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 2012


Kappa

CONTENTS

VISION MISSION

Vision

By uniting OUTSTANDING INDIVIDUALS and striving for MANAGERIAL EXCELLENCE, we'll lead the SPORTS FASHION industry, all with JOY and PASSION

Mission

To be the most PIONEERING and DESIRED SPORT-LIFE brands


Kappa

CORPORATE INFORMATION

Executive Directors

Mr. Chen Yihong (Chairman & Chief Executive Officer)
Mr. Qin Dazhong (Chief Operating Officer)

Non-Executive Director

Mr. Gao Yu

Independent Non-Executive Directors

Mr. Jin Zhi Guo
Dr. Xiang Bing
Mr. Xu Yudi

Auditor

PricewaterhouseCoopers
Certified Public Accountants

Legal Advisers

Norton Rose Hong Kong
Conyers Dill & Pearman
Hylands Law Firm

Investor Relations Consultant

IPR Ogilvy Ltd.

Authorised Representatives

Mr. Gao Yu
Ms. Wai Pui Man

Company Secretary

Ms. Wai Pui Man

Principal Share Registrar and Transfer Office

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

CORPORATE INFORMATION

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

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

Head Office in People's Republic of China

Building 21, No. 2 Jingyuanbei Street,
Beijing Economic-Technological Development Area,
Beijing 100176, People's Republic of China

Principal Bankers

Industrial and Commercial Bank of China
China Citic Bank
Shanghai Pudong Development Bank
China Merchants Bank
Bank of Communications
The Hongkong and Shanghai Banking Corporation Limited

Website

www.dxsport.com

FIVE-YEAR FINANCIAL HIGHLIGHTS

(All amounts in Renminbi million unless otherwise stated)

	Note	**2012**	2011	2010	2009	2008
			Year ended 31 December			
Sales		**1,772**	2,742	4,262	3,970	3,322
Operating profit		**69**	99	1,741	1,697	1,332
Profit before income tax	1	**271**	228	1,837	1,796	1,470
Profit attributable to equity holders	1	**177**	102	1,464	1,460	1,222
Non-current assets		**1,565**	1,557	950	838	543
Current assets		**5,764**	5,895	7,442	7,073	6,750
Current liabilities		**360**	621	872	552	570
Net current assets		**5,404**	5,274	6,570	6,521	6,180
Total assets		**7,329**	7,452	8,392	7,911	7,293
Total assets less current liabilities		**6,969**	6,831	7,521	7,360	6,724
Equity holders' equity		**6,923**	6,795	7,515	7,354	6,719
Gross profit margin (before provision for impairment of inventory) (%)		**47.5**	55.0	59.7	60.4	58.5
Net profit margin (%)	1	**10.0**	3.7	34.3	36.8	36.8
Earnings per share						
— basic (RMB cents)	1	**3.19**	1.82	25.83	25.76	21.54
— diluted (RMB cents)	1	**3.19**	1.82	25.82	25.76	21.54
Total assets per share (RMB cents)	2	**132.33**	132.92	148.11	139.63	128.60
Debt to equity holders' equity ratio	3	**0.06**	0.10	0.12	0.08	0.09

Notes:

(1) The figures in 2008 are calculated after excluding the one-off gains, RMB145,950,000 from the acquisition of Phenix, as they are more meaningful for comparison.

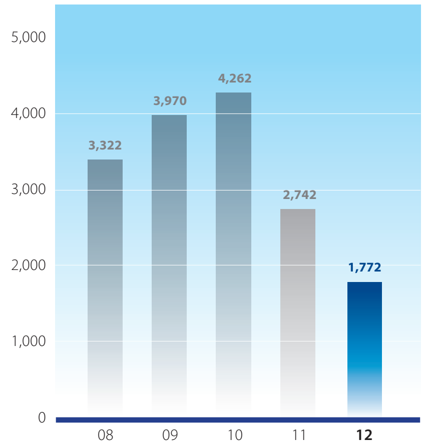
(2) The number of ordinary shares used in the calculation for the year ended 31 December 2012, 2011, 2010, 2009, and 2008 are 5,538,588,000 shares, 5,623,497,000 shares, 5,666,053,000 shares, 5,666,066,000 shares and 5,671,551,000 shares, which were the weighted average number of shares for the years.

(3) The debt to equity holders' equity ratio is calculated based on total liabilities of the Group divided by equity attributable to equity holders of the Company as at 31 December for the year.

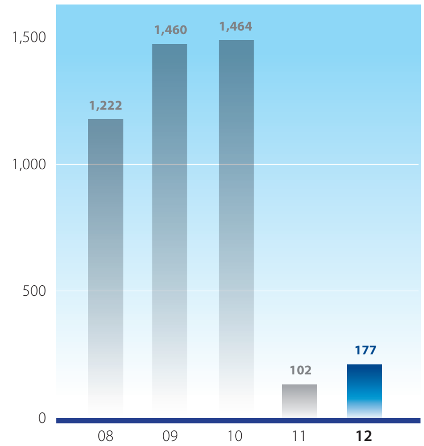
FIVE-YEAR FINANCIAL HIGHLIGHTS

(All amounts in Renminbi million unless otherwise stated)

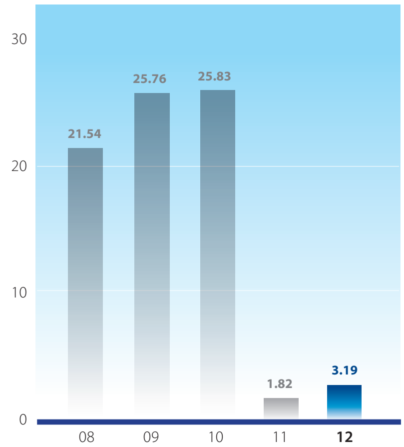
SALES



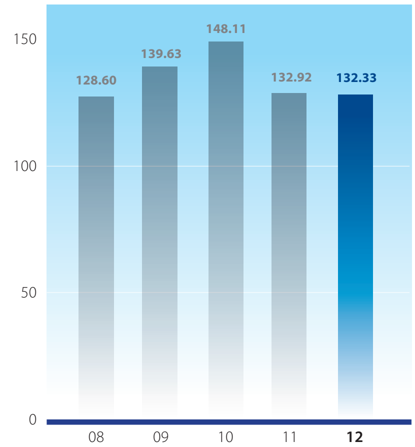
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS



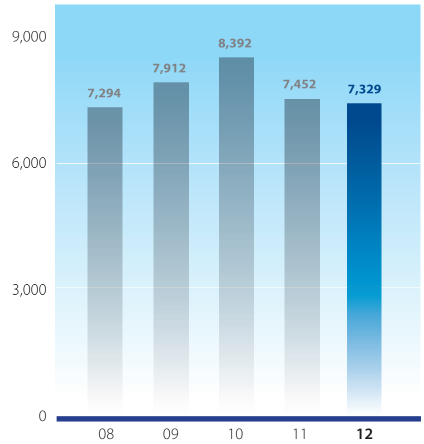
EARNINGS PER SHARE — BASIC (RMB CENTS)



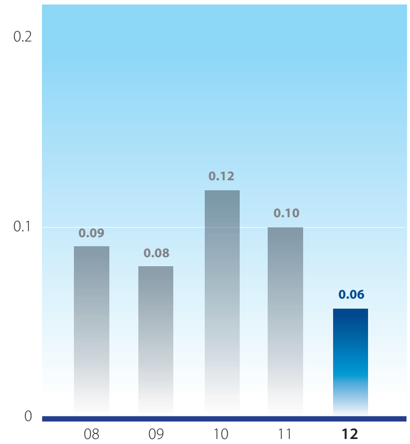
TOTAL ASSETS PER SHARE (RMB CENTS)



TOTAL ASSETS



DEBT TO EQUITY HOLDERS' EQUITY RATIO (TIMES)



“It was the best of times,
it was the worst of times,
it was the age of wisdom,
it was the age of foolishness,
it was the epoch of belief,
it was the epoch of incredulity,
it was the season of Light,
it was the season of Darkness,
it was the spring of hope,
it was the winter of despair,
we had everything before us,
we had nothing before us,
we were all going directly to Heaven,
we were all going to the other way.”

By Charles Dickens
A Tale of Two Cities


FORZA

CHAIRMAN'S STATEMENT

Dear Shareholders,

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

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

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

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

Confronted by adversities, the Group never ceased endeavoring in improving operations, and enhancing efficiency. Amidst this tough environment, China Dongxiang proactively reviewed the company structure and strengthened financial monitoring, which significantly reduced expenditures during the year.

The Group adopted smart marketing, reinforced the integration of above-the-line brand promotion and below-the-line product sales, while further expanded cooperation among various online platforms to strengthen interaction between the brand and its customers for an enhanced brand influence. Such measures enabled the Group to achieve maximum efficiency in the promotion activities with minimal resource input.

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

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

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

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

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

Chen Yihong
Chairman

20 March 2013, Hong Kong

BRAND PORTFOLIO

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 with the strong presence
and network developed through the Kappa Brand,
it has established solid foundation for us to implement a multi-brand strategy.
After the acquisition of Phenix in 2008,
the Group owned the brands of Phenix, X-NIX, and inhabitant as well.
In order to explore high end sportswear fashion market, the Group launched Robe Di
Kappa, a sister brand of Kappa, in the PRC in 2010.

The outdoor and ski products under the
Phenix Brand were officially launched in the PRC market in 2011.

By utilising management's extensive experience in the
sportswear industry and our strong financial resources,
we will endeavor to identify and explore opportunities to operate more
international brands in the PRC and/or
regional markets.

BRAND PORTFOLIO

Kappa

- A renowned Italian sportswear brand founded in 1978
- Since 2002, the Group has been operating the Kappa Brand in the PRC market
- Enriched with Italian fashion elements, Kappa emerges as a leader in the China sports fashion market

ROBE DI KAPPA

- A sister brand of Kappa launched in Italy in 1960
- The concept of "sports of connotation" is blended into sports product lines, giving them a touch of Italian humanistic spirit
- Committed to integrating quality, fashion details and stylish expression by providing customers with the unique experience that goes far beyond the apparel items themselves

phenix

- A top international ski brand with great emphasis on functional performance and fashionable style of equipment through excellence in every detail
- Its simple design yet eye-catching design represents a perfect blend of function and fashion
- It reflects detail-attentive peculiar styles of Japanese designers, and their R&D philosophy of positively absorbing the design features of other products and industries
- An outdoor product line that featured the fusion of fashion and functionality was officially launched in 2011

X-nix

- An apparel brand for snowboarding
- With a mix of functional and fashionable senses, it covers a diverse range of equipment and ornaments
- It assures customers of the joy and fun in snowboarding in any weather conditions, as proven by series of tests under the support of top snowboard athletes

inhabitant

- The youth is the main target audience of this brand
- The product line covers almost all of the extreme sports including surfing, snowboarding, extreme wakeboarding, riding bicycles and skateboards, etc., as well as other entertainment areas of life such as DJ are covered
- Endeavor is made to constantly provide typical types of fashionable and popular sports equipment and everyday clothing

MACROECONOMIC REVIEW

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

INDUSTRY REVIEW

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

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

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

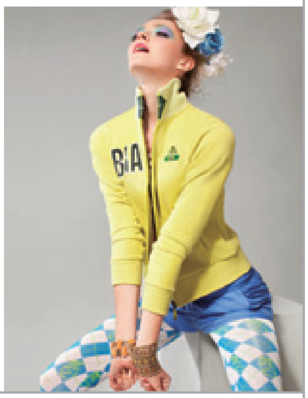
BUSINESS REVIEW

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

Brand Promotion

Kappa Brand

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



Group's cooperation with Bazaar.

Play with style, Trends Sports Game.

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

Play with Style Trends Sports Game

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

HSBC Golf Championship

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

DreamBoat Soccer Team UEFA Participation

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

China Open

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

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

Phenix Business

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

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

Research and Development ("R&D")

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

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

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

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

Kappa Products

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

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

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

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

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


ROBE DI KAPPA


phenix
Red Bull
telenor

Phenix Products

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

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

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

Robe Di Kappa Business

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

Retail Network

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

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

FINANCIAL REVIEW

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

Key Financial Performance by Segments

		Group *(Note 3)* Year ended 31 December			China Segment *(Note 1)* Year ended 31 December			Japan Segment *(Note 2)* Year ended 31 December		
		2012	2011		**2012**	2011		**2012**	2011	
	Note	**RMB million**	RMB million	**change**	**RMB million**	RMB million	**change**	**RMB million**	RMB million	**change**
Key items of consolidated income statement										
Sales		**1,772**	2,742	-35.4%	**1,165**	2,122	-45.1%	**607**	620	-2.1%
Gross profit (before provision for impairment of inventories)	4	**842**	1,507	-44.1%	**595**	1,241	-52.1%	**247**	266	-7.1%
Operating profit	3	**69**	99	-30.3%						
Profit attributable to equity holders of the Company	3	**177**	102	73.5%						
		RMB cents	RMB cents							
Basic earnings per share		**3.19**	1.82	75.3%						
Diluted earnings per share		**3.19**	1.82	75.3%						
		%	%	%pts	**%**	%	%pts	**%**	%	%pts
Profitability ratios										
Gross profit margin (before provision for impairment of inventories)	4	**47.5**	55.0	-7.5	**51.1**	58.5	-7.4	**40.7**	42.9	-2.2
Operating profit margin		**3.9**	3.6	0.3						
Effective tax rate		**28.5**	53.7	-25.2						
Net profit margin		**10.0**	3.7	6.3						
Key operating expenses ratios (as percentage of sales)										
Sales expenses		**8.1**	7.3	0.8	**8.2**	7.6	0.6	**7.8**	6.0	1.8
Advertising and marketing expenses		**6.0**	6.6	-0.6	**7.7**	7.7	—	**2.8**	2.9	-0.1
Employee salary and benefit expenses		**10.6**	8.3	2.3	**11.0**	7.6	3.4	**9.9**	10.5	-0.6
Design and product development expenses	3	**5.0**	4.0	1.0						
		in days	in days	in days	**in days**	in days	in days	**in days**	in days	in days
Working capital efficiency ratios										
Average trade receivable turnover days	5	**114**	88	26	**121**	81	40	**101**	111	-10
Average trade payable turnover days	6	**79**	95	-16	**72**	91	-19	**89**	106	-17
Average inventory turnover days	7	**229**	144	85	**277**	145	132	**153**	143	10

Notes:

1. The China segment is principally refered to the sales of sport-related products under Kappa Brand in the Mainland China and Macau. It also refered to the international business under Kappa Brand as well as domestic businesses under the Phenix brand and RDK brand.

2. The Japan segment is principally engaged in sales of sport-related products under the Kappa, Phenix and other brands in Japan.

3. The Group results represent the aggregation of the results of the China segment and Japan segment. There are certain financial income and distribution costs (eg. design and product development expenses) that cannot be allocated or split into the China segment and Japan segment. Thus, the calculations of segmental operating profit, segmental profit attributable to equity holders and segmental design and products development expenses as a percentage of sales are not meaningful.

4. For the year ended 31 December 2011, the Group repurchased a total amount of RMB1.45 billion (tag price) of off-season inventories from distributors. On the basis of reasonable analysis, the Group made provision of RMB216 million (2010: RMB14 million) for a impairment of inventories held by us as at 31 December 2011. In 2012, the Group proactively conducted stock clearance as planned, resulting in a significant decrease in the balance of inventory at the end of the year. Thus, reversal of inventory impairment of approximately RMB55 million was recognised as at 31 December 2012 based on the reasonable estimate by the management. According to IFRS, the inventory provision has been included in cost of goods sold. For the purpose of analysis, the Group considers that it is more meaningful to compare the gross profits before provision for impairment of inventories.

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

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

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

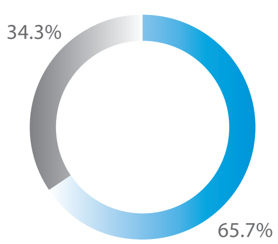
Sales Analysis

Sales analyzed by geographical segments, business segments and product categories

	Year ended 31 December						
	2012			2011			
	RMB million	**% of product brand mix**	**% of Group sales**	RMB million	% of product brand mix	% of Group sales	**change**
CHINA SEGMENT							
Kappa Brand							
Apparel	**789**	**69.9%**	**44.5%**	1,507	71.9%	55.0%	-47.6%
Footwear	**300**	**26.6%**	**16.9%**	515	24.6%	18.8%	-41.7%
Accessories	**40**	**3.5%**	**2.3%**	73	3.5%	2.7%	-45.2%
Kappa Brand total	**1,129**	**100.0%**	**63.7%**	2,095	100.0%	76.5%	-46.1%
International business, RDK and others	**36**		**2.0%**	27		1.0%	33.3%
CHINA SEGMENT TOTAL	**1,165**		**65.7%**	2,122		77.5%	-45.1%
JAPAN SEGMENT							
Phenix Brand	**397**	**65.4%**	**22.4%**	417	67.3%	15.2%	-4.8%
Kappa Brand	**210**	**34.6%**	**11.9%**	198	31.9%	7.2%	6.1%
Others	**—**	**0.0%**	**0.0%**	5	0.8%	0.1%	-100.0%
JAPAN SEGMENT TOTAL	**607**	**100.0%**	**34.3%**	620	100.0%	22.5%	-2.1%
THE GROUP TOTAL	**1,772**		**100.0%**	2,742		100.0%	-35.4%

Sales analysis by geographical segments

THE GROUP

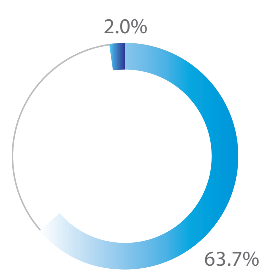


65.7% China Segment

34.3% Japan Segment

Sales analysis by business

CHINA SEGMENT

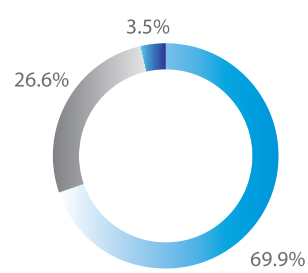


63.7% Kappa Brand

2.0% International business, RDK and Others

Sales analysis by products categories

KAPPA BRAND (China Segment)



69.9% Apparel

26.6% Footwear

3.5% Accessories

China Segment

Kappa Brand

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

International Business, RDK and Others

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

Japan Segment

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

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

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

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

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

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

Notes:

1. Average selling price represent the sales for the year divided by the total units sold for the year.

2. Accessories cover a wide range of products that vary significantly in terms of average selling price per unit. We believe that the average selling price per unit analysis of this product category is not meaningful.

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

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

Cost of Goods Sold and Gross Profit

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

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

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

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

* *Before provision for impairment of inventories*

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

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

Other Gains, Net

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

Provision for Impairment of Available-for-sale Financial Assets

During the year, the Group made fair value assessment on its available-for-sale financial assets in accordance with its accounting policy. As a consequence, the Group has made provision for impairment of RMB82 million, representing the provision of Group's investment in Mecox Lane of RMB22 million (2011: RMB181 million) and investment in MSYH Group of RMB60 million (2011: RMB57 million).

Distribution and Selling Expenses and Administrative Expenses

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

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

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

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

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

Operating Profit

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

Finance Income, Net

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

Taxation

For the year ended 31 December 2012, income tax expense of the Group amounted to RMB77 million (2011: RMB122 million). The effective tax rate was 28.5% (2011: 53.7%). Remarkable fluctuation of effective tax rate was primarily due to: 1) provision for impairment in investments in Mecox Lane and MSYH Group of RMB238 million, which have no tax benefits to the Group. Since the two investments were operated by a tax-exempt subsidiary incorporated outside PRC and a subsidiary incorporated in the PRC with no taxable income respectively, as a result, no deferred income tax has been provided for impairment in investments and tax rate has increased significantly in 2011, but provision for impairment in such investments in 2012 was merely RMB82 million, having much less effects on our income tax rate; 2) the increase in income tax rate of our major operating subsidiaries established in the Shanghai Pudong New Area from 24% for 2011 to 25% for 2012; and 3) a 5% to 10% withholding tax rate was imposed on dividends paid to a non-resident company by a resident company in accordance with the new PRC Enterprise Income Tax Law promulgated in 2008, as we have been qualified to enjoy 5% preferential withholding tax rate on future dividend payment to offshore subsidiary, provision of withholding tax made in previous period has been reversed in 2012.

Effective from 1 January 2008, the subsidiaries of the Group incorporated in the PRC are subject to corporate income tax at the rate of 25% in accordance with the Corporate Income Tax Law of the PRC (the “New EIT Law”) as approved by the National People’s Congress on 16 March 2007. The EIT rate applicable to subsidiaries of the Group established in the PRC is reduced to 25% for those with original applicable EIT rates higher than 25%, or gradually increase to 25% over a 5-year period from 2008 to 2012 for those with original applicable EIT rates lower than 25%, where appropriate. The major operating subsidiaries of the Group established in the Shanghai Pudong New Area are subject to income tax at a standard rate of 25% in 2012 (2011: 24%).

Profit Attributable To Equity Holders Of The Company And Net Profit Margin

Profit attributable to equity holders of the Company for the year ended 31 December 2012 was RMB177 million (2011: RMB102 million), and net profit margin of the Group was 10.0% (2011: 3.7%).

Earnings Per Share

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

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

Final Dividend and Final Special Dividend

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

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

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

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

The Register of Members of the Company will be closed from 22 May 2013 to 24 May 2013 (both days inclusive), for the purpose of determining shareholders' entitlements to the 2012 final dividend and final special dividend. In order to qualify for the 2012 final dividend and final special dividend, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 21 May 2013.

FINANCIAL POSITION

Working capital efficiency ratios

China Segment

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

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

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

Japan Segment

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

Liquidity and financial resources

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

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

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

Pledge of assets

As at 31 December 2012, the Group had approximately RMB137 million (31 December 2011: RMB137 million) were held in banks as deposits of advertising fee payable to our business partner who is a third party as well as guarantee deposit for the issue of letters of credit for our business.

Capital commitments and contingencies

According to a limited partnership agreement with CITICPE, the Group shall pay a capital contribution of RMB300 million for investment. As at 31 December 2012, the Group has paid RMB150 million as capital contribution, with the remaining balance of RMB150 million as capital commitments.

Foreign exchange risk

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

The major operations of the Group were mainly carried out in the PRC and transacted in Renminbi. Except for foreign exchanges losses (gains) for the period under review mainly derived from our unutilised capital in foreign currencies in the PRC, the exchange rate risk of the Group was insignificant.

Significant investments and acquisitions

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

OUTLOOK

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

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

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

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

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

INVESTOR RELATIONS REPORT

The Group has always believed that the maintenance of investor relations is a long-term systematic and important task for the Group. The Group's management and investor relations team have been committed to building strong bilateral communication channels with investors. On one hand, we continue to help investors to understand our business better, through transparent, accurate, and timely disclosure of our corporate financial performances and operations. On the other hand, we promote corporate integrity, self-discipline, and standardised operations, and continuously improve the Group's management and governance structure, in order to maximise corporate values and shareholders' interests.

For the year 2012, we summarise the investor relations achievements as below:

RESULTS ANNOUNCEMENT, ROAD SHOW AND INVESTMENT SUMMITS

Right after the announcements of the 2011 annual results and the 2012 interim results, which were in March and August 2012 respectively, the Group held investor presentation and press conference to timely disclose the latest business performance, future development direction and strategies in the same day. Meanwhile, presentation materials and webcast of the event were available on the company website the day after, for investors' further review.

In order to provide investors a more comprehensive review of our business, we launched post-result Non-deal Roadshows (NDRs) after our results announcement, and held one-on-one/group meetings in Hong Kong where we provided efficient face-to-face communication channel for our investors. While introducing the Group's recent performances, development strategies and future prospects, we also received valuable suggestions and feedbacks regarding our business concept and operation strategies from investors. Our top managements and investor relations team took part in investment summits, which was held by investment banks, with an aim to enhance our interaction and communications with global investors.

ONGOING DAILY COMMUNICATION

In daily operation, the Group conducts multi-channel and multi-level communication with investors and analysts, which include:

One-on-one meeting and Telephone Conferences

In 2012, a total of 215 face-to-face meetings and telephone conferences were conducted with investors and analysts.

Investors Store Visits

In 2012, based on the needs of our investors and analysts, we arranged at least 20 times of stores visits in Beijing, Changsha, Xiamen, Shenzhen, Guangzhou, and etc.

Sales Fair Visits

In September 2012 we invited several investors and analysts to attend the Group's 2012 Spring/Summer trade meeting and arranged conferences with the top management, so that they can understand our products, operations and strategies, as well as the latest situation and development of the retail market, from a more straight-forward and in-depth perspective.

Company Website

We continuously and timely update Investor Relations Section in our corporate website (http://www.dxsport.com) to disseminate the Group's relevant information, so that investors can update the development about us. Meanwhile, we have investor relations e-mail box to receive inquiries and suggestions rose by investors, and responded them promptly.

Investor Phone Inquiry Services

We provide investor phone inquiry services, which are handled and answered by investor relations department. We ensure smooth lines within working hours, in order to provide timely answers to various issues and inquiries from shareholders, potential investors and analysts.

MEDIA RELATIONS

Since its listing, the Group has been committed to maintaining a close relationship with the domestic and foreign media through activities including press releases, media briefings and management interviews. Thus, we disseminate our business strategy and financial performance to shareholders and the general public in a more efficient and effective manner.

AGM

In accordance with the Listing Rules of the Hong Kong Stock Exchange, we organise annual general meetings, to discuss the Group's business strategies and investment plans equitably and transparently, in order to maintain and respect the legitimate rights and interests of all shareholders, especially for small and medium ones.

Looking ahead, spearheaded by the Group's management, we will continue devoting efforts to build a positive and proactive investor relations by communicating regularly with shareholders, analysts, potential investors and public groups. We will adhere to transparent, accurate, and timely manner to disseminate our latest results, and further tap into capital market, so as to construct a long-term stable and reasonable shareholder structure.

Meanwhile, we encourage all shareholders, analysts, potential investors to share with us their views and valuable suggestions about the Group via various channels, including mail, e-mail and telephone, in order for us to constantly improve our corporate operation and administration.

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)	54	Chief Executive Officer, Chairman and Executive Director
Mr. Qin Dazhong (秦大中)	44	Chief Operating Officer and Executive Director
Mr. Gao Yu (高煜)	39	Non-Executive Director
Mr. Xu Yudi (徐玉棣)	61	Independent Non-Executive Director
Dr. Xiang Bing (項兵)	50	Independent Non-Executive Director
Mr. Jin Zhi Guo (金志國)	56	Independent Non-Executive Director

EXECUTIVE DIRECTORS

Mr. Chen Yihong (陳義紅), aged 54, is our founder, chairman, chief executive officer 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. Mr. Chen had completed an executive Master's in business administration degree from Guanghua School of Management of Peking University (北京大學光華管理學院) in 2002. Mr. Chen had completed "China CEO Program" of Cheung Kong Graduate School of Business (長江商學院) in 2009.

Mr. Qin Dazhong (秦大中), aged 44, is our chief operating officer and executive director. Mr. Qin is primarily responsible for operating the business and the overall financial affairs of the Company. Mr. Qin joined Beijing Dongxiang as general manager since October 2002 and has over 15 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 Bachelor's degree in economics from Zhongshan University (中山大學) and an executive Master's 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 39, is our non-executive director. He is currently the managing director of the Private Equity Division of Morgan Stanley Asia Limited, and he primarily focuses on private equity investment activities in China. He is a non executive director of both Belle International Holdings Limited (百麗國際控股有限公司) and Sparkle Roll Group Ltd (耀萊集團有限公司), two companies listed on the main board of Hong Kong Stock Exchange. Mr. Gao is also a director of Tongkun Group Co., Ltd (桐昆集團股份有限公司), a company listed on Shanghai 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 Inc's Capital Markets Group in New York. Mr. Gao graduated from Stanford University with a Master's 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

Mr. Xu Yudi (徐玉棣), aged 61, an independent non-executive director of the Company. Mr. Xu obtained qualifications as a certified public accountant and senior auditor in the PRC. He is a fellow member of the Chinese Institute of Certified Public Accountants. He obtained his master's degree in economics from the Institute for Fiscal Science Research under the State Ministry of Finance (財政部財政科學研究所). For the period between 2006 and 2011, Mr. Xu was a director of China Citic Group (中國中信集團公司), and for the period between 2009 and 2011, Mr. Xu was also the consultant of Group Strategy and Planning Department. For the period between 1994 and 2009, Mr. Xu was the vice president and general accountant of China Leasing Company Limited (中國租賃有限公司), president and chairman of Citic International Cooperation (中信國際合作公司), vice president and vice chairman of Citic Constructions Co. Ltd. (中信建設有限責任公司). Prior to that, he was a lecturer of Tianjin Commercial School (天津財貿學校) and also the officer, division chief, deputy director, deputy delegate and director of National Audit Office. He was also an intern at the Office of Auditor General of Canada from 1983 to 1985.

Dr. Xiang Bing (項兵), aged 50, is our independent non-executive director. Dr. Xiang obtained a Doctoral degree in accounting from the University of Alberta in Canada. He has over 15 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, committee member of the audit committee and remuneration committee of Dan Form Holdings Company Limited (丹楓控股有限公司), HC International, Inc. (慧聰網有限公司), Enerchina Holdings Limited (威華達控股有限公司), Sinolink Worldwide Holdings Limited (百仕達控股有限公司) and Longfor Properties Co. Ltd. (龍湖地產有限公司). He is an independent non-executive director, committee member of the audit committee, remuneration committee and nomination committee of Peak Sport Products Co., Limited (匹克體育用品有限公司). All the above mentioned companies are listed on the Hong Kong Stock Exchange.

He is an independent non-executive director of Yunan Baiyao Group Co., Ltd. (雲南白藥集團股份有限公司). He is also an independent non-executive director and committee member of audit committee and strategic committee of Guangzhou Automobile Group Co., Ltd. (廣州汽車集團股份有限公司). He is also an independent director and member of audit committee of Shaanxi Qinchuan Machine Development Co., Ltd. (陝西秦川機械發展股份有限公司), all of the above mentioned companies are listed on the Shenzhen Stock Exchange.

Dr. Xiang currently serves as independent non-executive director and committee member of audit committee, remuneration committee and nomination committee of LDK Solar Co., Ltd. (江西賽維LDK太陽能高科技有限公司). Dr. Xiang also serves as independent non-executive director and committee member of audit committee of E-House (China) Holdings Limited (易居（中國）控股有限公司). All of the above mentioned companies are listed on the New York Stock Exchange.

Dr. Xiang also serves as independent non-executive director and committee member of audit committee and remuneration committee of Perfect World Co., Ltd., (完美時空網絡技術有限公司), a company listed on Nasdaq.

Between May 2008 and February 2012, Dr. Xiang was an independent non-executive director and committee member of remuneration committee of Little Sheep Group Limited (小肥羊集團有限公司). A company listed on the Hong Kong Stock Exchange.

Mr. Jin Zhi Guo (金志國), aged 56, is an independent non-executive director of the Company. Mr. Jin is a senior economist with EMBA at China Europe International Business School and Ph.D at Qingdao University. Mr. Jin has extensive experience in strategic management, sales and marketing management and capital operations. Mr. Jin was awarded "2007 CCTV Top 10 Economic-Figures". He is the national representative of the 10th and 11th National People's Congress.

On May 2012, Mr. Jin was appointed to the board of directors of Lonking Holdings Limited (中國龍工控股有限公司), a company listed on the main board of the Hong Kong Stock Exchange, as its independent non-executive director.

Between June 2008 and June 2012, Mr. Jin was a Chairman and Executive Director of Tsingtao Brewery Company Limited. Mr. Jin has been appointed as Honorary Chairman of the said Company since June 2012.

Between September 2009 and April 2012, Mr. Jin was a director of QKL Stores Inc., a company listed on the NASNAD (Ticker Symbol: QKLS).

SENIOR MANAGEMENT

Mr. Sun Jianjun (孫建軍), graduated from Beijing Institute of Economy (北京經濟學院) (now known as Capital University of Economics and Business (首都經濟貿易大學)) with a Bachelor's degree in economics in 1989, and he obtained a Master's degree in business administration from China Europe International Business School. Prior to joining us, he worked for Beijing Shunmei Garment Co., Ltd. (北京順美服裝有限公司) as workshop supervisor and was then promoted to deputy factory head, responsible for sales and finance. Also, he was marketing director of Beijing Li Ning Sports Goods Co., Ltd., (北京李寧體育用品有限公司), general manager of Shanghai Edo Sports Company Limited (上海一動體育有限公司) and executive director of Renhe Oriental Investment Company (仁和東方投資公司). He has 23 years of experience in relevant industry. He joined the Group in April 2008 and is the head of Phenix Co., Ltd.

Mr. Guo Jian Xin (郭建新), is the vice-president of sales of the Company. He has over 15 years experience in the sports industry in China. Prior to joining the Company, he was the chief operation officer and group vice-president of Beijing Li Ning Sports Goods Co., Ltd. (北京李寧體育用品有限公司).

ENVIRONMENTAL PROTECTION

As a responsible global corporate citizen, the Group is profoundly aware of the importance of environmental protection to the achievement of social and business sustainability. Therefore, we have made dedicated efforts in reducing environmental pollution caused by daily business operations through a variety of measures.

A range of on-going measures for energy efficiency and emission reduction have been taken. Through the installation of the internal automatic lighting control system, which turns off office lighting automatically during non-business hours to avoid lights staying on all night long, we have saved up hundreds of thousands of Kwh each year. We have also installed water conservation valves in our internal water supply equipment and our annual water consumption has reduced by 25% as a result. During summer time, the room temperature of the air-conditioning system is adjusted a few degrees upward to lower the power output of the air-conditioning system. Automatic controls have also been installed to significantly reduce the loading of electricity consumption. The Group has also conducted a general stock-taking in respect of its fixed assets, whereby idle assets have been reallocated for use to reduce unwarranted purchases of new assets. Our effective asset utilisation rate has been improved and resource conservation has been achieved. The Group has also persisted in battery sorting and recycling to avoid secondary pollution of soil.

Meanwhile, all employees are encouraged to use our shuttle services or public transport in their daily commuting, in order to minimise the environmental impact of vehicular emissions.

CHARITY WORK

In addition to its ongoing initiatives in environmental protection, the Group also actively promotes and takes part in various types of social charity work. In 2012, when the Group learned that children living in the mountain areas of Guizhou could only wear single-layered shoes during winter time without proper winter shoes to stand the cold weather, it donated some new shoes to the secondary school students there through local community welfare agencies. During the Euro 2012 football tournament held in June 2012, the Group sponsored Mengzhou Movie Star Football Team (夢舟明星足球隊) in their visit to orphanages in Gdansk, Poland with the donation of KAPPA sporting goods with a retail worth of RMB300,000.

STAFF DEVELOPMENT

Human resources represent important strategic resources for modern enterprises that play a vital part in the improvement of management efficiency and the enhancement of productivity. As the Group surges forward in the fast lane of business development surge, great importance has been attached to the development of the human resource management system and the cultivation of high-calibre personnel.

Optimisation of Group Organisation and Structure

The Group has taken proactive actions to optimise the Group's organisation and structure, rationalise its business processes and streamline its staff establishment in timely response to market changes. The optimisation of our corporate organisation and structure has helped to elucidate our corporate development strategy, thereby improving our operating results.

Improvement of Performance Management System

In its practice of performance management, the Group seeks in a proactive manner to draw lessons from past experiences, correct any shortcomings and optimise its performance management policy. While meeting the needs of business development, we also aim to practice succinct, pragmatic and highly efficient management, such that our performance management system embodies appraisal concerns which are results-oriented, while enhancing effectiveness in organisation management.

Staying Focused on Personnel Training and Development

In recent years, the Group has placed a particularly strong emphasis on the internal cultivation of high-calibre staff by improving its selection, appointment and retention mechanisms. Appropriate personnel have been deployed to key positions to ensure comprehensive management succession for the Company's core businesses. To cater to new requirements in channel management, the Group has started a retail management trainee programme, whereby outstanding university graduates will be recruited by selection to join specialised training regimes of the Company, in a move to stock and cultivate future high-calibre personnel in light of adjustments in channel management.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE (THE "CG CODE")

The Company is committed to ensuring high standards of corporate governance in the interests of shareholders and devotes considerable effort to identifying and formalising best practices. The Company has complied with the code provisions set out in the Code on Corporate Governance (effective until 31 March 2012) the Corporate Governance Code (effective from 1 April 2012) as contained in Appendix 14 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") except for the following deviations:

(i) Provision A.2.1 of the CG Code provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Our Company deviates from this provision because Mr. Chen Yihong performs both the roles of chairman and chief executive officer since 20 October 2011. Mr. Chen is the founder of our Group and has extensive experience in sporting goods industry in China. The Board believes that vesting the two roles in the same person provides our Company with strong and consistent leadership and facilitates the implementation and execution of our Group's business strategies. We shall nevertheless review the structure from time to time in light of the prevailing circumstances.

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS ("MODEL CODE")

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as its own standard for securities transactions by directors and having made enquiries, confirmed that all the directors have complied with the required standards for the year ended 31 December 2012.

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 44 below), and focuses its attention on matters affecting the Company's overall strategic policies, finances and shareholders related matters. These include financial statements, dividend policy, significant changes in accounting policies, 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, of whom two are executive Directors, one is non-executive Director and three are independent non-executive Directors.

Executive Directors:
Mr. Chen Yihong *(Chairman and appointed as Chief Executive Officer)*
Mr. Qin Dazhong *(Chief Operating Officer)*

Non-Executive Director:
Mr. Gao Yu

Independent Non-Executive Directors:
Mr. Jin Zhi Guo
Dr. Xiang Bing
Mr. Xu Yudi

Biographies of the directors are set out on pages 35 to 37. None of the member of the Board has any relationship (including financial, business, family or other material or relevant relationships) among members of the Board. 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 Group. 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 Group. The Company has formal letter of appointment with each Directors setting out the key terms and conditions of his/her appointment. The non-executive Director is appointed for a specific term of 1 year. Such appointment shall automatically renew at the expiry and shall continue for further successive periods of one year, subject to a maximum of three years.

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.

In accordance with Article 87 of the Company's articles of association, Mr. Gao Yu and Mr. Xu Yudi shall retire from the office by rotation and, being eligible, shall offer themselves for re-election at the forthcoming Annual General Meeting ("AGM").

Mr. Qin Dazhong (re-elected as executive Director on 15 May 2012), Dr. Xiang Bing (re-elected as independent non-executive director on 15 May 2012), Mr. Chen Yihong (re-elected as executive Director on 12 May 2011) and Mr. Jin Zhi Guo (re-elected as independent non-executive Director on 12 May 2011) shall hold office until they are required to retire in accordance with the Company's articles of association.

At each 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.

DIRECTORS' AND OFFICERS' LIABILITIES INSURANCE

The Company has arranged appropriate directors' and officers' liabilities insurance coverage for the Directors and officers of the Company.

DIRECTORS' CONTINUOUS TRAINING AND DEVELOPMENT PROGRAMME

Pursuant to the CG Code which took effect on 1 April 2012, all directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the board remains informed and relevant.

The Company has put in place a training and development programme for directors which includes (i) induction programme for newly appointed directors; and (ii) on-going training and professional development programme for directors.

During the period from 1 April 2012 to 31 December 2012, all directors of the Company namely, Mr. Chen Yihong, Mr. Qin Dazhong, Mr. Gao Yu, Mr. Jin Zhi Guo, Dr. Xiang Bing and Mr. Xu Yudi, received regular briefings and updates on the Group's business, operations and corporate governance matters. Materials on new or changes to salient laws and regulations applicable to the Group was provided to the directors.

BOARD AND COMMITTEES MEETINGS

In 2012, the Board held 6 meetings. The attendance of the directors at Board meetings, principal Board Committee meetings and AGM held in 2012 is set out in the table below.

	Board meetings in 2012	Audit committee meetings in 2012	Attendance of Remuneration committee meeting in 2012	Nomination committee meeting in 2012	AGM in 2012
Executive Directors					
Chen Yihong	6/6	N/A	1/1	1/1	1/1
Qin Dazhong	6/6	N/A	N/A	N/A	1/1
Non-Executive Director					
Gao Yu	6/6	N/A	N/A	N/A	1/1
Independent Non-Executive Directors					
Xu Yudi	6/6	3/3	1/1	N/A	1/1
Xiang Bing	6/6	3/3	1/1	1/1	0/1
Jin Zhi Guo	6/6	3/3	N/A	1/1	0/1

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 Committee, Remuneration Committee, Nomination Committee 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 external legal or other independent professional advice if they consider it necessary to do so.

AUDIT COMMITTEE

Members: Mr. Xu Yudi (chairman), Dr. Xiang Bing and Mr. Jin Zhi Guo. The Audit Committee consists solely of independent non-executive Directors, all of whom have extensive financial experience.

Under its Terms of Reference, the duties of the Audit Committee include financial and efficiency aspects as described below. Amongst other things, the Audit 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 Audit 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 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. Apart from giving pre-approval of all audit services, the Audit 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 Audit 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 Audit Committee discusses any matters that auditor may wish to raise either privately or together with executive Directors and any other persons. The Audit Committee is also required to review the effectiveness of the Company's financial controls, internal control and risk management systems. In addition, the Audit Committee has to ensure co-ordination between the internal and external auditor, 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 Audit Committee met three times in the year of 2012. The major work performed by the Audit Committee in 2012 included:

(i) Review and recommend the Board's approval of the 2012 external audit plan and 2012 internal audit plan;

(ii) Review and recommend the Board's approval of the 2011 annual financial statements and 2012 interim financial statements;

(iii) Review of the 2012 external audit report and internal audit report;

(iv) Approval of the remuneration and terms of engagement of PricewaterhouseCoopers for the 2012 audit.

REMUNERATION COMMITTEE

Members: Dr. Xiang Bing (chairman), Mr. Chen Yihong 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 making 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 Remuneration Committee met one time in the year of 2012. The major work performed by Remuneration Committee in 2012 included reviewing and determining the Directors' remuneration for the year ending 31 December 2013.

NOMINATION COMMITTEE

Members: Mr. Chen Yihong (chairman), Dr. Xiang Bing and Mr. Jin Zhi Guo. Among the three members, Mr. Chen Yihong is an executive Director and the remaining two members are independent non-executive Directors. The Nomination Committee was established on 27 March 2012.

Under its Terms of Reference, the principal responsibilities of the Nomination Committee include:

(a) to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(b) to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

(c) to assess the independence of independent non-executive directors of the Company and review the independent non-executive directors' annual confirmations on their independence and where the Board proposes a resolution to elect an individual as an independent non-executive director at the general meeting, it should set out in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting why they believe he should be elected and the reasons why they consider him to be independent;

(d) to make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive;

(e) to seek independent professional advice to perform its responsibilities where necessary; and

(f) to report back to the Board on its decisions or recommendations (unless there are legal or regulatory restrictions on its ability to do so) and to prepare a summary of its work during the year for inclusion in the Company's corporate governance (including a report the policies, procedures, process and criteria it has adopted to select and recommend candidates for directorship during the year).

The Nomination Committee met one time in the year of 2012. The major work performed by Nomination Committee in 2012 included reviewing the structure, size and composition of the board and assess the independence of independent non-executive directors of the company.

EXECUTIVE COMMITTEE

Members: Mr. Chen Yihong (chairman), Mr. Qin Dazhong, Mr. Sun Jian Jun and Mr. Guo Jian Xin.

The Board is responsible for the overall management and performance of the Group 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 resources allocation. Detailed functions of the Executive Committee as delegated by the Board mainly include:

(i) to prepare and approve the specific operation plan, financial forecast and budget of each subsidiary of the Company in accordance to those of the Company as approved by the Board;

(ii) to monitor and oversee the implementation of the budget as approved by the Board;

(iii) to monitor and oversee the financial and operational performance of the Company and its subsidiaries;

(iv) to ascertain the business plan and company strategies as approved by the Board and develop specific implementation plan; and

(v) to appoint or remove senior management of the Company or any of its subsidiaries other than chief executive officer, chief financial officer and internal audit manager of the Company, and to recommend the appointment of chief executive officer, chief financial officer and internal audit manager of the Company.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the following corporate governance duties as required under the Code:

(a) to develop and review the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(e) to review the Company's compliance with the Code and disclosure in the Corporate Governance Report.

During the year, the Board considered the following corporate governance matters:

(i) adoption of corporate governance duties under the Code;

(ii) establishment of the Nomination Committee.

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, the financial performance and cash flows for that period. The directors are also responsible for ensuring that proper accounting records of the Company and its subsidiaries are kept at all times.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board and the Audit Committee are responsible for developing and maintaining the system of internal controls of the Group to protect shareholders' interest and to safeguard the Group's assets by setting appropriate policies and reviewing the effectiveness of major control procedures for financial, operational, compliance and risk management areas. The Board and the Audit Committee have reviewed the effectiveness of the Group's system of internal controls on all major operations, including the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial function, and their training programs and budget, by reviewing the internal control reports prepared by the Internal Audit and Control Department (the "IAC") and management letters submitted by external auditors. Also, the Board and the Audit Committee met with the internal auditors, the external auditors and the management to discuss findings from their works and resolution. The Board and the Audit Committee considered that the system of internal controls was operating effectively for the year ended 31 December 2012.

The IAC is responsible for assisting the Board and the Audit Committee in maintaining effective internal controls by evaluating their effectiveness and efficiency and by ensuring their continuous improvement. The IAC reported to the Audit Committee and aimed at providing reasonable assurance to the Board and the Audit Committee by ensuring the existence and effectiveness of Group's internal controls. The IAC adopted the globally recognised framework outlined by the Committee of Sponsoring Organisations of The National Commission of Fraudulent Financial Reporting (COSO) for establishing the system of internal controls and formulates an annual internal audit plan for the coming year in December each year. Audit work programs are developed based on understanding of the operations obtained from interviews with the management. The

Audit Committee reviews and approves the annual audit plan and all subsequent major changes to the plan, if any. The IAC is responsible for carrying out internal control reviews based on the approved annual audit plan. Prior to the commencement of each audit assignment, audit planning meetings are arranged with process owners to communicate the scope. Through execution of the audit work programs, the IAC inspects, monitors and evaluates the design effectiveness and the operating effectiveness of the key controls associated with the processes under review. Duties of the IAC also include regular reviews on the implementation and procedures of financial and operational activities and the system of internal controls of the Group. The IAC has unrestricted access to any information relating to the Group's risk management, control and governance processes. The IAC 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.

EXTERNAL AUDITOR

The Company has engaged 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 services to be provided by PwC and discusses with PwC the nature and scope of their audit and reporting obligations before the audit commences.

The remuneration paid or payable to the Group's independent auditor, PricewaterhouseCoopers, and its affiliated firms, for services rendered is broken down below:

	2012 **RMB'000**
Statutory audit	**2,600**
Non-audit services	**1,154**
Total	**3,754**

The non-audit services mainly comprised tax compliance, interim review services and certain agreed upon procedure work.

The responsibilities of the independent auditor with respect to the 2012 consolidated financial statements are set out in the section "Independent Auditor's Report" on pages 56 to 57.

COMPANY SECRETARY

Ms. Wai Pui Man, the Company Secretary of the Company, confirmed that she has taken no less than 15 hours relevant professional training during the financial year.

COMMUNICATION WITH SHAREHOLDERS

Our Shareholders are very important to us. It is our responsibility to ensure that all Shareholders receive clear, timely and effective information 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 reports, public announcements, and press releases, as well as detailed information on our corporate governance practices.

The Board views the AGM as one of the principal channels to communicate with the Shareholders of the Company and an opportunity for the Shareholders to raise questions to the Board. The chairman of the Board, chief executive officer, chief operating officer, directors and some other senior managements of the Company will be present at the AGM 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 Investor Relations ("IR") Department to handle regular contact with our investors. An Investor Relations Report is produced hereto on pages 33 to 34 to provide a more comprehensive overview of the work performed by the IR Department in 2012.

SHAREHOLDERS' RIGHT

Pursuant to Articles 57 of the Articles of Association of the Company, each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting.

Pursuant to the Company's articles of association, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company. The contact details of the Board or the secretary are as below:

The Company Secretary
China Dongxiang (Group) Co., Ltd.
Building 21, No. 2 Jingyuanbei Street,
Beijing Economic-Technology Development Area,
Beijing 100176, China
Telephone: (8610) 6783 6585
Facsimile: (8610) 6785 6606
Email: ir@dxsport.com.cn

There are no provisions under the Company's articles of association or the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands regarding procedures for Shareholders to put forward proposals at general meetings other than a proposal of a person for election as director. Shareholders may follow the procedures set out above to convene an extraordinary general meeting for any business specified in such written requisition.

Shareholders can make any query in respect of the Company or to make a request for the Company's information to the extent such information is publicly available. The designated contact details are as above. Shareholders' questions about their shareholdings should be directed to Computershare Hong Kong Investor Services Limited, the Company's branch share registrar, at Shops 1712–16, 17th Floor, Hopewell Center, 183 Queen's Road East, Hong Kong.

CONSTITUTIONAL DOCUMENTS

As at 31 December 2012, the Group confirmed that there was not any change on the Memorandum and Articles of Association of the Company.

The directors have the pleasure of presenting to the shareholders their report together with the audited consolidated financial statements for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The Group are principally engaged in brand development, design and sales of sport-related apparel, footwear and accessories in Mainland of PRC, Macau and Japan.

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

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

GROUP PROFIT

The Group's profit for the year ended 31 December 2012 is set out in the consolidated income statement on page 58.

DIVIDENDS

An interim dividend of RMB29,343,000 and an interim special dividend of RMB38,755,000 in respect of the 6 months ended 30 June 2012 were declared to Shareholders on 22 August 2012 and paid in September 2012.

The directors recommend a final dividend of RMB0.43 cent and final special dividend of RMB0.57 cent per ordinary share of the Company, amounting to approximately RMB23,807,000 and RMB31,557,000 respectively, subject to approval by the Shareholders of the Company at the AGM to be held on 15 May 2013 and are payable in Hong Kong Dollars based on the rate of HKD1.00 = RMB0.8086 being the official exchange rate of Hong Kong dollars against Renminbi as quoted by the People's Bank of China on 19 March 2013.

PROPERTY, PLANT AND EQUIPMENT

Movements in the property, plant and equipment of the Group during the year are set out in Note 14 to the consolidated financial statements.

BANK LOANS AND OTHER BORROWINGS

There was no bank loans and other borrowings of the Company and the Group as at 31 December 2012.

FIVE-YEAR SUMMARY

A summary of the results and assets and liabilities of the Company for the last five years is set out on pages 8 to 9.

SHARE CAPITAL

Movements in the share capital of the Company during the year are set out in Note 26 to the consolidated financial statements.

RESERVES

Movements in reserves of the Group and the Company during the year are set out in Note 28 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2012 amounted to approximately RMB9,431,214,000, which is the total of the share premium account and reserves 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.

MATERIAL CONTRACT

No contracts of significance have 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
Mr. Qin Dazhong

Non-Executive Director:
Mr. Gao Yu

Independent Non-Executive Directors:
Mr. Jin Zhi Guo
Dr. Xiang Bing
Mr. Xu Yudi

In accordance with Article 87 of the Company's articles of association, Mr. Gao Yu and Mr. Xu Yudi shall retire from the office by rotation and, being eligible, shall offer themselves 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 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 8 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 section headed "Connected Transactions" below, no contracts of significance to which the Company, any of its subsidiaries, its holding companies or fellow subsidiaries was 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 2012 and up to and including the date of this report.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors and senior management are set out on pages 35 to 37.

SHARE OPTION SCHEMES

The Company adopted a share option scheme ("Share Option Scheme") on 12 September 2007 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 have contributed 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 ("Grantee").

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 starting from the date of listing of the Company on 10 October 2007.

Participants of the Share Option Scheme are required to pay HKD1.00 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.

Unless approved by the Shareholders in general meeting in the manner prescribed in the Listing Rules, the Board shall not grant options to any Grantee if the acceptance of those options would result in the total number of shares issued and to be issued to that Grantee on exercise of his options during any 12 month period exceeding 1% of the total Shares then in issue.

The maximum limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other option schemes of the Company must not exceed 30% of the shares in issue from time to time. In addition, the maximum number of Shares in respect of which options may be granted under the Share Option Scheme and any other option schemes of the Company shall not in aggregate exceed 10% of total number of issued shares as of the Listing Date which is 550,000,000 shares, representing 9.93% of the issued share capital of the Company as at the date of this report.

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 option 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 such Shareholders' approval.

There were no share options granted, lapsed, exercised or cancelled during the year ended 31 December 2012. There was no share option outstanding under the Share Option Scheme as at 31 December 2012.

RESTRICTED SHARE AWARD SCHEME

On 10 December 2010 (the "Adoption Date"), the Board adopted the restricted share award scheme (the "Share Award Scheme") as an incentive to retain and encourage the participants for the continual operation and development of the Group.

Pursuant to the Share Award Scheme, up to 30,000,000 existing Shares ("Restricted Shares") may be purchased by BOCI-Prudential Trustee Limited ("Trustee") from the market out of cash contributed by the Group and be held in trust for the relevant selected participants until such Shares are vested with the relevant selected participants in accordance with the provisions of the Share Award Scheme (the "Scheme Rules").

An administration committee (comprising the remuneration committee and certain senior management of the Company which shall include the chief executive officer and vice chairman of the Board) (the "Administration Committee") may, subject always to the Scheme Rules, from time to time, determine the number of Restricted Shares to be granted and at its absolute discretion select any selected participant (excluding any excluded employee of the Group as provided under the Scheme Rules) to be a selected participant under the Share Award Scheme.

In addition, the maximum number of Restricted Shares which may be granted to a selected participant at any one time or in aggregate may not exceed 1% of the issued share capital of the Company as at 10 December 2010.

The Share Award Scheme is effective from the Adoption Date (i.e.10 December 2010) and shall continue in full force and effect for a term of 10 years.

A selected participant will be qualified to receive the Restricted Shares which are referable to him after all the qualifying conditions having been fulfilled in accordance with the vesting schedule pursuant to the Scheme Rules. Pursuant to the Scheme Rules, Restricted Shares held by the Trustee which are referable to a selected participant shall not vest in the selected participant if the employment contract of the selected participant has been terminated by the Company or any of its subsidiary because of, amongst others, (i) dishonesty or serious misconduct; (ii) incompetence or negligence in the performance of his duties; (iii) becoming bankrupt; and (iv) being convicted for any criminal offence involving his integrity or honesty etc.

With a view to allow the Board to have more flexibility in the administration of the scheme, the Share Award Scheme has been amended on 6 July 2012 pursuant to which, the grant share under the Share Award Scheme are subject to the vesting schedule or any other date as determined by the Chairman of the Board and the Chief Executive Officer (or any person designated by them).

For the year ended 31 December 2012, 938,000 Restricted Shares were granted to a eligible participant pursuant to the Restricted Share Award Scheme. 938,000 Restricted Shares were vested during the year. As at 31 December 2012, the number of Restricted Shares granted under the scheme amounted to 938,000 Shares, representing approximately 0.017% of the issued Shares as at the Adoption Date. Details of movements of the Restricted Shares under the Restricted Share Award Scheme for the year ended 31 December 2012 are as follows:

	Number of Restricted Shares				
Date of grant	**as at 01/01/2012**	**granted during the year**	**vested during the year**	**lapsed during the year**	**as at 31/12/2012**
15/12/2012	30,000,000	938,000	938,000	—	29,062,000

Save as disclosed above, at no time during the year was the Company or its subsidiaries a party to any arrangement to enable the Directors or any of their spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

RETIREMENT SCHEMES

Particulars of the retirement schemes operated by the Group are set out in Note 8 to the consolidated financial statements.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

For the year ended 31 December 2012, the Company repurchased a total of 100,000,000 shares of par value HK$0.01 each of the Company at an aggregate purchase price of approximately HK$104,208,698.05 on the Hong Kong Stock Exchange. Details of the share repurchases were as follows:

Months of repurchase	**Number of ordinary Shares repurchased**	**Price per ordinary Share**		**Aggregate purchase price**
		Lowest HK$	**Highest HK$**	**HK$**
April 2012	69,970,000	0.98	1.05	71,809,867.25
May 2012	30,030,000	1.05	1.09	32,398,830.80
Total	100,000,000			104,208,698.05

As at the date of this annual report, all 100,000,000 Shares repurchased by the Company for the year ended 31 December 2012 had been cancelled and the issued share capital of the Company was reduced by the par value thereof accordingly. The repurchases were effected by the Directors, pursuant to the mandate from Shareholders to enhance the net assets and/or earnings per share of the Company.

Saved as disclosed above, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of any listed securities of the Company for the year ended 31 December 2012.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2012, the interests and short positions of the directors and chief executives 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(1)	2,477,081,000 Shares	—	44.74%
Mr. Qin Dazhong	Interest of a controlled corporation(2)	211,864,000 Shares	—	3.83%

Notes:

(1) Mr. Chen Yihong, Harvest Luck Development Limited ("Harvest Luck") and Talent Rainbow Far East Limited ("Talent Rainbow") are deemed to be interested in the Shares held by Poseidon Sports Limited ("Poseidon") by virtue of Harvest Luck and Talent Rainbow being entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of Poseidon. Harvest Luck is wholly-owned and controlled by Mr. Chen Yihong. The entire issued share capital of Talent Rainbow is held by Billion Giant Development Limited ("Billion Giant"). The entire issued share capital of Billion Giant is in turn held by BOS Trust Company (Jersey) Limited as trustee of the Cerises Trust. The Cerises Trust is an irrevocable discretionary trust set up by Mr. Chen Yihong as settlor and BOS Trust Company (Jersey) Limited as trustee on 20 April 2010. The beneficiaries under the Cerises Trust are family members of Mr. Chen Yihong. Mr. Chen Yihong as founder of the Cerises Trust is deemed to be interested in the Shares held by Talent Rainbow under the SFO.

(2) Wise Finance Ltd, is wholly-owned and controlled by Mr. Qin Dazhong and Mr. Qin Dazhong is therefore deemed to be interested in the Shares held by Wise Finance Ltd.

Save as disclosed above, as at 31 December 2012, none of the directors and chief executives 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 2012, 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:

		Number of Shares		
Name of Shareholders	**Nature of interest**	**Long position**	**Short position**	**Approximate percentage of shareholding (%)**
Poseidon Sports Limited	Corporate interest	2,477,081,000	—	44.74%
Talent Rainbow Far East Limited(1)	Interest in a controlled corporation	2,477,081,000	—	44.74%
Harvest Luck Development Limited(1)	Interest in a controlled corporation	2,477,081,000	—	44.74%

Notes:

(1) Mr. Chen Yihong, Harvest Luck Development Limited ("Harvest Luck") and Talent Rainbow Far East Limited ("Talent Rainbow") are deemed to be interested in the Shares held by Poseidon Sports Limited ("Poseidon") by virtue of Harvest Luck and Talent Rainbow being entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of Poseidon. Harvest Luck is wholly-owned and controlled by Mr. Chen Yihong. The entire issued share capital of Talent Rainbow is held by Billion Giant Development Limited ("Billion Giant"). The entire issued share capital of Billion Giant is in turn held by BOS Trust Company (Jersey) Limited as trustee of the Cerises Trust. The Cerises Trust is an irrevocable discretionary trust set up by Mr. Chen Yihong as settlor and BOS Trust Company (Jersey) Limited as trustee on 20 April 2010. The beneficiaries under the Cerises Trust are family members of Mr. Chen Yihong. Mr. Chen Yihong as founder of the Cerises Trust is deemed to be interested in the Shares held by Talent Rainbow under the SFO.

Save as disclosed above, as at 31 December 2012, 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 TRANSACTION

During the year ended 31 December 2012, the Company did not enter into any transactions with its connected persons (as defined in the Listing Rules) which was subject to the reporting, announcement and/or shareholders' approval requirements under Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTION

The related party transactions are set out in Note 35 to the consolidated financial statements. None of these related party transactions fall under the scope of "Connected Transaction" and "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.

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 2012, the purchases from the largest supplier and the aggregated purchases from the largest five suppliers amounted for 7.1% and 22.5% of the Group's total purchases, and the sales to the largest customer and the aggregated sales to the largest five customers amounted for 9.6% and 26.5% of the Group's total sales, respectively.

CORPORATE GOVERNANCE

Throughout 2012, the Company has complied with all the code provisions, except two deviation from code provision A.2.1 and A.6.7 of the Corporate Governance Code contained in Appendix 14 to the Listing Rules. Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 40 to 47 of this report.

AUDITOR

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

On behalf of the Board
Chen Yihong
Chairman

Hong Kong, 20 March 2013

羅兵咸永道

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 58 to 120, which comprise the consolidated and company balance sheets as at 31 December 2012 and the consolidated income statement, and the consolidated statement of comprehensive income, 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 information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated financial statements.

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

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's profit 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, 20 March 2013

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2012

	Note	Year ended 31 December 2012 RMB'000	2011 RMB'000
Revenue	5	**1,771,817**	2,741,826
Cost of goods sold	7	**(930,179)**	(1,234,840)
Reversal of/(provision for) impairment of inventories	7	**55,226**	(215,878)
Gross profit		**896,864**	1,291,108
Other gains, net	6	**50,869**	113,644
Provision for impairment of available-for-sale financial assets	19	**(82,221)**	(238,313)
Distribution and selling expenses	7	**(580,484)**	(779,765)
Administrative expenses	7	**(215,851)**	(287,992)
Operating profit		**69,177**	98,682
Finance income, net	9	**183,163**	129,261
Share of (losses)/profits of jointly controlled entities	17	**(771)**	135
Investment income from available-for-sale financial assets		**19,385**	—
Profit before income tax		**270,954**	228,078
Income tax expense	10	**(77,150)**	(122,421)
Profit for the year		**193,804**	105,657
Profit attributable to:			
Owners of the Company		**176,719**	102,186
Non-controlling interests		**17,085**	3,471
		193,804	105,657
Earnings per share attributable to owners of the Company during the year (expressed in RMB cents per share)			
— Basic earnings per share	11	**3.19**	1.82
— Diluted earnings per share	11	**3.19**	1.82
Dividends	32	**123,462**	157,526

The notes on pages 65 to 120 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

		Year ended 31 December	
		2012	2011
	Note	**RMB'000**	RMB'000
Profit for the year		**193,804**	105,657
Other comprehensive income:			
— Fair value change on available-for-sale financial assets, net of tax	19	**137,194**	(4,237)
— Foreign currency translation differences	28	**(35,076)**	(67,480)
Other comprehensive income/(loss) for the year, net of tax		**102,118**	(71,717)
Total comprehensive income for the year		**295,922**	33,940
Attributable to:			
— Owners of the Company		**278,837**	30,469
— Non-controlling interests		**17,085**	3,471
Total comprehensive income for the year		**295,922**	33,940

The notes on pages 65 to 120 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2012

	Note	As at 31 December 2012 RMB'000	2011 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	**101,201**	116,614
Lease prepayments	15	**12,293**	12,788
Intangible assets	16	**272,027**	289,111
Interests in jointly controlled entities	17	**15,562**	18,909
Available-for-sale financial assets	19	**1,026,587**	973,398
Deferred income tax assets	20	**93,665**	112,542
Prepayments, deposits and other receivables — non-current portion	23	**43,886**	33,706
		1,565,221	1,557,068
Current assets			
Inventories	21	**287,325**	403,656
Trade receivables	22	**414,124**	547,621
Prepayments, deposits and other receivables	23	**88,276**	100,338
Other financial assets	24	**2,261,137**	1,068,255
Cash and bank balances	25	**2,712,996**	3,774,868
		5,763,858	5,894,738
Total assets		**7,329,079**	7,451,806
EQUITY			
Equity attributable to owners of the Company			
Share capital	26	**53,589**	54,562
Share premium account	26	**1,984,059**	2,135,560
Reserves	28	**4,884,974**	4,605,050
		6,922,622	6,795,172
Non-controlling interests		**21,824**	4,739
Total equity		**6,944,446**	6,799,911

CONSOLIDATED BALANCE SHEET

As at 31 December 2012

	Note	As at 31 December 2012 RMB'000	2011 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	20	**24,162**	30,922
		24,162	30,922
Current liabilities			
Trade payables	29	**124,032**	275,734
Accruals and other payables	30	**210,518**	309,372
Provisions	31	**22,771**	27,184
Current income tax liabilities		**3,150**	8,683
		360,471	620,973
Total liabilities		**384,633**	651,895
Total equity and liabilities		**7,329,079**	7,451,806
Net current assets		**5,403,387**	5,273,765
Total assets less current liabilities		**6,968,608**	6,830,833

The notes on pages 65 to 120 are an integral part of these consolidated financial statements.

The financial statements were approved by the Board of Directors on 20 March 2013 and were signed on its behalf.

COMPANY BALANCE SHEET

As at 31 December 2012

	Note	As at 31 December 2012 RMB'000	2011 RMB'000
ASSETS			
Non-current assets			
Interests in subsidiaries	13	**6,907,017**	10,229,002
Amounts due from subsidiaries	13	**1,800,975**	1,818,050
		8,707,992	12,047,052
Current assets			
Prepayments, deposits and other receivables	23	**10,093**	7,937
Amounts due from subsidiaries	13	**76,632**	74,597
Other financial assets	24	**419,281**	—
Cash and bank balances	25	**392,208**	808,940
		898,214	891,474
Total assets		**9,606,206**	12,938,526
EQUITY			
Equity attributable to owners of the Company			
Share capital	26	**53,589**	54,562
Share premium account	26	**1,984,059**	2,135,560
Reserves	28	**7,447,155**	10,739,263
Total equity		**9,484,803**	12,929,385
LIABILITIES			
Current liabilities			
Amounts due to subsidiaries	13	**121,160**	5,870
Accruals and other payables	30	**243**	3,271
		121,403	9,141
Total liabilities		**121,403**	9,141
Total equity and liabilities		**9,606,206**	12,938,526
Net current assets		**776,811**	882,333
Total assets less current liabilities		**9,484,803**	12,929,385

The notes on pages 65 to 120 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 20 March 2013 and were signed on its behalf.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

	Note	Attributable to owners of the Company						
		Share capital RMB'000	Share premium account RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2011		54,810	2,889,096	(169,068)	4,740,139	7,514,977	268	7,515,245
Comprehensive income								
Profit for the year		—	—	—	102,186	102,186	3,471	105,657
Other comprehensive income								
Fair value change on available-for-sale financial assets	19	—	—	(4,237)	—	(4,237)	—	(4,237)
Currency translation differences		—	—	(67,480)	—	(67,480)	—	(67,480)
Total other comprehensive income, net of tax		—	—	(71,717)	—	(71,717)	—	(71,717)
Total comprehensive income		—	—	(71,717)	102,186	30,469	3,471	33,940
Transactions with owners								
Share-based compensation	27(a)	—	—	(233)	—	(233)	—	(233)
Shares repurchased and cancelled	26	(248)	(42,969)	—	—	(43,217)	—	(43,217)
Dividends relating to 2010 and 2011, paid	26, 32	—	(710,567)	3,743	—	(706,824)	—	(706,824)
Contribution from non-controlling interests of a subsidiary		—	—	—	—	—	1,000	1,000
Total contributions by and distributions to owners of the Company		(248)	(753,536)	3,510	—	(750,274)	1,000	(749,274)
Appropriation to statutory reserves		—	—	1,765	(1,765)	—	—	—
Total transactions with owners		(248)	(753,536)	5,275	(1,765)	(750,274)	1,000	(749,274)
Balance at 31 December 2011		54,562	2,135,560	(235,510)	4,840,560	6,795,172	4,739	6,799,911
Balance at 1 January 2012		**54,562**	**2,135,560**	**(235,510)**	**4,840,560**	**6,795,172**	**4,739**	**6,799,911**
Comprehensive income								
Profit for the year		**—**	**—**	**—**	**176,719**	**176,719**	**17,085**	**193,804**
Other comprehensive income								
Fair value change on available-for-sale financial assets	19	**—**	**—**	**137,194**	**—**	**137,194**	**—**	**137,194**
Currency translation differences		**—**	**—**	**(35,076)**	**—**	**(35,076)**	**—**	**(35,076)**
Total other comprehensive income, net of tax		**—**	**—**	**102,118**	**—**	**102,118**	**—**	**102,118**
Total comprehensive income		**—**	**—**	**102,118**	**176,719**	**278,837**	**17,085**	**295,922**
Transactions with owners								
Shares repurchased and cancelled	26	**(973)**	**(83,403)**	**—**	**—**	**(84,376)**	**—**	**(84,376)**
Dividends relating to 2012 interim, paid	26, 32	**—**	**(68,098)**	**371**	**—**	**(67,727)**	**—**	**(67,727)**
Shares vested under Restricted Share Award Scheme		**—**	**—**	**716**	**—**	**716**	**—**	**716**
Total contributions by and distributions to owners of the Company		**(973)**	**(151,501)**	**1,087**	**—**	**(151,387)**	**—**	**(151,387)**
Appropriation to statutory reserves		**—**	**—**	**2,264**	**(2,264)**	**—**	**—**	**—**
Total transactions with owners		**(973)**	**(151,501)**	**3,351**	**(2,264)**	**(151,387)**	**—**	**(151,387)**
Balance at 31 December 2012		**53,589**	**1,984,059**	**(130,041)**	**5,015,015**	**6,922,622**	**21,824**	**6,944,446**

The notes on pages 65 to 120 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2012

	Note	Year ended 31 December 2012 RMB'000	2011 RMB'000
Cash flows from operating activities			
Cash generated from operations	33	**256,950**	129,831
Interest received		**86,555**	100,964
Income tax paid		**(70,567)**	(221,767)
Net cash generated from operating activities		**272,938**	9,028
Cash flows from investing activities			
Purchase of property, plant and equipment		**(8,184)**	(13,955)
Purchase of intangible assets		**(3,327)**	(6,418)
Proceeds from disposal of property, plant and equipment	33	**1,476**	261
Decrease in term deposits with initial terms of over three months and long term bank deposits		**681,132**	1,427,333
(Increase)/decrease in other financial assets		**(1,192,882)**	454,242
Dividends received from the investment in available-for-sale financial assets		**19,385**	—
Increase in investments in available-for-sale financial assets		**—**	(1,016,375)
Net cash (used in)/generated from investing activities		**(502,400)**	845,088
Cash flows from financing activities			
Repurchase of shares	26	**(84,376)**	(43,217)
Dividends paid	32	**(67,727)**	(706,824)
Net cash used in financing activities		**(152,103)**	(750,041)
Net (decrease)/increase in cash and cash equivalents		**(381,565)**	104,075
Cash and cash equivalents at beginning of the year		**722,882**	649,022
Exchange losses on cash and cash equivalents		**(31)**	(30,215)
Cash and cash equivalents at end of the year	25	**341,286**	722,882

The notes on pages 65 to 120 are an integral part of these consolidated financial statements.

1 GENERAL INFORMATION

China Dongxiang (Group) Co., Ltd. (the "Company") and its subsidiaries (together the "Group") are principally engaged in brand development, design and sales of sport-related apparel, footwear and accessories in Mainland of the People's Republic of China (the "PRC"), Macau and Japan.

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

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

These financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 20 March 2013.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

Changes in accounting policies and disclosures

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

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

- The IASB has amended IAS 12, 'Income taxes', to introduce an exception to the principle for the measurement of deferred tax assets or liabilities arising on an investment property measured at fair value. IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. The amendment introduces a rebuttable presumption that an investment property measured at fair value is recovered entirely by sale. There's no investment property held by the Group as at 31 December 2012. The amendment does not have a material impact on the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

Changes in accounting policies and disclosures (continued)

(b) New standards and interpretations not yet adopted

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

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

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

- IFRS 11, 'Joint arrangements', is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.

- IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

Changes in accounting policies and disclosures (continued)

(b) *New standards and interpretations not yet adopted* (continued)

- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015. The Group will also consider the impact of the remaining phases of IFRS 9 when completed by the Board.

- IFRS 10, 'Consolidated financial statements', builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2013.

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

- IFRS 12, 'Disclosures of interests in other entities', includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013.

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

2.2 Subsidiaries

2.2.1 Consolidation

(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. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise from circumstances such as enhanced minority rights or contractual terms between shareholders, etc.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

(a) *Subsidiaries* (continued)

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.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) *Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions — that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) *Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements, for a prolonged period, exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Jointly controlled entities

A jointly controlled entity is a joint venture where the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity. Investment in a jointly controlled entity is accounted for under the equity method of accounting.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Jointly controlled entities (continued)

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in jointly controlled entities equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entities.

The Group determines at each reporting date whether there is any objective evidence that the investment in the jointly controlled entities is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the jointly controlled entities and its carrying value and recognises the amount adjacent to 'share of profits/(losses) of jointly controlled entities' in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its jointly controlled entities are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the jointly controlled entities. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in jointly controlled entities are recognised in the income statement.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive committee that makes strategic decisions.

2.5 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 United States Dollars ("USD") and the functional currency of most of its subsidiaries is Renminbi ("RMB") or Japanese Yen ("JPY"). 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 or valuation where items are re-measured. 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.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income, net'.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Foreign currency translation (continued)

(b) *Transactions and balances* (continued)

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analyzed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss 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 other comprehensive income.

(c) *Group companies*

The results and financial position of all the Group's 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 (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 other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in equity.

2.6 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.

Freehold land is stated at cost less accumulated impairment losses, if any. Cost represents consideration paid for the purchase of the land. Freehold land is not subject to depreciation.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Property, plant and equipment (continued)

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 property, plant and equipment 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	within 40 years
Office furniture and equipment	within 20 years
Vehicles	within 5 years
Leasehold improvements	within 15 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting period.

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 (Note 2.9).

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

2.7 Leasehold land and land use right

Leasehold land and land use rights are stated at cost less accumulated amortisation and impairment losses, if any. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated for periods from 20 to 50 years. Amortisation of leasehold land and land use rights is calculated on a straight-line basis over the period of the leases.

2.8 Intangible assets

(a) Trademarks and licences

Separately acquired trademarks and licences are shown at historical cost. Trademarks and licences acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and licences 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.

Licence rights are stated at historical cost less accumulated amortisation and impairment losses, if any. They are initially measured at 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Intangible assets (continued)

(b) 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.

Costs associated with maintaining computer software programs are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed three years.

2.9 Impairment of non-financial assets

Assets that have an indefinite useful life — for example, goodwill or intangible assets not ready to use — are not subject to amortisation and are tested annually for impairment. Assets that are not subject to amortisation 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.

2.10 Financial assets

2.10.1 Classification

The Group classifies its financial assets in the following categories: loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets (continued)

2.10.1 Classification (continued)

(a) 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 the amount that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade receivables', 'deposits and other receivables', 'other financial assets' and 'cash and bank balances' in the balance sheet (Note 2.14 and 2.15).

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

2.10.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'gains and losses from investment securities'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

2.12 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

(b) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria referred to in (a) above. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

2.13 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 and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.14 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Trade and other receivables (continued)

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.15 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.16 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.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to owners of the Company until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to owners of the company.

2.17 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

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

2.18 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried 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.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the income statement as interest expense.

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 end of the reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current 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 and associates 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. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, 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, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, 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 substantively 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 only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, jointly controlled entities and associated companies, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(c) Offsetting

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 assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.20 Employee benefits

(a) Pension obligations

Group companies participate in various defined contribution retirement benefit plans administered by the relevant governments in the PRC, Hong Kong and Japan. The relevant 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Employee benefits (continued)

(b) Bonus plans

Since 1 January 2009, the Group has adopted and implemented cash-settled performance-based employee benefit plans (the "Performance Unit Plans") for the middle to senior management of the Group. Under the Performance Unit Plans, the eligible employees are granted performance units, each of which represents an entitlement to receive cash payments when the Group's performance outperforms a pre-set benchmark in a period of 3 years starting from 1 January of the year the units are grant. The value of each unit has a cap at RMB2 per unit. The fair values of the Group's liabilities under the Performance Unit Plans as at each balance sheet date are estimated by management using Binominal valuation model. The changes in fair value of the liabilities are charged to the consolidated income statement.

The Group also provides discretionary bonuses to employees based on the performance of employees of the Group.

(c) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to a termination when the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

2.21 Share-based payments

(a) Share Option Schemes

Equity-settled share-based payment transactions

The Group operates a Share Option Scheme (Note 27(a)). Under the Share Option Scheme, the Group receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense in the Group's consolidated income statement. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Share-based payments (continued)

(a) *Share Option Schemes* (continued)

Equity-settled share-based payment transactions (continued)

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

Share-based payment transactions among Group entities

In the Company's entity financial statements, the grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity account.

(b) *Restricted Share Award Scheme*

The Company adopted the Dongxiang Company Limited Restricted Share Award Scheme ("Restricted Share Award Scheme") (Note 27(b)) on 10 December 2010. The objective of the Restricted Share Award Scheme is to encourage and retain selected participants including directors and employees of the Group, to work with the Group and to provide additional incentive for them to achieve performance goals. Under the scheme, a trust (Note 27) was established in Hong Kong and purchased 30,000,000 shares of the Company from the open market. The total amount paid to acquire the shares was financed by the Company by way of contributions made to the trust. As the financial and operational policies of the trust are governed by the Group, and Group benefits from the Trust's activities, the trust is consolidated in the Group's financial statements as a special purpose entity.

When restricted shares are granted to selected participants, the fair value of the restricted shares awarded based on the market value of the Company's shares on the date of grant is charged as employee expenses to the consolidated income statement of the Group.

2.22 Provisions

Provisions for environmental restoration, restructuring costs and legal claims 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. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Provisions (continued)

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.

2.23 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns, value added taxes and after eliminating sales within the Group. The Group recognises revenue when the amount of revenue can be reliably measured; when 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 Group bases its estimates of return 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

The Group manufactures and sells a range of sport-related apparel, footwear and accessories to its distributors in China and Japan. Sales of goods are recognised when a group entity has delivered products to the wholesaler, the wholesaler has full discretion over the channel and price 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 the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Certain distributors are entitled to return goods or additional sales discounts in accordance with agreements between the Group and its distributors. Management estimates the quantities of goods returns and additional sales discounts based on historical experience and makes provision accordingly. Revenue is recognised to the extent of goods delivered less estimated goods returns and sales discounts.

(b) Sales of goods — retail

The Group operates a chain of retail shops and outlets for selling sport apparels in China and Japan. Sales of goods are recognised when the Group sells a product to customers. Retail sales are usually in cash or by credit card.

Revenue from the provision of the sale of goods on the internet is recognised at the point that the risks and rewards of the inventory have passed to the customer, which is the point of acceptance by the customers. Transactions are settled by cash or credit card.

(c) Sales of goods — consignment sales

Consignment sales are the sales of 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Revenue recognition (continued)

(d) Royalty fee income

Royalty fee income is recognised on an accrual basis in accordance with the substance of the relevant agreements.

2.24 Interest income

Interest income is recognised using the effective interest rate method. When a loan and 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 loan and receivables are recognised using the original effective interest rate.

2.25 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

2.26 Leases

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

2.27 Dividend distribution

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC and Japan with most of the transactions denominated and settled in RMB and JPY, while limited purchases and sales are from overseas (other than Japan) and settled mainly in USD. Foreign exchange risk also arises from certain bank deposits denominated in currencies other than the functional currencies of the respective companies. These include mainly the deposits denominated in Hong Kong Dollars ("HKD"), USD and JPY in the PRC subsidiaries, the functional currency of which is RMB, and the deposits of the Company which are denominated in RMB while the functional currency of the Company is USD. Analyses of cash and bank balances by currencies are disclosed in Note 25. The Group currently does not hedge its foreign exchange exposure.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(a) *Market risk* (continued)

(i) *Foreign exchange risk* (continued)

As at 31 December 2012, if RMB had strengthened/weakened by 5% against the USD/HKD with all other variables held constant, post-tax profit for the year and equity of the Group would have changed mainly as a result of foreign exchange losses/gains on translation of USD and HKD denominated cash and bank balances respectively.

	2012	2011
	RMB'000	RMB'000
Year ended 31 December:		
Profit for the year (decrease)/increase		
— Strengthened 5%	**(7,089)**	(16,665)
— Weakened 5%	**7,089**	16,665

(ii) *Cash flow and fair value interest rate risk*

The Group's exposure to change in interest rate risk mainly concerns its cash in bank and other financial assets. The Group currently does not hedge its exposure to interest rate risk. Details of the Group's other financial assets and cash in bank balances are disclosed in Note 24 and Note 25 respectively.

(iii) *Price risk*

The Group is exposed to equity securities price risk because of the investments in listed securities held by the Group and classified on the consolidated balance sheet as available-for-sale financial assets (Note 19). The Group is not exposed to commodity price risk. As at 31 December 2012, the decline in the fair value of the investment in Mecox Lane Limited ("Mecox Lane") (Note 19 (d)), a company whose shares are listed on NASDAQ in the United States of America ("USA"), was considered significant, accordingly, the Group recognised a loss of RMB22,221,000 (2011: RMB181,024,000) in respect of provision for impairment of this investment.

(b) *Credit risk*

The Group has no significant concentration of credit risk. The carrying amounts of cash and bank balances, other financial assets, available-for-sale financial assets, trade receivables and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

As at 31 December 2012 all the bank deposits are deposited in high quality financial institutions without significant credit risk. The table below shows the bank deposit balances of the Group in the banks as at 31 December 2012 and 2011. Management does not expect any losses from non-performance of these banks.

		As at 31 December	
		2012	2011
	Rating (i)	**RMB'000**	RMB'000
Industrial and Commercial Bank of China	A	**908,067**	1,731,894
China Merchants Bank	BBB+	**538,146**	664,645
China Minsheng Banking Corp., Ltd.	(ii)	**356,988**	163,666
Bank of Communications	A-	**343,240**	232,047
HSBC Bank	AA-	**152,779**	162,630
Shanghai Pudong Development Bank	(ii)	**97,489**	481,251
Others	(ii)	**316,287**	338,735
		2,712,996	3,774,868

(i) The source of the credit rating is from Standard & Poor as at 31 December 2012.

(ii) The credit rating information for these financial institutions is not available.

The Group's other financial assets as at 31 December 2012 of RMB2,261,137,000 (2011: RMB1,068,255,000) comprise unlisted treasury products issued by commercial banks in the PRC (Note 24). Management does not expect any losses from non-performance of these banks.

The Group's available-for-sale financial assets with credit risk as at 31 December 2012 include the investment in limited partnership funds established for the purpose of making equity and debt investments (Note 19).

The Group's credit sales are only made to customers with appropriate credit history and at credit periods of 30 to 60 days.

(c) Liquidity risk

The Group has significant cash and bank balances and deposits in treasury products issued by banks and liquidity risk is considered to be minimal. The Group controls its liquidity risk by maintaining sufficient cash and cash equivalents, which are generated mainly from the operating cash flow.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(c) ***Liquidity risk*** (continued)

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 at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	The Group RMB'000	**The Company** RMB'000
At 31 December 2012		
Trade payables (Note 29)	**124,032**	**—**
Amounts due to subsidiaries (Note 13)	**—**	**121,160**
Accruals and other payables (Note 30)	**92,982**	**243**
	217,014	**121,403**
At 31 December 2011		
Trade payables (Note 29)	275,734	—
Amounts due to subsidiaries (Note 13)	—	5,870
Accruals and other payables (Note 30)	99,426	3,271
	375,160	9,141

All the balances are due within one year.

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. As at 31 December 2012, the Group did not have any borrowings.

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (continued)

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2012 and 2011:

At 31 December 2012	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale financial assets				
— Equity securities	**20,011**	**—**	**856,576**	**876,587**
— Investment in CITIC Mezzanine Fund I	**—**	**—**	**150,000**	**150,000**
	20,011	**—**	**1,006,576**	**1,026,587**

At 31 December 2011	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale financial assets				
— Equity securities	42,308	—	781,090	823,398
— Investment in CITIC Mezzanine Fund I	—	—	150,000	150,000
	42,308	—	931,090	973,398

The fair value of financial instruments traded in active markets is determined based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Instrument included in level 1 is the equity investment in the USA listed Mecox Lane (Note 19) held by the Group as available-for-sale financial assets. As at December 2012, the decline in the fair value of investment in Mecox Lane was considered significant, accordingly, the Group recognised a loss of RMB22,221,000 (2011: RMB181,024,000) in respect of provision for impairment of this investment.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. The Group does not hold instrument under level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. The Group used the specific valuation techniques to value the financial instrument, including discounted cash flow analysis and other techniques.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (continued)

Instruments included in level 3 are the investments in unlisted entity securities held by the Group as available-for-sale financial assets including the limited partnership funds established for the purpose of making equity and debt investments, and the equity investment in the unlisted MSYH Group and other company (Note 19). As at 31 December 2012 the Group recognised a loss of RMB60,000,000 in respect of provision for impairment in the investment in MSYH Group.

There were no reclassifications of financial assets during the year.

The following table presents the changes in level 3 instruments for the year:

	2012 RMB'000	2011 RMB'000
Available-for-sale financial assets in level 3		
At 1 January	931,090	213,938
Exchange differences	(1,708)	(7,990)
Additions	—	788,080
Transfer to/(from) equity	137,194	(5,649)
Losses recognised in profit or loss	(60,000)	(57,289)
At 31 December	1,006,576	931,090
Total losses for the period including in profit or loss for assets held at the end of the reporting period	(60,000)	(57,289)
Total gains/(losses) recognised in other comprehensive income for the period for assets held at the end of the reporting period	135,486	(13,639)

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.

4.1 Critical accounting estimates and assumptions

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 addressed below.

(a) Useful life of trademark

The Group's management determined that the useful life of Kappa, Phenix and other trademarks is 40 years (Note 16). This estimate is based on the management's experiences in the sport apparel industry. The Group will increase or decrease the amortisation charge where useful life is shorter or longer than previously estimated. The estimate of useful life of the trademark and the amortisation charge could change significantly as a result of changes in the sport apparel 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 written-off or written-down to the recoverable amount when there is an indication that the carrying amount is not recoverable.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

4.1 Critical accounting estimates and assumptions (continued)

(b) Fair value assessment of available-for-sale financial assets

The fair values of available-for-sale financial assets as at each balance sheet date are determined with reference to quoted prices in an active market and valuation techniques for financial instruments with no quoted prices including valuation model based on discounted cash flows of the underlying business and other valuation techniques. Changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income, except for impairment losses which are charged to the income statement, if any. The fair value of available-for-sale financial assets and the estimated cash flows of the underlying business could change significantly as a result of changes in the sport apparel market, market trend and competition. Management will adjust the valuation results where actual results are different from what were previously estimated.

(c) Income taxes

The Group is mainly subject to income taxes in the PRC and Japan. 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.

(d) Inventory provision

Inventories are stated at the lower of cost and net realisable value. Management makes provision based on historical experience and on the estimation of future market condition and sales. Management will adjust the provision where actual net realisable value is higher or lower than previously estimated.

(e) Sales returns and discounts provision

Depending on agreement between the Group and distributors, certain distributors in Japan are entitled to return goods or additional sales discounts. Management estimates the amounts of goods returns and additional sales discount based on historical experience and market condition and makes provision accordingly. Revenue is recognised to the extent of goods delivered less estimated goods returns and sales discounts. Management will adjust the provision where actual sales returns or sales discounts are more or less than previously estimated.

(f) Impairment of investments in subsidiaries

Where there are indicators for impairment, the carrying value of the parent entity's investment in the subsidiaries in the parent's separate financial statements should also be reviewed for impairment. The recoverable amount has been determined based on the higher of fair value less costs to sell and value-in-use calculations. These calculations require the use of estimates (Note 13).

According to the value-in-use calculations, an impairment charge of RMB3,332,440,000 arose during the course of the 2012 year, resulting in the carrying amount of the investment in subsidiaries being written down to its recoverable amount.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

4.2 Critical judgments in applying the entity's accounting policies

(a) *Inventory provision*

Management makes provision for inventories based on historical experience and estimation of future market condition and sales. This requires significant judgment. As at 31 December 2011, with the increase of inventory due to the re-purchase of excessive out-season inventories from distributors and the decrease in market demand as evidenced by the decrease in sales orders from distributors in relation to in-season products, the Group recognised inventory provision of RMB215,878,000 based on the future sales plan of the inventories and estimation of future sales price. As at 31 December 2012, in view of that the actual clearance sale of the out-season inventories during the year ended 31 December 2012 was better than the forecast, the Group reversed inventory provision of RMB55,226,000.

(b) *Impairment of available-for-sale financial assets*

The Group follows the guidance of IAS 39 to determine when an available-for-sale equity investment is impaired. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business outlook of the investments, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

As at 31 December 2012 where the investment in a available-for-sale financial asset with decline in fair value below cost that was considered significant or prolonged, provision for impairment loss is recognised. The Group recognised a loss of RMB82,221,000 (2011: RMB238,313,000) in its financial statements for the year ended 31 December 2012 (Note 19).

5 SEGMENT INFORMATION

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

The chief operating decision maker reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports. The chief operating decision maker considers the business and assesses the performance from a geographic perspective, including China (including PRC and Macau) and Japan segments as follows:

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

- Japan — includes distribution and retail of sport apparel under Kappa, Phenix and other brands.

Sales between segments are carried out on terms set out in agreements governing the transactions. The revenue from external customers reported to the chief operating decision maker is measured in a manner consistent with that presented in the consolidated income statement.

5 SEGMENT INFORMATION (CONTINUED)

The segment results and other material income statement items provided to the chief operating decision maker for the reportable segments are as follows:

	China RMB'000	Japan RMB'000	Unallocated RMB'000	Total RMB'000
Year ended 31 December 2012				
Total revenue before inter-segment elimination	1,176,897	618,985	—	1,795,882
Inter-segment revenue	(12,035)	(12,030)	—	(24,065)
Revenue from external customers	1,164,862	606,955	—	1,771,817
Cost of goods sold	(570,047)	(360,132)	—	(930,179)
Reversal of/(provision for) impairment of inventories	59,318	(4,092)	—	55,226
Segment gross profit	654,133	242,731	—	896,864
Segment operating profit	138,980	18,859	(88,662)	69,177
Interest income	164,716	6	13,127	177,849
Interest expenses and others, net	(2,318)	5,723	1,909	5,314
Share of losses of jointly controlled entities	—	(771)	—	(771)
Investment income from available-for-sale financial assets	19,385	—	—	19,385
Profit before income tax	320,763	23,817	(73,626)	270,954
Income tax expense	(75,888)	(1,262)	—	(77,150)
Profit for the year	244,875	22,555	(73,626)	193,804
Material items of income and expense				
Depreciation and amortisation	26,622	10,028		36,650
Provision for impairment losses of available-for-sale financial assets	82,221	—		82,221
Provision for/(reversal of) impairment losses of trade and other receivables	26,362	(2,232)		24,130

5 SEGMENT INFORMATION (CONTINUED)

	China RMB'000	Japan RMB'000	Unallocated RMB'000	Total RMB'000
Year ended 31 December 2011				
Total revenue before inter-segment elimination	2,142,707	625,771	—	2,768,478
Inter-segment revenue	(21,182)	(5,470)	—	(26,652)
Revenue from external customers	2,121,525	620,301	—	2,741,826
Cost of goods sold	(880,291)	(354,549)	—	(1,234,840)
Provision for impairment of inventories	(198,191)	(17,687)	—	(215,878)
Segment gross profit	1,043,043	248,065	—	1,291,108
Segment operating profit	204,269	5,021	(110,608)	98,682
Interest income	81,733	4	7,127	88,864
Interest expenses and others, net	13,298	12,750	14,349	40,397
Share of profits of jointly controlled entities	—	135	—	135
Profit before income tax	299,300	17,910	(89,132)	228,078
Income tax expense	(121,388)	(1,033)	—	(122,421)
Profit for the year	177,912	16,877	(89,132)	105,657
Material items of income and expense				
Depreciation and amortisation	29,069	9,754		38,823
Provision for impairment losses of available-for-sale financial assets	238,313	—		238,313
Provision for/(reversal of) impairment losses of trade and other receivables	40,000	(1,167)		38,833

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

5 SEGMENT INFORMATION (CONTINUED)

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

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

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

The segment assets and liabilities and reconciliations to the Group's total assets and total liabilities are as follows:

	China RMB'000	Japan RMB'000	Unallocated RMB'000	Total RMB'000
As at 31 December 2012				
Total assets before inter-segment elimination	**6,504,203**	**454,841**	**484,313**	**7,443,357**
Inter-segment elimination	**(8,424)**	**(13,749)**	**(92,105)**	**(114,278)**
Total assets	**6,495,779**	**441,092**	**392,208**	**7,329,079**
Interests in jointly controlled entities	**—**	**(15,562)**	**—**	**(15,562)**
Available-for-sale financial assets	**(1,026,587)**	**—**	**—**	**(1,026,587)**
Deferred income tax assets	**(93,665)**	**—**	**—**	**(93,665)**
Segment assets	**5,375,527**	**425,530**	**392,208**	**6,193,265**
Total liabilities before inter-segment elimination	**258,947**	**147,904**	**36,343**	**443,194**
Inter-segment elimination	**(14,371)**	**(7,847)**	**(36,343)**	**(58,561)**
Total liabilities	**244,576**	**140,057**	**—**	**384,633**
Deferred income tax liabilities	**(20,436)**	**(3,726)**	**—**	**(24,162)**
Current income tax liabilities	**(1,751)**	**(1,399)**	**—**	**(3,150)**
Segment liabilities	**222,389**	**134,932**	**—**	**357,321**

5 SEGMENT INFORMATION (CONTINUED)

	China RMB'000	Japan RMB'000	Unallocated RMB'000	Total RMB'000
As at 31 December 2011				
Total assets before inter-segment elimination	6,160,743	524,782	895,036	7,580,561
Inter-segment elimination	(19,682)	(22,977)	(86,096)	(128,755)
Total assets	6,141,061	501,805	808,940	7,451,806
Interests in jointly controlled entities	—	(18,909)	—	(18,909)
Available-for-sale financial assets	(973,398)	—	—	(973,398)
Deferred income tax assets	(112,542)	—	—	(112,542)
Segment assets	5,055,121	482,896	808,940	6,346,957
Total liabilities before inter-segment elimination	485,422	209,034	40,723	735,179
Inter-segment elimination	(22,977)	(19,584)	(40,723)	(83,284)
Total liabilities	462,445	189,450	—	651,895
Deferred income tax liabilities	(27,000)	(3,922)	—	(30,922)
Current income tax liabilities	(6,823)	(1,860)	—	(8,683)
Segment liabilities	428,622	183,668	—	612,290

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

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

6 OTHER GAINS, NET

	2012 RMB'000	2011 RMB'000
Government subsidy income	**45,794**	120,183
Disposal of shares in jointly controlled entities (Note 17)	**(438)**	—
Others	**5,513**	(6,539)
	50,869	113,644

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

7 EXPENSES BY NATURE

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

	2012 RMB'000	2011 RMB'000
Cost of inventories recognised as cost of goods sold (Note 21)	**913,823**	1,215,093
Depreciation of property, plant and equipment (Note 14)	**18,526**	18,424
Amortisation of lease prepayments (Note 15)	**288**	285
Amortisation of intangible assets (Note 16)	**17,836**	20,114
Advertising and marketing expenses	**106,589**	180,959
Sales expenses	**143,023**	198,856
Employee salary and benefit expenses (Note 8)	**187,772**	226,848
Design and product development expenses	**88,662**	110,608
Legal and consulting expenses	**7,293**	30,929
Operating lease in respect of buildings	**40,709**	55,924
Logistic fees	**90,301**	93,256
(Reversal of)/provision for impairment of inventories (Note 21)	**(55,226)**	215,878
Provision for impairment of trade and other receivables (Note 22)	**24,130**	38,833
Travelling expenses	**28,899**	33,573
Auditors' remuneration	**4,469**	5,019
Others	**54,194**	73,876
Total of cost of goods sold, reversal of/(provision for) impairment of inventories, distribution and selling expenses and administrative expenses	**1,671,288**	2,518,475

8 EMPLOYEE SALARY AND BENEFIT EXPENSES, INCLUDING DIRECTORS' EMOLUMENTS

	2012 RMB'000	2011 RMB'000
Wages and salaries	**129,571**	148,071
Pension costs (Note (a))	**20,948**	21,971
Performance Units Plan (Note (b))	**(4,167)**	4,214
Share-based compensation expenses (Note 27(a))	**—**	(233)
Restricted Share Award Scheme (Note 27(b))	**716**	—
Termination benefits	**14,785**	—
Staff quarters and other benefits	**25,919**	52,825
	187,772	226,848

Notes:

(a) Pensions — defined contribution plans

The employees of the Group in PRC, Hong Kong and Japan participate in defined contribution retirement benefit plans organised by the relevant local governments. The Group is required to make monthly defined contributions to these plans at rates ranging from 20% to 22% (2011: 20% to 22%) in the PRC and 8.4% (2011: 8.2%) in Japan of the employees' basic salaries for the year, depending upon the applicable local regulations.

8 EMPLOYEE SALARY AND BENEFIT EXPENSES, INCLUDING DIRECTORS' EMOLUMENTS (CONTINUED)

Notes: (continued)

(a) Pensions — defined contribution plans (continued)

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) Performance Units Plan

Since 1 January 2009, the Group has adopted and implemented a cash-settled performance-based employee benefit plans (the "Performance Unit Plans") for the middle to senior management of the Group. Under the Performance Unit Plans, the eligible employees are granted performance units, each of which represents an entitlement to receive cash payments when the Group's performance outperforms a pre-set benchmark in a period of 3 years starting from 1 January of the year the units are grant. The value of each unit has a cap at RMB2 per unit. The fair value of the Group's liability under the Performance Unit Plan as at each balance sheet date is estimated by management using a valuation model. The changes in fair value of the liability are charged to the consolidated income statement.

During the year ended 31 December 2012, the Group did not grant any performance units (2011: nil) and a total of 15,389,000 (2011: 25,059,000) performance units remain valid as at 31 December 2012. Management calculated the fair value of the performance units granted as at 31 December 2012 using the valuation model, based on which, approximately RMB4,167,000 of the provision was written-back and credited to the consolidated income statement for the year ended 31 December 2012.

(c) Directors' emoluments

The remuneration of each director of the Company is set out below:

Name of Director	Fees	Salary	Discretionary bonuses	Other benefits (Note (a))	Employer's contributions to pension schemes	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2012						
Mr. Chen Yihong	**143**	**1,730**	**236**	**39**	**33**	**2,181**
Mr. Qin Dazhong	**143**	**1,465**	**203**	**348**	**33**	**2,192**
Mr. Xiang Bing	**162**	**—**	**—**	**—**	**—**	**162**
Mr. Xu Yudi	**162**	**—**	**—**	**—**	**—**	**162**
Mr. Jin Zhi Guo	**162**	**—**	**—**	**—**	**—**	**162**
	772	**3,195**	**439**	**387**	**66**	**4,859**
Year ended 31 December 2011						
Mr. Chen Yihong	146	1,798	130	36	30	2,140
Mr. Qin Dazhong	146	1,620	112	612	30	2,520
Ms. Zerbib (Note (b))	118	4,079	3	(233)	—	3,967
Mr. Xiang Bing	166	—	—	—	—	166
Mr. Xu Yudi	166	—	—	—	—	166
Mr. Jin Zhi Guo	166	—	—	—	—	166
	908	7,497	245	415	60	9,125

Notes:

(a) Other benefits include insurance premium, Performance Unit Plan and the fair value of share options granted/lapsed and charged to the consolidated income statement during the year

(b) Ms. Zerbib was appointed as the chief executive officer, executive director and the chairman of the executive committee of the Company with effect from 29 November 2010. She resigned on 20 October 2011 and the amortisation expense related to the un-vested share option of RMB233,000 was reversed.

8 EMPLOYEE SALARY AND BENEFIT EXPENSES, INCLUDING DIRECTORS' EMOLUMENTS (CONTINUED)

Notes: (continued)

(d) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2011: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2011: two) individuals during the year are as follows:

	2012 RMB'000	2011 RMB'000
Basic salaries, bonus, share options, Performance Unit Plan and other allowances and benefits in kind	7,431	5,996
Pension costs	66	30
	7,497	6,026

The emoluments fell within the following bands:

	Number of individuals 2012	2011
Emolument bands:		
RMB810,851 to RMB1,621,700 (HKD1,000,001 to HKD2,000,000)	1	—
RMB1,621,701 to RMB2,432,550 (HKD2,000,001 to HKD3,000,000)	1	—
RMB2,432,551 to RMB3,243,400 (HKD3,000,001 to HKD4,000,000)	—	2
RMB3,243,401 to RMB4,054,250 (HKD4,000,001 to HKD5,000,000)	1	—
	3	2

9 FINANCE INCOME, NET

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

10 INCOME TAX EXPENSE

	2012 RMB'000	2011 RMB'000
Current income tax		
— PRC corporate income tax ("CIT")	**63,575**	149,482
— Taxation in Japan	**1,458**	1,152
Deferred income tax (Note 20)	**12,117**	(28,213)
	77,150	122,421

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

Hong Kong profits tax and Singapore profits tax have not been provided as there are no estimated assessable profits arising in or derived from Hong Kong and Singapore during the year ended 31 December 2012 (2011: nil).

Effective from 1 January 2008, the subsidiaries of the Company incorporated in the PRC are subject to corporate income tax at the rate of 25% in accordance with the Corporate Income Tax Law of the PRC (the "New CIT Law") as approved by the National People's Congress on 16 March 2007. The CIT rate applicable to subsidiaries of the Group established in the PRC has been gradually increased to 25% over a 5-year period from 2008 to 2012.

According to the New CIT Law, distribution of profits earned by PRC companies since 1 January 2008 to foreign investors is subject to withholding tax of 5% or 10%, depending on the country of incorporation of the foreign investor, upon the distribution of profits to overseas-incorporated immediate holding companies. During the year, the major operating subsidiary of the Group obtained approval from tax bureau on 5% withholding income tax rate. Accordingly, the Group reversed partly the provision for withholding income tax made in previous years at 10%, resulted in a credit to income tax expense during the year ended 31 December 2012. As at 31 December 2012, the Group had accumulated a deferred withholding tax liability of RMB20,436,000 (2011: RMB27,000,000) in relation to the profit of the PRC subsidiaries that will be distributed.

The subsidiary incorporated in Japan is subject to income tax and local inhabitant tax. The corporate income tax rate for the year ended 31 December 2012 applicable to the subsidiary is 30% (2011:30%) of the assessable profit. The inhabitant tax is determined based on rates on the income tax payable, subject to a certain minimum payment. As there was no assessable profit derived during the year ended 31 December 2012 (2011: nil), the subsidiary was subject to the minimum inhabitant tax payments.

10 INCOME TAX EXPENSE (CONTINUED)

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the combined companies as follows:

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

11 EARNINGS PER SHARE

(a) Basic

Basic earnings per share are calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme during the year.

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

(b) Diluted

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding assuming conversion of all dilutive potential ordinary shares. As at 31 December 2012, there was no potential diluted ordinary share and therefore no diluted earnings per share is presented.

12 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to owners of the Company for the year ended 31 December 2012 is dealt with in the financial statements of the Company to the extent of a loss of approximately RMB3,285,911,000 (2011: profit of RMB1,120,238,000) which comprise mainly the impairment loss of the interests in subsidiaries amounting to RMB3,332,440,000 (2011: nil).

13 INTERESTS IN SUBSIDIARIES — COMPANY

	2012 RMB'000	2011 RMB'000
Interests in subsidiaries		
Unlisted investments, at cost	10,123,862	10,113,407
Contribution related to share based payments	28,457	28,457
Contribution related to the Restricted Share Award Scheme (Note 27(b))	87,138	87,138
	10,239,457	10,229,002
Less: provision for impairment (Note (b))	(3,332,440)	—
	6,907,017	10,229,002
Amounts due from subsidiaries		
Loans to subsidiaries — non-current portion	1,800,975	1,818,050
Loans to subsidiaries — current portion	46,054	44,019
Dividends receivable	30,578	30,578
	76,632	74,597
Amounts due to subsidiaries		
Loans from subsidiaries	120,636	5,371
Others	524	499
	121,160	5,870

Notes:

(a) The amounts due from and to subsidiaries are unsecured, interest free and repayable on demand.

The particulars of the principal subsidiaries of the Group are set in Note 36 to the consolidated financial statements.

(b) Impairment tests for interests in subsidiaries

In the assessment of the provision for impairment of subsidiaries, the interests in subsidiaries engaged in the distribution and retail of sport apparel in China amounting to RMB10,097,316,000 were viewed as one cash-generating unit ("China CGU"). The recoverable amounts of the CGU have been determined based on value-in-use calculations.

The recoverable amount of the China CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates of 3%.

The other key assumptions used for value-in-use calculations in 2012 include budgeted gross margin and discount rate applied to the cash flow projections, which are in a range of 53%-55% and 12.67%, respectively. Management determined budgeted gross margin based on past performance and its expectations of market developments.

14 PROPERTY, PLANT AND EQUIPMENT — GROUP

	Freehold land RMB'000	Buildings RMB'000	Office furniture and equipment RMB'000	Vehicles RMB'000	Leasehold improvements RMB'000	Construction-in-progress RMB'000	Total RMB'000
At 1 January 2011							
Cost	5,108	87,090	48,281	9,147	17,883	5,109	172,618
Accumulated depreciation	—	(15,836)	(20,323)	(4,725)	(3,151)	—	(44,035)
Accumulated impairment	(129)	—	(890)	—	—	—	(1,019)
Exchange difference	667	704	1,939	—	1,776	157	5,243
Net book amount	5,646	71,958	29,007	4,422	16,508	5,266	132,807
Year ended 31 December 2011							
Opening net book amount	5,646	71,958	29,007	4,422	16,508	5,266	132,807
Additions	—	—	6,276	975	884	5,820	13,955
Disposals							
— Cost	—	—	(1,432)	(131)	(636)	(10,837)	(13,036)
— Depreciation	—	—	1,175	127	234	—	1,536
Depreciation (Note 7)	—	(3,459)	(9,618)	(1,720)	(3,627)	—	(18,424)
Exchange difference	(7)	(7)	(25)	—	(28)	(157)	(224)
Closing net book amount	5,639	68,492	25,383	3,673	13,335	92	116,614
At 31 December 2011							
Cost	5,108	87,090	53,125	9,991	18,131	92	173,537
Accumulated depreciation	—	(19,295)	(28,766)	(6,318)	(6,544)	—	(60,923)
Accumulated impairment	(129)	—	(890)	—	—	—	(1,019)
Exchange difference	660	697	1,914	—	1,748	—	5,019
Net book amount	5,639	68,492	25,383	3,673	13,335	92	116,614
Year ended 31 December 2012							
Opening net book amount	**5,639**	**68,492**	**25,383**	**3,673**	**13,335**	**92**	**116,614**
Additions	**—**	**30**	**4,999**	**—**	**1,637**	**1,518**	**8,184**
Disposals							
— Cost	**—**	**—**	**(2,254)**	**(1,646)**	**—**	**(733)**	**(4,633)**
— Depreciation	**—**	**—**	**1,517**	**1,167**	**—**	**—**	**2,684**
Depreciation (Note 7)	**—**	**(2,974)**	**(10,630)**	**(1,237)**	**(3,685)**	**—**	**(18,526)**
Exchange difference	**(383)**	**(295)**	**(1,177)**	**—**	**(1,217)**	**(50)**	**(3,122)**
Closing net book amount	**5,256**	**65,253**	**17,838**	**1,957**	**10,070**	**827**	**101,201**
At 31 December 2012							
Cost	**5,108**	**87,120**	**55,870**	**8,345**	**19,768**	**877**	**177,088**
Accumulated depreciation	**—**	**(22,269)**	**(37,879)**	**(6,388)**	**(10,229)**	**—**	**(76,765)**
Accumulated impairment	**(129)**	**—**	**(890)**	**—**	**—**	**—**	**(1,019)**
Exchange difference	**277**	**402**	**737**	**—**	**531**	**(50)**	**1,897**
Net book amount	**5,256**	**65,253**	**17,838**	**1,957**	**10,070**	**827**	**101,201**

14 PROPERTY, PLANT AND EQUIPMENT — GROUP (CONTINUED)

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

	2012	2011
	RMB'000	RMB'000
Distribution and selling expenses	**6,536**	6,001
Administrative expenses	**9,236**	9,733
Manufacturing overheads included under cost of goods sold	**2,754**	2,690
	18,526	18,424

There is no pledge of property, plant and equipment of the Group as at 31 December 2012 and 2011.

The Group owns freehold land and buildings located in Shibata City, Niigata province, Japan.

The Group also owns buildings on land with land use right periods within 50 years located in Beijing and Jiangsu province, the PRC.

15 LEASE PREPAYMENTS — GROUP

	Lease prepayments for land use rights RMB'000	Lease prepayments for stores RMB'000	Total RMB'000
At 1 January 2011			
Cost	14,262	169,351	183,613
Accumulated amortisation	(1,396)	(156,527)	(157,923)
Net book amount	12,866	12,824	25,690
Year ended 31 December 2011			
Opening net book amount	12,866	12,824	25,690
Additions	—	3,436	3,436
Amortisation	(285)	(16,053)	(16,338)
Closing net book amount	12,581	207	12,788
At 31 December 2011			
Cost	14,262	172,787	187,049
Accumulated amortisation	(1,681)	(172,580)	(174,261)
Net book amount	12,581	207	12,788
Year ended 31 December 2012			
Opening net book amount	**12,581**	**207**	**12,788**
Disposals			
— Cost	**—**	**(172,787)**	**(172,787)**
—Amortisation	**—**	**172,787**	**172,787**
Amortisation	**(288)**	**(207)**	**(495)**
Closing net book amount	**12,293**	**—**	**12,293**
At 31 December 2012			
Cost	**14,262**	**—**	**187,049**
Accumulated amortisation	**(1,969)**	**—**	**(174,756)**
Net book amount	**12,293**	**—**	**12,293**

Lease prepayments for land use rights represent the Group's interests in land in the PRC and held on leases within 50 years. As at 31 December 2012, the remaining lease period of the land use right is 43 years.

Lease prepayments for stores mainly represent prepayment of rental for lease of flagship stores which are onward leased to distributors of the Group. During the year ended 31 December 2012, the Group has terminated all the flagship stores' leases.

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

16 INTANGIBLE ASSETS — GROUP

	KAPPA trademarks RMB'000	Phenix trademark and others RMB'000	Computer software RMB'000	Total RMB'000
At 1 January 2011				
Cost	397,569	8,605	49,874	456,048
Accumulated amortisation	(132,907)	(573)	(24,862)	(158,342)
Exchange difference	4,120	—	1,035	5,155
Net book amount	268,782	8,032	26,047	302,861
Year ended 31 December 2011				
Opening net book amount	268,782	8,032	26,047	302,861
Additions	—	—	6,418	6,418
Amortisation charge (Note 7)	(7,697)	(215)	(12,202)	(20,114)
Exchange difference	(44)	—	(10)	(54)
Closing net book amount	261,041	7,817	20,253	289,111
At 31 December 2011				
Cost	397,569	8,605	56,292	462,466
Accumulated amortisation	(140,604)	(788)	(37,064)	(178,456)
Exchange difference	4,076	—	1,025	5,101
Net book amount	261,041	7,817	20,253	289,111
Year ended 31 December 2012				
Opening net book amount	**261,041**	**7,817**	**20,253**	**289,111**
Additions	**—**	**—**	**3,327**	**3,327**
Amortisation charge (Note 7)	**(7,660)**	**(215)**	**(9,961)**	**(17,836)**
Exchange difference	**(2,174)**	**—**	**(401)**	**(2,575)**
Closing net book amount	**251,207**	**7,602**	**13,218**	**272,027**
At 31 December 2012				
Cost	**397,569**	**8,605**	**59,619**	**465,793**
Accumulated amortisation	**(148,264)**	**(1,003)**	**(47,025)**	**(196,292)**
Exchange difference	**1,902**	**—**	**624**	**2,526**
Net book amount	**251,207**	**7,602**	**13,218**	**272,027**

The Kappa trademarks represent the perpetual rights of the use of Kappa trademarks in the PRC, Macau and Japan. The Kappa trademarks for the PRC and Macau were purchased by the Group from a third party in 2006 at a consideration of USD35,000,000 (equivalent to approximately RMB280,994,000). The Kappa trademarks for Japan were obtained in the acquisition of Phenix Co., Ltd ("Phenix") in April 2008. The Kappa trademarks are subject to amortisation on a straight-line basis over an estimated useful life of 40 years.

16 INTANGIBLE ASSETS — GROUP (CONTINUED)

Amortisation expenses in relation to trademarks have been charged to distribution and selling expenses and those in relation to computer software have been charged to administrative expenses in the consolidated income statement.

17 INTERESTS IN JOINTLY CONTROLLED ENTITIES — GROUP

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

The financial information below, after necessary adjustments to conform with the Group's significant accounting policies, represents the Group's respective interests in the jointly controlled entities as follows:

	As at 31 December	
	2012 RMB'000	2011 RMB'000
Total assets	**19,593**	23,395
Total liabilities	**(4,031)**	(4,486)

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

There are no material contingent liabilities relating to the Group's interests in jointly controlled entities and no material contingent liabilities of the jointly controlled entities themselves.

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

The particulars of the Group's remaining jointly controlled entity as at 31 December 2012 are set out below:

Company name	Country of incorporation	Particulars of issued/registered capital	Interest held	Principal activities
Indirectly held:				
Shanghai Phenix Apparel Co., Ltd. (上海菲尼克斯製衣有限公司)	PRC	USD4,300,000	38%	Production and sale of apparel and sportswear

18 FINANCIAL INSTRUMENTS BY CATEGORY — GROUP AND COMPANY

	Group		
	Available-for-sale	Loans and receivables	Total
	RMB'000	RMB'000	RMB'000
Assets as per balance sheet			
As at 31 December 2012			
Available-for-sale financial assets (Note 19)	**1,026,587**	**—**	**1,026,587**
Other financial assets (Note 24)	**—**	**2,261,137**	**2,261,137**
Trade and other receivables (Note 22 and 23)	**—**	**534,194**	**534,194**
Cash and bank balances including long term bank deposits (Note 25)	**—**	**2,712,996**	**2,712,996**
	1,026,587	**5,508,327**	**6,534,914**
As at 31 December 2011			
Available-for-sale financial assets (Note 19)	973,398	—	973,398
Other financial assets (Note 24)	—	1,068,255	1,068,255
Trade and other receivables (Note 22 and 23)	—	659,459	659,459
Cash and bank balances including long term bank deposits (Note 25)	—	3,774,868	3,774,868
	973,398	5,502,582	6,475,980

	Other financial liabilities at amortised cost	
	2012	2011
	RMB'000	RMB'000
Liabilities as per balance sheet		
Trade and other payables (Note 29 and 30)	**217,014**	375,160

	Company Loans and receivables	
	2012	2011
	RMB'000	RMB'000
Assets		
Amounts due from subsidiaries (Note 13)	**1,877,607**	1,892,647
Other receivables (Note 23)	**10,093**	7,937
Other financial assets (Note 24)	**419,281**	—
Cash and bank balances (Note 25)	**392,208**	808,940
	2,699,189	2,709,524

18 FINANCIAL INSTRUMENTS BY CATEGORY — GROUP AND COMPANY (CONTINUED)

	Other financial liabilities at amortised cost	
	2012	2011
	RMB'000	RMB'000
Liabilities		
Amounts due to subsidiaries (Note 13)	**121,160**	5,870
Accruals and other payables (Note 30)	**243**	3,271
	121,403	9,141

19 AVAILABLE-FOR-SALE FINANCIAL ASSETS — GROUP

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

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

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

Notes:

(a) The represents the Group's holding of 22.05% equity interests in Mai Sheng Yue He Sporting Goods Co., Limited which owns various companies engaging in the distribution and retail of sport-related products in various provinces in the PRC ("MSYH Group"). As at 31 December 2012, the fair value of the investment in MSYH Group was estimated to be RMB70,000,000 and a provision of RMB60,000,000 (2011: RMB57,289,000) for impairment in the investment was made during the year. The fair value of the investment in MSYH Group as at the balance sheet date is determined with reference to a valuation model based on estimated discounted cash flows.

19 AVAILABLE-FOR-SALE FINANCIAL ASSETS — GROUP (CONTINUED)

Notes: (continued)

(b) In September 2011, the Group entered into subscription and limited partnership agreements with Yunfeng E-commerce funds ("Yunfeng Funds"), pursuant to which the Group subscribed for limited partnership interests with a total capital commitment of USD100,000,000 (equivalent to RMB638,080,000 at historical exchange rate), which had been fully paid as at 31 December 2012. The Yunfeng Funds are established for the purpose of making investments in Alibaba Group Holding Limited, a leading group in the Chinese e-commerce industry. As at 31 December 2012, the investment was stated at fair value, and an unrealised fair value increment of RMB137,194,000 (2011: nil) was charged to other comprehensive income.

(c) In September 2011, the Group entered into subscription agreements and limited partnership agreements, pursuant to which the Group subscribed for limited partnership interests with a total capital commitment of RMB300,000,000 in CITIC Mezzanine Fund I. The CITIC Mezzanine Fund I is a limited partnership established for the purpose of making equity and debt investments in the PRC. As at 31 December 2012, the Group has paid RMB150,000,000, being 50% of the capital commitment, and the investment was stated at fair value.

(d) In March 2011, the Group entered into a share purchase agreement with two shareholders of Mecox Lane, a company listed on NASDAQ in the United States of America and engaged in sales of apparel and accessories on online platforms in the PRC. Pursuant to the share purchase agreement, the Group purchased 40,519,225 ordinary shares of Mecox Lane, representing approximately 10% of the issued shares of Mecox Lane, at a price of US$0.8571 per share, totaling USD34,729,000 (equivalent to approximately RMB228,295,000). The Group is subject to a one-year lock-up period, starting from the closing date of the share purchase on 25 March 2011. In addition, the Group has options to purchase up to 18,306,117 ordinary shares of Mecox Lane at an exercise price of USD1.1429 per ordinary share during a two-years period starting from 25 March 2011. No disposal or further purchase of Mecox Lanes shares has been made since March 2011.

As at 31 December 2012, the investment was stated at fair value of RMB20,011,000 which was determined with reference to the quoted price of the listed shares of Mecox Lane. The decline in fair values of the investment was considered significant. Accordingly, the Group recognised a loss of RMB22,221,000 (2011: RMB181,024,000) in respect of provision for impairment of this investment.

20 DEFERRED INCOME TAX — GROUP

	2012 RMB'000	2011 RMB'000
Deferred income tax assets		
— To be recovered after more than 12 months	**—**	—
— To be recovered within 12 months	**93,665**	112,542
	93,665	112,542
Deferred income tax liabilities		
— To be recovered after more than 12 months	**(24,089)**	(30,849)
— To be recovered within 12 months	**(73)**	(73)
	(24,162)	(30,922)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same tax authority.

20 DEFERRED INCOME TAX — GROUP (CONTINUED)

The movements in deferred income tax assets and liabilities during the year without taking into consideration the offsetting of balances within the same tax jurisdiction are as follows:

Deferred income tax assets:

	Provision for sales returns/ rebates	Provision for impairment of inventories	Provision for impairment of trade receivables	Other accrued expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2011	40,450	5,153	—	11,845	57,448
(Charged)/credited to the income statement (Note 10)	(4,776)	49,742	10,000	128	55,094
At 31 December 2011	35,674	54,895	10,000	11,973	112,542
(Charged)/credited to the income statement (Note 10)	(18,168)	(15,442)	6,590	8,143	(18,877)
At 31 December 2012	**17,506**	**39,453**	**16,590**	**20,116**	**93,665**

Deferred tax liabilities:

	Fair value gains	Withholding income tax on profit distribution of PRC subsidiaries	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2011	(4,490)	—	(963)	(5,453)
Credited/(charged) to the income statement (Note 10)	73	(27,000)	46	(26,881)
Credited directly to equity in relation to fair value change on available-for-sale financial assets	1,412	—	—	1,412
At 31 December 2011	(3,005)	(27,000)	(917)	(30,922)
Credited to the income statement (Note 10)	73	6,564	123	6,760
At 31 December 2012	**(2,932)**	**(20,436)**	**(794)**	**(24,162)**

20 DEFERRED INCOME TAX — GROUP (CONTINUED)

As at 31 December 2012, deferred income tax assets of RMB133,661,000 (2011: RMB113,660,000) have not been recognised in respect of the tax losses amounting to RMB483,125,000 (2011: RMB408,979,000) which can be carried forward against future taxable income. The tax losses mainly resulted from accumulated operating losses of the subsidiaries of the Group.

As at 31 December 2012, deferred income tax liabilities of RMB10,538,000 (2011: RMB867,000) have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries amounting to RMB42,153,000 (2011: RMB3,469,000). Such amounts are intended to be permanently reinvested.

21 INVENTORIES — GROUP

	2012 RMB'000	2011 RMB'000
Finished goods		
— Carried at cost	**106,244**	139,328
— Carrie at net realisable value	**160,225**	237,546
Raw materials and others		
— Carried at cost	**19,308**	26,103
— Carried at net realisable value	**1,548**	679
	287,325	403,656

The cost of inventories recognised as cost of goods sold amounted to approximately RMB913,823,00 (2011: RMB1,215,093,000) (Note 7) for the year ended 31 December 2012.

As at 31 December 2011, with the increase of inventory due to the re-purchase of excessive out-season inventories from distributors and the decrease in market demand as evidenced by the decrease in sales orders from distributors in relation to in-season products, the Group recognised inventory provision of RMB215,878,000 based on the future sales plan of the inventories and estimation of future sales price. As at 31 December 2012, in view of that the actual clearance sales of the out-season inventories during the year ended 31 December 2012 was better than the forecast, the Group reversed inventory provision of RMB55,226,000.

22 TRADE RECEIVABLES — GROUP

	2012 RMB'000	2011 RMB'000
Trade receivables		
— Third parties	**364,092**	416,926
— Related parties (Note35 (b))	**131,720**	188,724
	495,812	605,650
Less: provision for impairment	**(81,688)**	(58,029)
Trade receivables, net	**414,124**	547,621

22 TRADE RECEIVABLES — GROUP (CONTINUED)

The Group's sales are mainly made on credit terms ranging from 30 to 60 days. The ageing analysis of trade receivables as at 31 December 2012 and 2011 was as follows:

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

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

As at 31 December 2012, trade receivables of RMB294,315,000 (2011: RMB315,305,000) were past due, of which RMB81,688,000 (2011: RMB58,029,000) were impaired and fully provided for. The trade receivables that were past due but not impaired relate to a number of independent customers for whom there is no recent history of default. The movements in provision for impairment of trade receivables are as follows:

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

23 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES — GROUP AND COMPANY

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current portion:				
Advance payments to suppliers	**8,943**	17,073	**—**	—
Interest receivables	**41,564**	27,890	**2,339**	1,348
Deposits for operating leases	**12,280**	21,229	**—**	—
Other receivables	**25,489**	34,146	**7,754**	6,589
	88,276	100,338	**10,093**	7,937
Non-current portion:				
Loans granted to the MSYH Group (Note 35(b))	**19,445**	18,723	**—**	—
Deposits for operating leases	**24,441**	14,983	**—**	—
	43,886	33,706	**—**	—

The prepayments, deposits and other receivables were mainly denominated in RMB and JPY. Their carrying amounts approximated their fair values as at the balance sheet dates. There were no impaired assets as at the balance sheet dates.

24 OTHER FINANCIAL ASSETS — GROUP AND COMPANY

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Treasury products issued by commercial banks	**2,261,137**	1,068,255	**419,281**	—

The Group invested in unlisted treasury products issued by commercial banks in the PRC. The principals of these investments are guaranteed. The investments are interest bearing at rates ranging from 3.7% to 6.0% (2011: 2.79% to 5.7%) per annum, denominated in RMB and with maturity periods from one to two years.

25 CASH AND BANK BALANCES — GROUP AND COMPANY

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Restricted bank deposits	**137,434**	136,578	**—**	2,521
Term deposits with initial terms over three months and within one year	**2,234,276**	2,915,408	**352,877**	468,117
Cash and cash equivalents	**341,286**	722,882	**39,331**	338,302
	2,712,996	3,774,868	**392,208**	808,940

The restricted bank deposits as at 31 December 2012 comprised deposits held in bank accounts for advertising fees payable and for issue of letters of credit for certain subsidiaries of the Group. As at 31 December 2012, the average interest rate on the restricted bank deposits was 2.46% (2011: 0.21%) per annum.

The cash and cash equivalents represent cash deposits held at call with banks and in hand.

As at 31 December 2012 and 2011, the cash and bank balances were denominated in the following currencies:

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**2,021,968**	2,877,308	**90,061**	335,064
USD	**238,617**	337,467	**211,443**	310,789
HKD	**373,276**	475,741	**90,704**	163,087
JPY	**78,916**	83,685	**—**	—
Others	**219**	667	**—**	—
	2,712,996	3,774,868	**392,208**	808,940

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.

26 SHARE CAPITAL AND SHARE PREMIUM ACCOUNT — GROUP AND COMPANY

	Authorised capital	
	Number of ordinary shares of par value	**Nominal value of ordinary shares**
	HKD$0.01	HKD'000
At 31 December 2012 and 2011	10,000,000,000	100,000

	Issued and fully paid				
	Number of issued ordinary shares of par value	**Nominal value of issued ordinary shares**	**Equivalent nominal value of issued ordinary shares in RMB**	**Share premium account**	**Total**
	HKD$0.01	HKD'000	RMB'000	RMB'000	RMB'000
At 1 January 2011	5,636,401,000	56,665	54,810	2,889,096	2,943,906
Shares repurchased and cancelled (Note (a))	(30,000,000)	(300)	(248)	(42,969)	(43,217)
Dividends paid (Note 32)	—	—	—	(710,567)	(710,567)
At 31 December 2011	5,606,401,000	56,365	54,562	2,135,560	2,190,122
At 1 January 2012	**5,606,401,000**	**56,365**	**54,562**	**2,135,560**	**2,190,122**
Shares repurchased and cancelled (Note (a))	**(100,000,000)**	**(1,000)**	**(973)**	**(83,403)**	**(84,376)**
Shares vested under Restricted Share Award Scheme (Note 27)	**938,000**	**—**	**—**	**—**	**—**
Dividends paid (Note 32)	**—**	**—**	**—**	**(68,098)**	**(68,098)**
At 31 December 2012	**5,507,339,000**	**55,365**	**53,589**	**1,984,059**	**2,037,648**
Represented by:					
Proposed dividend (Note 32)				55,364	
Share premium reserve				1,928,695	
				1,984,059	

(a) During the year ended 31 December 2012, the Company repurchased a total of 100,000,000 its own shares listed on the Main Board of the Stock Exchange of Hong Kong Limited. The aggregate consideration paid was HKD104,209,000 (equivalent to RMB84,376,000). These repurchased shares were cancelled upon repurchase and, accordingly, the issued share capital of the Company was reduced by the nominal value of these shares. The premium paid on repurchase was deducted from the share premium account.

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

27 SHARE BASED COMPENSATION SCHEMES

(a) Share Option Scheme

The Company adopted a share option scheme (the "Share Option Scheme") on 12 September 2007, the purpose of which is to provide an incentive for employees 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 from time to time.

On 23 November 2010, options to acquire 3,000,000 shares of the Company were granted to Ms. Sandrine, Suzanne Eléonore, Agar Zerbib (Ms. Zerbib), the executive director and chief executive officer of the Group. The share options were canceled as Ms. Zerbib resigned on 20 October 2011 and the amortisation expense related to the un-vested option amounting to RMB233,000 was reversed.

Apart from the above, no share options had been granted by the company during the years ended 31 December 2011 and 2012 and there were no outstanding share options granted as at 31 December 2012.

(b) Restricted Share Award Scheme

The Company adopted the Restricted Share Award Scheme (Note 2.21(b)) on 10 December 2010. The objective of the Restricted Share Award Scheme is to encourage and retain selected participants including directors and employees of the Group, to work with the Group and to provide additional incentive for them to achieve performance goals. Under the scheme, the China Dongxiang (Group) Co., Ltd Restricted Share Award Scheme Trust (the "Trust") was established in Hong Kong and purchased 30,000,000 shares of the Company from the open market in December 2010. No further purchase of shares of the Company has been made since December 2010. The total amount of RMB87,138,000 paid to acquire the shares was financed by the Company by way of contributions made to the Trust. As the financial and operational policies of the Trust are governed by the Group, and Group benefits from the Trust's activities, the Trust is consolidated in the Group's financial statements as a special purpose entity.

When restricted shares are granted to selected participants, the fair value of the restricted shares awarded based on the market value of the Company's shares on the date of grant is charged as employee expenses in the consolidated income statement of the Group.

During the year ended 31 December 2012, 938,000 shares with the fair value of RMB716,000 (2011: nil) were granted to a member of senior management under Restricted Share Award Scheme.

28 RESERVES — GROUP AND COMPANY

	Group							
	Capital reserves	Share-based compensation reserve	Statutory reserves	Exchange reserve	Fair value reserve	Shares held for Restricted Share Award Scheme	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2011	295,001	1,575	16,018	(398,761)	4,237	(87,138)	4,740,139	4,571,071
Profit for the year	—	—	—	—	—	—	102,186	102,186
Change in fair value of available-for-sale financial assets (Note 19)	—	—	—	—	(4,237)	—	—	(4,237)
Foreign currency translation reserve (Note (b))	—	—	—	(67,480)	—	—	—	(67,480)
Share-based compensation (Note 27(a))	—	(233)	—	—	—	—	—	(233)
Dividends relating to the shares held for Restricted share Award Scheme (Note 27(b))	3,743	—	—	—	—	—	—	3,743
Appropriation to statutory reserve (Note (c))	—	—	1,765	—	—	—	(1,765)	—
At 31 December 2011	298,744	1,342	17,783	(466,241)	—	(87,138)	4,840,560	4,605,050
At 1 January 2012	**298,744**	**1,342**	**17,783**	**(466,241)**	**—**	**(87,138)**	**4,840,560**	**4,605,050**
Profit for the year	**—**	**—**	**—**	**—**	**—**	**—**	**176,719**	**176,719**
Change in fair value of available-for-sale financial assets (Note 19)	**—**	**—**	**—**	**—**	**137,194**	**—**	**—**	**137,194**
Foreign currency translation reserve (Note (b))	**—**	**—**	**—**	**(35,076)**	**—**	**—**	**—**	**(35,076)**
Dividends relating to the shares held for Restricted share Award Scheme (Note 27(b))	**371**	**—**	**—**	**—**	**—**	**—**	**—**	**371**
Appropriation to statutory reserves (Note (c))	**—**	**—**	**2,264**	**—**	**—**	**—**	**(2,264)**	**—**
Shares vested under Restricted Share Award Scheme	**(2,725)**	**716**	**—**	**—**	**—**	**2,725**	**—**	**716**
At 31 December 2012	**296,390**	**2,058**	**20,047**	**(501,317)**	**137,194**	**(84,413)**	**5,015,015**	**4,884,974**

28 RESERVES — GROUP AND COMPANY (CONTINUED)

	Company				
	Capital reserves	Share-based compensation reserve	Exchange reserve	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2011	10,052,372	1,575	(490,133)	177,204	9,741,018
Profit for the year (Note 12)	—	—	—	1,120,238	1,120,238
Foreign currency translation reserve (Note (b))	—	—	(121,760)	—	(121,760)
Share-based compensation (Note 27(a))	—	(233)	—	—	(233)
At 31 December 2011	10,052,372	1,342	(611,893)	1,297,442	10,739,263
At 1 January 2012	**10,052,372**	**1,342**	**(611,893)**	**1,297,442**	**10,739,263**
Loss for the year (Note 12)	**—**	**—**	**—**	**(3,285,911)**	**(3,285,911)**
Foreign currency translation reserve (Note (b))	**—**	**—**	**(6,197)**	**—**	**(6,197)**
At 31 December 2012	**10,052,372**	**1,342**	**(618,090)**	**(1,988,469)**	**7,447,155**

Notes:

(a) The capital reserves represents mainly the difference between the fair value of shares of the Company issued and the carrying amount of the net assets of the subsidiaries acquired under common control combination upon group recoganisations in the past.

(b) Foreign currency translation 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 presentation currency of RMB for the financial statements of the Company and the Group.

(c) The Company's subsidiaries incorporated in the PRC are required to make appropriations to statutory reserves from their profit for the year after offsetting accumulated losses carried forward from prior years as determined under the PRC accounting regulations and before distribution to equity holders. The percentages to be appropriated to such statutory reserve are determined according to the relevant regulations in the PRC, and further appropriation is optional when the accumulated fund is 50% or more of the registered capital of the subsidiaries.

29 TRADE PAYABLES — GROUP

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

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

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

30 ACCRUALS AND OTHER PAYABLES - GROUP AND COMPANY

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Advance receipts from customers	**54,852**	144,179	**—**	—
Salary and welfare payable	**50,429**	64,303	**—**	—
Other taxes and levies payable	**12,255**	1,464	**—**	—
Accruals and other payables	**92,982**	99,426	**243**	3,271
	210,518	309,372	**243**	3,271

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

31 PROVISIONS — GROUP

The provision represents provision for sales returns and sales discount in Japan segment.

The movements in provisions for the year were as follows:

	2012	2011
	RMB'000	RMB'000
At 1 January	**27,184**	188,526
Utilisation	**(67,890)**	(198,676)
Provision	**63,477**	37,334
At 31 December	**22,771**	27,184

32 DIVIDENDS

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

The dividends paid in 2012 amounted to RMB68,098,000 or RMB1.23 cents per share (2011: RMB710,567,000 or RMB12.54 cents per share), comprising 2012 interim dividends of RMB68,098,000 (2011: 2010 final dividends of RMB553,041,000 and 2011 interim dividends of RMB157,526,000). The dividends of RMB371,000 (2011: RMB3,743,000) were paid to the shares held for Restricted Share Award Scheme (Note 27(b)).

32 DIVIDENDS (CONTINUED)

Pursuant to a resolution passed on 20 March 2013, the board of directors of the Company proposed a final dividend and final special dividend of RMB0.43 cent and RMB0.57 cent per ordinary share of the Company, amounting to RMB23,807,000 and RMB31,557,000 for the year ended 31 December 2012 from the Company's share premium account, respectively. The final dividend and final special dividend are to be proposed for approval by the shareholders of the Company at the annual general meeting to be held on 15 May 2013.

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

33 CASH GENERATED FROM OPERATIONS

	2012 **RMB'000**	2011 RMB'000
Profit before income tax for the year	**270,954**	228,078
Adjustments for:		
— Depreciation of property, plant and equipment (Note 14)	**18,526**	18,424
— Loss on disposal of property, plant and equipment	**473**	11,239
— Amortisation of lease prepayments (Note 15)	**495**	16,338
— Amortisation of intangible assets (Note 16)	**17,836**	20,114
— (Reversal of)/provision for impairment losses of inventories (Note 7)	**(55,226)**	215,878
— Provision for impairment losses of trade and other receivables (Note 7)	**24,130**	38,833
— Provision for available-for-sale financial assets (Note 19)	**82,221**	238,313
— Share of results of jointly controlled entities (Note 17)	**771**	(135)
— Interest income from bank deposits (Note 9)	**(100,228)**	(88,864)
— Income from other financial assets (Note 9)	**(77,621)**	(44,383)
— Foreign exchange gains, net (Note 9)	**(11,171)**	(970)
— Investment income from available-for-sale financial assets	**(19,385)**	—
	151,775	652,865
Changes in working capital:		
— Decrease/(increase) in inventories	**171,557**	(363,832)
— Decrease in trade receivables, prepayments, deposits and other receivables	**124,923**	101,657
— Decrease in trade payables, provisions, accruals and other payables	**(190,449)**	(160,387)
— Increase in restricted bank balances	**(856)**	(100,472)
Cash generated from operations	**256,950**	129,831

In the consolidated cash flow statement, the proceeds from sale of property, plant and equipment comprise:

	2012 **RMB'000**	2011 RMB'000
Net book amount (Note 14)	**1,949**	11,500
Loss on disposal of property, plant and equipment	**(473)**	(11,239)
Proceeds from disposal of property, plant and equipment	**1,476**	261

34 COMMITMENTS

(a) Operating lease commitments — Group as lessee

The Group leases certain properties for flagship store, office premises, 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:

	2012 RMB'000	2011 RMB'000
No later than 1 year	33,439	44,716
Later than 1 year and no later than 5 years	25,962	24,607
	59,401	69,323

(b) Capital commitments

	2012 RMB'000	2011 RMB'000
Contracted but not provided for		
— For investment in CITIC Mezzanine Fund I (Note 19(c))	150,000	150,000

(c) Other commitments

The Group provides sponsorship to certain sports teams, including cash payments as well as provision of sports apparel for free. The commitments as at the balance sheet dates were as follows:

	2012 RMB'000	2011 RMB'000
No later than 1 year	7,629	21,418
Later than 1 year and no later than 5 years	5,177	45,915
Over 5 years	—	5,555
	12,806	72,888

During the year ended 31 December 2012, the Group terminated the Rome sponsorship agreement. As a result, the outstanding commitment as at 31 December 2012 decreased.

The Company did not have significant commitments as at 31 December 2012 and 2011.

35 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, control or jointly 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 or the party is an associate of another party.

35 RELATED PARTY TRANSACTIONS (CONTINUED)

The ultimate controlling party of the Group is Mr Chen Yihong, the Chairman, Executive director and the Chief Executive Officer of the Company. Therefore, close family members of Mr Chen Yihong and parties that are controlled, jointly controlled or significantly influenced by Mr. Chen Yihong or his close family members are considered to be related parties of the Company as well.

During the years ended and as at 31 December 2012 and 2011, the Group had the following transactions and balances with related parties:

(a) Transactions with related parties

	2012 **RMB'000**	2011 RMB'000
Sales of goods:		
— MSYH Group (Note 19(a))	**460,822**	946,153
Purchase of goods:		
— Jointly controlled entities of the Group	**44,323**	56,454
Lease income of flagship stores		
— MSYH Group	**—**	4,458
Loan repaid by:		
— MSYH Group	**—**	(506)

(b) Balances with related parties

	2012 **RMB'000**	2011 RMB'000
Trade receivables (Note 22):		
— MSYH Group	**131,720**	188,724
Other receivables (Note 23):		
— MSYH Group	**19,445**	18,723
Trade payables		
— Jointly controlled entities of the Group	**274**	5,554

(c) Key management compensation

	2012 **RMB'000**	2011 RMB'000
Salaries, bonus and other welfares	**12,642**	22,461
Pension — defined contribution plans	**139**	123
	12,781	22,584

35 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Key management compensation (continued)

Notes:

(i) Mr Chen Yihong's brother is one of the directors of the MSYH Group and is regarded as having significant influence over the MSYH Group. As the Company is controlled by Mr Chen Yihong, the MSYH Group is therefore regarded as a related party of the Company.

(ii) The transactions with related companies are conducted based on mutual agreements.

(iii) The receivable and payable balances with related parties are unsecured, interest free and repayable within one year.

36 PARTICULARS OF PRINCIPAL SUBSIDIARIES

As at 31 December 2012, the Group had the following principal subsidiaries which, in the opinion of the directors, materially affect the results and/or assets of the Group. The companies are all limited liability companies.

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	10,000 ordinary shares of HKD1 each	100%	Investment holding, Hong Kong
Dongxiang (Netherlands) Cooperative U.A.	Netherlands	EUR 755,738	100%	Investment holding, Netherlands
光景集團有限公司 Brilliant King Group Ltd	British Virgin Island	USD1	100%	Investment holding, British Virgin Island
明泰企業有限公司 Bright Pacific Enterprises Limited	British Virgin Island	USD1	100%	Investment holdings, British Virgin Island
Indirectly held:				
Achilles Sports Pte. Ltd.	Singapore	100,000 ordinary shares of USD1 each	100%	Owns trademark, Singapore
Gaea Sports Limited	Hong Kong	1 ordinary share of HKD1	100%	Investment holding, Hong Kong
北京動向體育發展有限公司 Beijing Dongxiang Sports Development Co., Limited	Beijing, PRC	RMB10,000,000	100%	Design and sales of sport-related footwear, apparel and accessories, PRC
上海卡帕體育用品有限公司 Shanghai Kappa Sporting Goods Co., Limited	Shanghai, PRC	RMB20,000,000	100%	Design and sales of sport-related footwear, apparel and accessories, PRC
上海泰坦體育用品有限公司 Shanghai Taitan Sporting Goods Co., Limited	Shanghai, PRC	RMB3,000,000	100%	Design, production and sales of sport-related footwear, apparel and accessories, PRC

36 PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Company name	Place of incorporation	Particulars of issued/registered capital	Interest held	Principal activities and place of operation
Indirectly held: (continued)				
上海雷德體育用品有限公司 Shanghai Leide Sporting Goods Co., Limited	Shanghai, PRC	RMB158,000,000	100%	Design and consulting services, PRC
西亞體育用品商貿(蘇州)有限公司 Thea Sporting Goods Trading (Suzhou) Co. Ltd.	Suzhou, PRC	USD80,000,000	100%	Design and sales of sport-related footwear, apparel and accessories, and consulting services, PRC
赫拉體育用品商貿(上海)有限公司 Hera Sporting Goods Trading (Shanghai) Co. Ltd.	Shanghai, PRC	USD40,000,000	100%	Sales of sport-related footwear, apparel and accessories, PRC
考伊斯體育用品商貿(上海)有限公司 Coeus Sporting Goods Trading (Shanghai) Co. Ltd.	Shanghai, PRC	USD50,000,000	100%	Sales of sport-related footwear, apparel and accessories, PRC
上海嘉班納體育用品有限公司 Shanghai Gabbana Sporting Goods Co. Ltd.	Shanghai, PRC	RMB120,000,000	100%	Design and consulting services, PRC
上海杜爾斯體育用品有限公司 Shanghai Tours Sporting Goods Co. Ltd.	Shanghai, PRC	RMB50,418,451	100%	Design and consulting services, PRC
上海克瑞斯體育用品有限公司 Shanghai Crius Sporting Goods Co. Ltd.	Shanghai, PRC	RMB4,000,000	100%	Retailing of sport-related footwear, apparel and accessories, PRC
Hebe Fashions Pte. Ltd	Singapore	Singapore Dollar 1	100%	Investment holding, Singapore
Cronus Sports Pte. Ltd	Singapore	Singapore Dollar 1	100%	Investment holding, Singapore
Phenix Co., Ltd.	Japan	JPY495,000,000	91%	Brand development, design and sales of sport-related apparel, Japan
北京中翼鳳凰體育用品有限公司 Beijing Wing in Phenix Sports Goods Co., Limited	Beijing, PRC	RMB5,000,000	80%	Design, production and sales of sport-related footwear, apparel and accessories, PRC
北京信達伯潤商貿有限公司 Beijing Xindaborun Goods Trading Co., Ltd.	Beijing, PRC	RMB5,000,000	100%	Sales of sport-related goods and others, PRC
北京達尼亞體育發展有限公司 Beijing Dagnas Sports Development Co Ltd	Beijing, PRC	RMB10,000,000	100%	Design, production and sales of sport-related footwear, apparel and accessories, PRC
北京快樂運動體育用品有限公司 Beijing Happy Sporting Goods Co. Ltd."	Beijing, PRC	RMB3,000,000	100%	Retail sales of sports-related products, apparel and accessories, imports and exports, PRC

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