global Offering in 2008 and 2007 were excluded, the effective tax rate for the year ended 31 December 2008 would amount to 16.9% (2007: 5.2%). The low effective tax rate in 2007 was mainly due to a major operating subsidiary of the Company, which enjoyed a PRC income tax exemption in its first profit making year ended 31 December 2007.

Effective from 1 January 2008, the subsidiaries of the Company incorporated in the PRC are subject to corporate income tax at the rate of 25% in accordance with the Corporate Income Tax Law of the PRC (the "New EIT Law") as approved by the National People's Congress on 16 March 2007. The EIT rate applicable to subsidiaries of the Group established in the PRC is reduced to 25% for those with original applicable EIT rates higher than 25%, or gradually increase to 25% over a 5-year period from 2008 to 2012 for those with original applicable EIT rates lower than 25%, where appropriate.

The major operating subsidiaries of the Company in the Shanghai Pudong New Area are entitled to preferential income tax rate of 18% in 2008.

Profit attributable to Equity Holders of the Company and Net Profit Margin

Profit attributable to equity holders of the Company for the year ended 31 December 2008 was RMB1,367,722,000, representing an increase of 86.4% from RMB733,568,000 for the year ended 31 December 2007. Net profit margin for the year ended ended 31 December 2008 was 41.2%, representing a decrease of 1.7% against 42.9% for the year ended 31 December 2007. If the one-off gain from the acquisition of Phenix amounting to RMB145,950,000 and one-off interest income of RMB44,742,000 from over-subscription monies to the Global Offering were excluded in 2008 and 2007 respectively, the net profit and net profit margin for the year ended 31 December 2008 would come to RMB1,221,772,000 (2007: RMB688,826,000) and 36.8% (2007: 40.3%) respectively. The decrease of net profit margin by 3.5% from 40.3% to 36.8% was mainly attributable to the increase in total distribution costs and administrative expenses as a percentage of the Group's sales by 3.3% and the increase in the effective tax rate from 5.2% to 16.9%. The downward effect was partially mitigated by the increase in interest income from unutilised Global Offering proceeds placed in bank deposits.

Earnings per Share

The basic and diluted earnings per share were RMB24.12 cents and RMB24.11 cents respectively for the year ended 31 December 2008, a rise of 51.8% and 52.4% against the basic and diluted earnings per share of 15.89 cents and 15.82 cents respectively for the year ended 31 December 2007.

If the one-off gain from the acquisition of Phenix and one-off interest income from over-subscription monies to the Global Offering were excluded in 2008 and 2007 respectively, the basic and diluted earnings per share would come to RMB21.54 cents (2007: RMB14.92 cents) and RMB21.54 cents (2007: RMB14.86 cents) respectively for the year ended 31 December 2008, a growth of 44.4% and 45.0% against the basic and diluted earnings per share respectively for the year ended 31 December 2007.

The basic earnings per share are 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 2007 was calculated based on the assumption that the total of 4,319 million shares issued prior to the Global Offering of the Company had been in issue since 1 January 2007. The number of shares was lower than the approximately 5,677 million shares in issue since the Global Offering of the Company in October 2007 and an over-allotment option in relation to the Global Offering had been exercised. This explained why the profit attributable to equity holders of the Company increased by 77.4% (excluding the one-off gain or one-off interest income) for the year ended 31 December 2008 against the year ended 31 December 2007 but the basic earnings per share only increased by 44.4%.

Final Dividend and Final Special Dividend

The Board of the Company recommends the distribution of a final dividend and final special dividend of RMB3.76 cents and RMB5.59 cents respectively per ordinary share (totaling RMB9.35 cents per ordinary share) for the year ended 31 December 2008, amounting to RMB213,034,000 and RMB316,718,000 respectively (totaling RMB529,752,000).

The Company has paid an interim and interim special dividend for the six months ended 30 June 2008 totaling RMB3.59 cents per ordinary share with a total amount of RMB203,402,000. Therefore, the total interim, interim special, final and final special dividends for the year ended 31 December 2008 will be amounted to RMB733,154,000, approximately 60.0% of the Group's net profits (excluding the one-off gain resulting from the acquisition of Phenix) available for distribution for the year. The Company's normal dividend policy is distribution of 30.0% of the Group's net profits available for distribution for the period. After consideration of the Group's outstanding financial performance in 2008 and strong cash position, we would like to distribute an additional 30.0% in order to reward our shareholders.

The final dividend and final special dividend will be paid in Hong Kong Dollars based on the rate of HK$1.00 = RMB0.8813, being the official exchange rate of Renminbi against Hong Kong Dollars as quoted by the People's Bank of China at 24 March 2009. The dividend will be paid on or around 21 May 2009 to shareholders whose names appear on the register of members of the Company on 14 May 2009.

BUSINESS REVIEW

Effective Marketing Strategy

In 2008, the Group continued to adopt a distinct and coherent marketing and promotion strategy for its brands. This included securing strategic sponsorships and implementing a promotion strategy through selected media and other advertising channels that the Group considered to be the most effective way to convey the image of its products. The Group enhanced its visibility and promoted the brands through sponsorships of sport teams, sport events, entertainment figures and publicity events.

The key marketing and promotion events conducted in the PRC and Japan market in 2008 are summarized as below:

PRC Market

Sports

- Sponsorship of the top tennis competition — China Open;
- Sponsorship of the Hong Kong Table-tennis Team and the PRC's 49er Sailing Team, both of which participated in the 2008 Olympic Games;
- Sponsorship of the Tibet mountaineer team for the torch activities of the 2008 Olympics Games on Mt. Everest;
- Co-sponsorship of AS Roma, the top Italian soccer team; A new series of AS Roma products was launched in early 2008;
- Sponsorship of three soccer teams in the China Football Association Super league;
- Sponsorship of Chinese National Curling Team for participating in the World Curling Championship in Canada;
- Sponsorship of golf programmes at Travel Channel; and
- Sponsorship of Electronic Sports World Cup.

Fashion

- Co-branding with Pepsi. A special version Pepsi Cola package solely designed for Kappa was launched;
- Sponsored the Dreamboat Team, a sports team comprising celebrities in the PRC, to attend the UEFA Euro 2008, which received massive publicity;
- Kappa and Dongfeng Peugeot Citroen co-branding event. A special C2 car with elements of Kappa was released at the 2008 Beijing International Automotive Exhibition;
- Filmed series of advertising clips for the Beijing Olympics together with CCTV's movie channel and famous movie actors;
- Signed famous artist SHIN to develop a series of marketing activities;
- Kappa "NOW Sports" 2009 New Year Concert, a number of Chinese pop stars thrilled the audience with music and sports fashion; and
- Sponsorship of movies <Silver Medalist> and <Kung Fu Hip Hop>.

Charity

- Continuing participation in the "I want to go to school" campaign organised by the China National Radio and the China Youth Development Foundation;
- Cash and product donations to the victims of the Sichuan earthquake through the Red Cross in China; and
- Donations to elementary school in Tibet through China Soong Ching Ling Foundation.

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

Japan Market

Phenix Brand

- The official equipment provider for the Norwegian Alpine Ski Team;
- Sponsorship of Japan National Ski Team.

Kappa Japan

- Sponsor for three J-1 soccer teams in Japan, namely Consadole Sapporo, Tokyo Verdy, and JEF United.

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 the Group's in-house design teams, which are highly knowledgeable about fashion trends and consumer preferences in the market. The Group's talented, innovative and passionate product designers were mainly based at the Group's design and development centre in Beijing and at the Phenix main office in Japan. As of 31 December 2008, the Group had design teams of 60 people, including PRC nationals, Japanese, Korean and Italians.

The acquisition of Phenix greatly enhanced the design and development capabilities of the Group. Phenix has a technical centre near Tokyo, which has 59 talented and knowledgeable specialists who are skillful in the sophisticated process of conversion of product designs into high quality product samples.

The Group's in-house design and merchandising team's capabilities were further strengthened by external cooperation with overseas institutions such as the University of Arts London ("UAL") and WGSN. Since 2007 the Group was the apparel sector cooperation partner of UAL in the PRC which has been supporting and assisting the Group's creative and commercial activities through the provision of consultancy services, student projects and training programmes. WGSN is a leading global service provider which provides online research, trend analysis and news to the fashion, design and style industries. The Group believes that co-operation with UAL and WGSN has broadened the vision of our 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

In China segment, the Group has adopted a "primary distributor" policy to sell the Group's products to a limited number of distributors. Under this policy, 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 2008, the Group had 43 distributors who directly or indirectly operated 2,808 retail outlets selling Kappa Brand products in China segment. This represented a net increase of 863 retail outlets (or 44.4%) compared with the 1,945 retail outlets as of 31 December 2007. The distribution of retail outlets covered all major provincial capital cities and many other large urban areas and towns in China. The Group feels that the renovation and display of retail outlets to be a crucial factor in building brand image. With this in mind, the Group co-operated with its distributors to renovate 404 retail outlets during the year ended 31 December 2008. This included expansion of retail outlet areas and conversion of retail outlets into third generation stores. Fourth generation stores will be launched soon.

Since the second half of 2007, the Group has been launching its flagship stores plan by co-operating with its distributors to open flagship stores in prime shopping locations of first-tier cities in China segment. As of 31 December 2008, 10 flagship stores were opened in Beijing, Guangzhou, Tianjin, Hangzhou, Suzhou, Harbin and Changsha.

The following table details the change in the number of Kappa Brand retail outlets operated directly and indirectly by the distributors of the Group for the year ended 31 December 2008:

	As at 31 December 2008 *(No. of retail outlets)*	As at 31 December 2007 *(No. of retail outlets)*	Net increase *(No. of retail outlets)*	Net increase
Total	**2,808**	1,945	863	44.4%

The distribution channels of Phenix in Japan include major sport shops, specialty sport shops, distributors, department stores, the Internet as well as its own outlets and direct stores. As of 31 December 2008, the points of sales for "Phenix" and "Kappa" numbered approximately 956 and 2,588 respectively. In September 2008, the first Japan Kappa flagship store was opened at Tokyo and it is part of the Group's plan to rebuild the brand image of Kappa in Japan.

Comprehensive supply chain management

In the PRC market, the Group has applied a comprehensive supply chain management approach with respect to procurement, supplies, 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 many years of apparel, footwear or accessories production experience. As of 31 December 2008, the Group selectively engaged and actively supervised approximately 80 manufacturers in processing and manufacturing products in China segment.

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 operates a distribution centre in Fengtai District in Beijing with a floor area of approximately 12,169 sq.m. In May 2007, the Group also set up another distribution centre in Kunshan, Jiangsu Province with a floor area of approximately 5,772 sq.m. Since July 2008, a third distribution centre in Guangzhou has been in operation with a floor area of approximately 3,680 sq.m. The Group's manufacturers were mainly located in the southern and south eastern regions of China with these same areas also representing high growth markets with a strong demand for the Group's products. The new distribution centres greatly enhance the Group's response capabilities and shorten the overall time of distribution.

For sales of the Group's Kappa Brand products in the PRC, the Group hosts the sales fair for distributors four times each year to cover the spring, summer, fall and winter collections respectively.

Apart from their own inventories, the Group also closely monitors the inventories of its distributors. We also have 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 our distributors. The ERP-SAP system is also linked to the DRP system to enhance the exchange of information among various departments and strengthen the Group's supply chain and distribution network management.

Phenix primarily engages Japanese sourcing and production agencies for procurement of raw materials in Japan and the PRC as well as arranging production in the PRC. They also oversee two joint ventures in Shanghai mainly for the production of ski and outdoor sportswear products. Phenix outsources its logistics function to a third party company in Japan. Since the acquisition of Phenix, the Group has commenced the process to integrate Phenix's production function into the Group's extensive production network in the PRC in order to enjoy the reduction in production cost for Phenix.

FINANCIAL POSITION

Working capital efficiency ratios

China Segment

The average trade receivables turnover days for the year ended 31 December 2008 and 2007 were 23 days and 24 days respectively. The relatively low turnover days in both periods was mainly attributable to the Group's tight credit control policy and fast sales of its distributors' inventories allowing a shorter period to repay their trade balances.

The average trade payables turnover days for the year ended 31 December 2008 and 2007 were 62 days and 75 days respectively. This was in line of the Group's major policy to repay trade debts with its suppliers and manufacturers within 60 to 90 days.

The average inventory turnover days for the year ended 31 December 2008 and 2007 were 42 days and 49 days respectively. The enhancement of turnover days is mainly due to the Group's effective supply chain management and fully operational new distribution centres in Kunshan and Guangzhou.

Japan Segment

These represented the working capital efficiency ratios of Japan segment for the eight months ended from 1 May (date of acquisition) to 31 December 2008. The average trade receivables turnover days, average trade payables turnover days and average inventory turnover days were 75 days, 103 days and 125 days respectively. The turnover days of Japan segment relatively longer than the turnover days of China segment. The frequency of Phenix's sales fairs was lesser than China segment and therefore required a longer production and settlement period.

Liquidity and financial resources

As at 31 December 2008, cash and cash equivalents of the Group amounted to RMB5,942,048,000, an increase of RMB630,988,000 compared with a balance of RMB5,311,060,000 as of 31 December 2007. This increase mainly represents net cash generated from operating activities of RMB929,356,000 and proceeds of RMB204,903,000 from disposal of financial assets, less effect of exchange rate changes on cash and cash equivalents of RMB160,794,000, repurchase of shares of RMB33,937,000 and dividends paid of RMB265,283,000.

As at 31 December 2008, the Group's net asset value was RMB6,719,363,000 (31 December 2007: RMB5,901,831,000). The Group's current assets exceeded current liabilities by RMB6,180,564,000 (31 December 2007: RMB5,500,124,000). The Group also had a very strong liquidity position. The current ratio as of 31 December 2008 was 11.8 times (31 December 2007: 18.4 times). As of 31 December 2008, the Group had no outstanding bank loans or other borrowings.

Pledge of assets

As at 31 December 2008, the Group had bank deposits of RMB32,719,000 (31 December 2007: RMB29,521,000) to secure advertising costs payable to a third party business partner and approximately RMB38,375,000 were held in banks as guarantee deposit for the issue of letters of credit.

Capital commitments and contingencies

As at 31 December 2008, the Group had capital commitment for investments in joint ventures with its distributors amounting to RMB132,710,000.

Foreign Exchange Risk

The functional currency of the Company is United States Dollars ("US Dollars") owing to the fact that its international sourcing business is transacted in US Dollars. During the Global Offering in October 2007, the Company received its proceeds in Hong Kong Dollars. The proceeds were either deposited in bank accounts denominated in Hong Kong Dollars or converted into US Dollars and deposited in bank accounts denominated in US Dollars. As a result, the exchange differences arising from appreciation or depreciation of the US Dollar against the Company's Hong Kong Dollars bank deposits, were recognized as exchange gains or losses in the Company's income statement. The exchange gains or losses were not significant because HK Dollars are pegged to US Dollars. The Company's financial statements expressed in US Dollars were translated into Renminbi for the Group's reporting and consolidation purposes. The foreign exchange difference from the translation of financial statements will not be recognised in the income statement. Instead, it should be recognised as a separate component of equity of the Group.

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

Significant investments and acquisitions

For the year ended 31 December 2008, apart from the acquisition of Phenix, the Group has made no significant investments or any material acquisition or disposal of subsidiaries. The Group will endeavor to search for the opportunities for acquisition of the ownership or long-term operating right of one or more international brands in the PRC or regional market in order to deploy its multi-brand strategy.

Application of net Global Offering proceeds

The net proceeds after deduction of related expenses from Global Offerings in October 2007 were approximately HK$5,176.9 million (equivalent to RMB5,013.9 million). As of 31 December 2008, the net proceeds were utilized as follows:

	Total net proceeds *HK$ million*	**Utilized** *HK$ million*	**Unutilized** *HK$ million*
Develop existing brands and expand brand portfolio	2,743.8	84.3	2,659.5
Expand and improve distribution network	1,294.2	114.5	1,179.7
Enhance design and development capabilities	258.8	60.8	198.0
Establish new operating headquarter	258.8	—	258.8
Payment of special dividend declared prior to the Global Offering	238.3	238.3	—
Working capital and other general purposes	383.0	200.0	183.0
Total	5,176.9	697.9	4,479.0

The above usages were consistent with the disclosure in the Company's prospectus dated 25 September 2007. The unutilized net proceeds have been deposited into short-term deposits with licensed banks in Hong Kong or the PRC.

HUMAN RESOURCES

As of 31 December 2008, the Group had approximately 429 employees throughout the PRC region (As of 31 December 2007: 353 employees). There were also approximately 238 employees in Japan as a result of the acquisition of Phenix. Due to the high growth of business, the Group has to recruit more talented employees in all departments in order to cope with this rapid expansion.

The Group deployed a performance based remuneration scheme to its employees under which quarterly KPI and annual bonuses were awarded to high performance employees on top of their basic salary.

SUBSEQUENT EVENTS

On 1 January 2009, the Group acquired 30% equity interests in each of six joint ventures in the PRC. The joint ventures were set up by the six major distributors of the Group in Hangzhou, Shanxi, Shenyang, Tianjin, Nanjing and Ningbo. The six joint ventures are mainly engaged in distribution and retailing of sport-related apparel, footwear and accessories of various brands including Kappa of the Group in the PRC. The total cash considerations for the acquisition is RMB152,100,000 and will be injected into the six joint ventures as additional capital injection. As at 31 December 2008, RMB19,390,000 were paid and the remaining considerations will be paid in 2009. The Group will rely on the experience of the distributors (also as the controlling shareholders) to continuously manage and operate the distribution business of the joint ventures. The Group will act as minority shareholders to exercise influence over the direction and development of the joint ventures. The Group considers that the joint ventures will further strengthen the Group's retail network in China.

OUTLOOK

Year 2009 will be a challenging year for all countries across the globe, including China with an economy driven by three forces: exports, internal consumption and investments.

China's exports are closely tied to the US and European economies, so the consensus is that mainland shipments to overseas markets will certainly slow down in 2009. Given this scenario, the Chinese government has no other option but to focus on the remaining two forces — internal consumption and investments, in order to maintain a 8% GDP growth in 2009, which is a crucial factor for maintaining national social stability. The uncertain consequences resulted from the US financial crisis and Chinese government's commitment to stimulate internal consumption pose both threats and opportunities for the domestic sportswear industry. With this in mind, The Group will adopt an optimistic yet prudent operational approach throughout the year. The Group has comprehensive contingency plans to deal with different circumstances of retail market development in China. The main purpose is to ensure a secure and healthy business growth in 2009. On the other hand, the Group considers that 2009 is a good year to focus on internal enhancement which could help lead it to outperform its peers once the economic conditions rebound. The Group aims to integrate design, research and development as well as the production functions of Phenix into its China operations. The success of this integration will form a solid foundation for the Group's future development.

The Group will continue to pursuit business development towards four directions: brand building, retail network expansion, internal operations enhancement and multi-brand strategy.

Brand building

The Group considers product design and development as the main drivers leading the market and creating demand and will continue to enhance its capabilities in this area. The acquisition of Phenix was an important milestone for the Group. Phenix has strong design and development capabilities especially its technical centre is able to develop highly sophisticated apparel. The integration of Phenix's design and development functions will enhance the Group's existing capabilities in this area and provide a strong product design and technology development platform for the Group's long term development of Kappa Brand and other brands in the PRC market. This will strengthen the competitive advantage of the Group overall. In addition, the Group will further cooperate with well-recognised international design and development institutes. Our co-operation with UAL has already proven to create a strong synergy.

The Group will also continue to sponsor a number of selective fashion and sport activities which fit closely with the image of the Kappa Brand. In February 2009, the Group formed a strategic alliance with Huayi Brothers Media Group, one of the most successful film makers and entertainment media groups in China. The Group will co-operate with Huayi Brothers Media Group in a wide range of marketing and promotion activities. Moreover, the Group was recently appointed as the official partner for the provision of sportswear for the Norwegian National team from 2009 to 2012. The Group will provide Norwegian National team Kappa and Phenix sportswear at the opening and award presentation ceremonies of the 2010 Winter Olympics and 2012 Summer Olympics Games.

On the other hand, we believe that the flagship store plan is a very effective mean to build the brand and we will continue to work with our distributors to open flagship stores in the prime shopping locations of first-tier cities in the PRC.

Retail network expansion

Compared with other top international sportswear brands in the PRC, the number of Kappa Brand retail outlets is still low and the retail network is under-penetrated. We believe that there is huge potential for the Kappa Brand to expand its retail network in order to meet the strong demand for its products. The Group will, therefore, continue to co-operate with its distributors to open new stores in provincial capitals and first-tier cities as well as the high potential second and third-tier cities. In January 2009, the Group formed six joint ventures with each of its six key distributors in Hangzhou, Shanxi, Shenyang, Tianjin, Nanjing and Ningbo respectively. The Group will act as minority shareholders to exercise influence over the direction and development of the joint ventures. The Group considers that the joint ventures will further strengthen the Group's retail network in China.

Internal operations enhancement

The Group invests and places considerable emphasis on management information systems to improve its efficiency in product design and development, supply chain management, quality and inventory control, as well as 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 more deeply integrate our operations with the Group's manufacturers, distributors and their retail network. The Group's joint ventures with key distributors will help speed up the integration.

Since July 2008, the Group's third distribution centre in Guangzhou has begun operations. The third distribution centre will further enhance the Group's response time and shorten the time of distribution in the southern region of China.

Subsequent to the Global Offering in October 2007, the Group has been conducting a series of restructuring plans to prepare for the future development. In 2008, as a first step, the Group adjusted its basic organisational structure to streamline major business segments and administrative functions in order to align them with its future development strategies. In 2009, the Group will focus on integration of the design, research and development as well as production functions of Phenix with the China operation. Once the integration completed, it will provide a strong common platform for the Group to deploy its multi-brand strategy.

On the other hand, We will also continue to provide comprehensive training programmes to our employees for enhancement of their professional and management skills and will also continuously recruit the best people in the industry to prepare for future growth and expansion.

The Group has a plan to establish a new operational headquarter in Beijing to cater for our future growth and we are currently actively searching for a suitable location.

Multi-brand strategy

The acquisition of Phenix provides an excellent opportunity for the Group to launch Phenix's high quality ski, outdoor and golf sportswear in the PRC market. The Group is planning to launch in China Phenix's "Kappa Golf" brand and "Phenix" brand products in 2009. In addition, the Group is also planning to launch the sub-brand of Kappa Brand, Robe Di Kappa ("RDK") in the PRC market as well.

The Group is committed to becoming one of the best multi-brand sportswear enterprises in the PRC. The Kappa Brand is our first brand and it has provided a very solid foundation for us to deploy our multi-brand strategy. By utilising management's abundant experience in the sportswear industry and our strong financial resources, we will endeavor to find and explore opportunities for acquisition of the ownership or long-term operating rights for one or more international brands in the PRC and/or regional markets. We believe that the multi-brand strategy will enhance the value of our shares and bring benefits to our shareholders and investors.

OTHER INFORMATION

Compliance with Code on Corporate Governance Practices

The Company is committed to ensuring high standards of corporate governance in the interests of shareholders and devotes considerable effort to identifying and formalising best practices. The Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") for the year ended 31 December 2008. Details of the Company's corporate governance practices can be found in the Corporate Governance Report set out in the Company's annual report for the year ended 31 December 2008.

Compliance with the Model Code for Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the standard for securities transactions by Directors. The Company has made enquiries of all the Directors and all the Directors confirmed that they have complied with the required standards for the year ended 31 December 2008.

Audit Committee

The Audit Committee is responsible for overseeing the relationship with the Company's external auditor, review of the financial information of the Company, and review and monitoring of the Group's financial reporting system and internal control. The Audit Committee discusses with the external auditor the nature and scope of audit and reporting obligations before the audit commences, and is responsible for reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard.

Members of the Audit Committee comprise Mr. Mak Kin Kwong (Chairman), Dr. Xiang Bing and Mr. Xu Yudi. The Audit Committee consists solely of independent non-executive Directors, all of whom have extensive financial experience. Up to 31 December 2008, the Audit Committee had held four meetings in 2008.

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the financial statements for the year ended 31 December 2008.

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

For the year ended 31 December 2008, the Company repurchased a total of 12,649,000 shares of par value HK$0.01 each of the Company at an aggregate purchase price of approximately HK$38,392,994 on the Hong Kong Stock Exchange.

As at the date of this announcement, all the 12,649,000 ordinary shares repurchased by us for the year ended 31 December 2008 had been cancelled and the issued share capital of the Company was reduced by the par value thereof accordingly. The above repurchases were effected by the directors, pursuant to the mandate from shareholders, with a view to benefiting shareholders as a whole in enhancing the net assets and/or earnings per share of the Company.

Saved as disclosed above, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of any listed securities of the Company for the year ended 31 December 2008.

Books Closure

The Register of Members of the Company will be closed from Monday, 11 May 2009 to Thursday, 14 May 2009, both days inclusive, for the purpose of determining shareholders' entitlements to the proposed final dividend and final special dividend. In order to qualify for the proposed final dividend and final special dividend and the right to attend and vote at the meeting, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than Friday, 8 May 2009 on 4:30 p.m..

Annual General Meeting ("AGM")

The AGM of the Company will be held in Hong Kong on 14 May 2009. Notice of the AGM will be issued and disseminated to shareholders in due course.

Publication of Results Announcement

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

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

Hong Kong, 25 March 2009

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