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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)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2011**

Results Highlights			
For the six months ended 30 June	1H 2011 <i>(RMB million)</i>	1H 2010 <i>(RMB million)</i>	Change
Revenue	1,179	2,146	-45.1%
Gross profit	722	1,343	-46.2%
Gross profit margin	61.3%	62.6%	-1.3% pts
Operating profit	277	947	-70.7%
Profit for the period attributable to equity holders of the Company	225	786	-71.4%
	<i>(RMB cents)</i>	<i>(RMB cents)</i>	
Basic earnings per share	3.99	13.87	-71.2%
Interim dividend and interim special dividend per share	2.78	8.32	-66.6%
— Total dividend payout ratio	70.0%	60.0%	+10.0% pts

CHAIRMAN'S STATEMENT

Dear shareholders,

Transformation is always accompanied by challenges and opportunities. With the transformation of China's sporting goods industry, brand operators are facing a series of challenges. In the first half of 2011, the impact from these challenges, including moderating market growth, intensifying competition and retail inventory buildup, has deepened. Yet, a clearer picture was shown for concrete steps to remedy and recharge for growth. With the healthy growth in overall retail market backed by the continual rapid economic development, we believe that the fundamentals of the China sporting goods industry are still strong. As a major market player, China Dongxiang has taken decisive and crucial measures to ensure that we can capture chances when the dawn comes.

In an effort to relieve channel inventory pressure, two critical measures including repurchase of excess inventory from distributors and reduction of sell-in targets for distributors to avoid further retail inventory build-up, were implemented. As a consequence of the Group's proactive actions, results of the Group for the six months ended 30 June 2011 were inevitably affected. The Group recorded RMB1,179 million in revenue, representing a 45.1% decrease compared with the same period of last year. During the period, the Group's gross profit margin decreased 1.3 percentage points to 61.3%. Profit attributable to equity holders of the Company amounted to RMB225 million, down 71.4% compared with the same period of last year. Basic earnings per share were RMB3.99 cents, down 71.2% compared to the same period last year. In view of our solid cash position and to enhance shareholders value, the Board proposed to distribute 70.0% of the Group's profit attributable to equity holders for the period under review as interim and interim special dividends.

In this changing market, speed is no longer enough and we need to switch our mindset from quantity to quality. Likewise, we need to switch our focus from sell-in to sell-through to ensure sustainable growth. We are committed to provide stronger support to our distributors to get closer to the market pulse and improve store operating efficiency. We are addressing the problem of inventory accumulation faced by distributors through adjusting our product offerings, reducing distributors' volume of sales order, and making a one-time, voluntary offer to repurchase their slow-moving goods. Simultaneously, distributors who joined the repurchase program have also committed to a much closer management of sub-franchisees, particularly with regards to their store portfolio management and development, assortment plans and the enhancement of their IT system for data management. We believe this will effectively enhance retail efficiency and create a win-win business model for the Group and our distributors.

Equally important was the launch of the "Recharge for Growth" program, which aims at sustaining our long-term growth and development by brand and product improvement, existing store productivity enhancement, store network expansion and optimization, as well as new business development. As outlined in the program, we are devoted to strengthen product positioning, expand product portfolio, leverage R&D capabilities, fortify marketing strategies to further enhance our brand and products. To increase store productivity, we are committed to improve our product assortment, cooperate closer with retailers for more streamlined operation and build our own retail capability. We will expand our sales network in cities with opportunities, increase our direct customer stores and introduce a new store format to optimize our store portfolio. New businesses, such as e-commerce, golf and RDK ("Robe Di Kappa"), will also be our focus to drive future growth. New senior management members, namely Mr. Alan Chamberlin, Vice President of Supply Chain and Mr. James Li, Vice President of Sales have also been appointed with the mission to focus on their respective areas of expertise and strive for excellence in them.

In this year of adjustment, we have also clarify Kappa's brand positioning. When others strive for bigger, better, faster performance, Kappa emphasizes on how to play sports more aesthetically (Play cool, stylish, creatively, elegantly and gracefully). Kappa is the sports brand which knows how to combine sport with fashion and art, based on its Italian heritage, design skills and human spirit.

Going forward, we will strive to strengthen both our sport performance and sport style product segments, while rejuvenating sports casual product lines. Our international design expertise sets a strong foundation for product development in all these segments. We believe our new product lines, for example, C19 and Kappa Curves, will create trade excitement in the overall product and brand experience. Kappa Curves, which was just launched in the post balance sheet period, demonstrates our ability in integrating technology and fashion trends. The series denotes contours of the human body and the unique design of the dual curvy sole activates leg muscles and helps burn more energy from each step. For this innovative new product line, we have engaged celebrity Ms. Karen Mok as spokesperson, and we are ready to leverage our all-rounded marketing campaign, including print and outdoor advertisement, digital communication, public relations and promotional activities to raise awareness.

For our store network, the utmost priority is to optimize current portfolio by carefully adjusting resource allocation. We have redefined five sales regions and eight functional sales divisions based on sales and retail-related requirements to ensure better customer support and management. We have put more resources in place for retail development and operation management, as well as established key account management dedicated to serve and support key customers. We believe all these measures will place us in a stronger position to enhance our flexibility and achieve operational excellence for retail activities.

In the coming years, despite moderate growth in the China sports goods market and increasing percentage of casual wear spending, significant synergy between sports performance and sports casual can be seen as majority of heavy spenders fell in the overlap market. In the light of China's persistent economic growth and continual increase in people's consumption power, we believe Kappa's high-end brand positioning which emphasizes and spans from sports functionality to fashion is set to reap the benefits.

Having placed ourselves on the pulse of market development, we uphold a clear roadmap with initiatives for growth by 2015 — to enhance product and marketing, retail operation management and store network optimization. All these initiatives are already in full execution mode and are expected to bring successive achievements in the coming years.

2011 is a year of adjustment. We expect to continue still facing challenges in the second half. However, we believe the transforming business environment will bring along new business opportunities, with which we shall be able to propel for further growth of the Group in the long term. With the clear initiatives and roadmap under the belt, we are confident to take this opportunity to recharge for growth in the near future.

Last but not least, on behalf of the Board, I would like to show the most sincere appreciation to all our shareholders, business partners and customers for their continuous support. I would also like to extend my gratitude to all employees of the Group. We believe that with our collective dedication and efforts, the Group will overcome all challenges along the way, advance to a better future and bring more lucrative returns to our shareholders.

Chen Yihong
Chairman

Hong Kong, 24 August 2011

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET*As at 30 June 2011*

	<i>Note</i>	Unaudited 30 June 2011 RMB'000	Audited 31 December 2010 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		128,770	132,807
Lease prepayments		15,696	25,690
Intangible assets		294,788	302,861
Investments in jointly controlled entities		19,209	19,142
Available-for-sale financial assets	4	310,548	213,938
Deferred income tax assets		107,229	57,448
Prepayments, deposits and other receivables — non-current portion		24,546	45,397
Other financial assets — non-current portion		—	153,211
Total non-current assets		900,786	950,494
Current assets			
Inventories		380,396	255,702
Trade receivables	5	648,115	694,508
Prepayments, deposits and other receivables		161,239	94,348
Other financial assets		902,388	1,369,286
Cash and bank balances		4,819,582	5,027,870
Total current assets		6,911,720	7,441,714
Total assets		7,812,506	8,392,208

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET (Continued)

As at 30 June 2011

	<i>Note</i>	Unaudited 30 June 2011 RMB'000	Audited 31 December 2010 RMB'000
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		54,810	54,810
Share premium account		2,336,055	2,889,096
Reserves		4,655,117	4,571,071
		<u>7,045,982</u>	<u>7,514,977</u>
Non-controlling interests		(1,496)	268
Total equity		<u>7,044,486</u>	<u>7,515,245</u>
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		25,567	5,453
Total non-current liabilities		<u>25,567</u>	<u>5,453</u>
Current liabilities			
Trade payables	6	204,953	368,953
Accruals and other payables		180,241	235,626
Provisions		285,785	188,526
Current income tax liabilities		71,474	78,405
Total current liabilities		<u>742,453</u>	<u>871,510</u>
Total liabilities		<u>768,020</u>	<u>876,963</u>
Total equity and liabilities		<u>7,812,506</u>	<u>8,392,208</u>
Net current assets		<u>6,169,267</u>	<u>6,570,204</u>
Total assets less current liabilities		<u>7,070,053</u>	<u>7,520,698</u>

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30 June 2011

	Note	Unaudited	
		Six months ended 30 June	
		2011	2010
		RMB'000	RMB'000
Revenue	3	1,178,787	2,145,285
Cost of goods sold	8	(456,233)	(802,315)
Gross profit		722,554	1,342,970
Other gains, net	7	37,190	45,397
Distribution costs	8	(317,261)	(342,098)
Administrative expenses	8	(165,086)	(99,164)
Operating profit		277,397	947,105
Finance income, net	9	57,743	43,596
Share of profits of jointly controlled entities and associated companies, net		67	5,347
Profit before income tax		335,207	996,048
Income tax expense	10	(113,013)	(210,048)
Profit for the period		222,194	786,000
Attributable to:			
— Equity holders of the Company		224,958	786,000
— Non-controlling interests		(2,764)	—
		222,194	786,000
		cents per share	cents per share
Earnings per share for profit attributable to the equity holders of the Company			
— Basic	11	3.99	13.87
— Diluted	11	3.99	13.87
Dividends	12	157,526	471,444

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2011

		Unaudited	
		Six months ended 30 June	
	<i>Note</i>	2011	2010
		<i>RMB'000</i>	<i>RMB'000</i>
Profit for the period		222,194	786,000
Other comprehensive income:			
— Fair value change on available-for-sale financial assets, net of tax	4	(123,072)	—
— Foreign currency translation differences		(21,800)	(295)
Total other comprehensive income, net of tax		(144,872)	(295)
Total comprehensive income for the period		77,322	785,705
Attributable to:			
— Equity holders of the Company		80,086	785,705
— Non-controlling interests		(2,764)	—
		77,322	785,705

NOTES

1 General information

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

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

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

This condensed consolidated interim financial information is presented in Renminbi (“RMB”), unless otherwise stated. This condensed consolidated interim financial information was approved for issue by the Board of Directors on 24 August 2011.

This condensed consolidated interim financial information has not been audited.

Key events

In the recent year, the sports goods industry in China has been facing a new series of challenges, including intensifying competition and excess inventory. The Group has taken steps to address the problem of accumulation of inventory faced by the distributors by adjusting the Group’s product offerings and reducing the distributors’ volume of sales order. With the aim to building a stronger distributor network and after reviewing the financial position and the inventory level of its distributors in June 2011, on top of the inventories re-purchase in 2010, the Group made another one-time voluntary offer to its distributors and agreed to re-purchase their slow-moving inventory at the original cost of which the Group has sold to such distributors. Due to the inventory re-purchase plan, as at 30 June 2011, the provision for the re-purchase of inventories amounted to RMB272,160,000 (31 December 2010: RMB155,143,000), the China segment revenue and cost of goods sold for the six months ended 30 June 2011 reduced by RMB388,035,000 and RMB159,178,000, respectively, and the Group provided special inventory provisions amounting to RMB28,490,000.

2 Basis of preparation and accounting policies

This condensed consolidated interim financial information for the six months ended 30 June 2011 has been prepared in accordance with IAS 34, ‘Interim financial reporting’. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2010, which have been prepared in accordance with IFRS.

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2010, as described in those annual financial statements.

Exceptional items are disclosed and described separately in the financial information where it is necessary to provide further understanding of the financial performance of the Group. They are material items of income or expense that have been shown separately due to the significance of their nature or amount.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The following new standard and amendment to standard are mandatory for the first time for the financial year beginning on 1 January 2011.

- Amendment to IAS 34 'Interim financial reporting' is effective for annual periods beginning on or after 1 January 2011. It emphasises the existing disclosure principles in IAS 34 and adds further guidance to illustrate how to apply these principles. Greater emphasis has been placed on the disclosure principles for significant events and transactions. Additional requirements cover disclosure of changes to fair value measurement (if significant), and the need to update relevant information from the most recent annual report. The change in accounting policy only results in additional disclosures.

3 Revenue and segment information

The Group is principally engaged in brand development, design and sales of sport-related apparel, footwear and accessories in Mainland of 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 Mainland of the PRC and Macau) and Japan segments as follows:

- China — distribution of sport-related products under Kappa Brand and other brands and international business which includes the provision of Kappa Brand products for other Kappa licensees in other countries.
- Japan — distribution and retailing of sport-related products under Kappa, Phenix and other brands.

Revenue 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 in the condensed consolidated interim income statement.

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

	Six months ended 30 June 2011			Total RMB'000
	China RMB'000	Japan RMB'000	Unallocated RMB'000	
Total revenue before inter-segment elimination	1,001,331	190,840	—	1,192,171
Inter-segment revenue	(11,787)	(1,597)	—	(13,384)
Revenue from external customers	989,544	189,243	—	1,178,787
Cost of goods sold	(352,062)	(104,171)	—	(456,233)
Segment gross profit	637,482	85,072	—	722,554
Segment operating profit	360,801	(31,626)	(51,778)	277,397
Interest income	58,491	2	4,224	62,717
Interest expenses and others, net	(12,117)	8,572	(1,429)	(4,974)
Share of profits of jointly controlled entities	—	67	—	67
Profit before income tax	407,175	(22,985)	(48,983)	335,207
Income tax expense	(112,459)	(554)	—	(113,013)
Profit for the period	294,716	(23,539)	(48,983)	222,194
Other items of income and expense				
Depreciation and amortization	14,158	4,750		18,908
Provision for impairment losses of inventories	35,233	7,952		43,185
Provision for/(reversal of) impairment losses of trade and other receivables	15,147	(6,794)		8,353

	Six months ended 30 June 2010			Total <i>RMB'000</i>
	China <i>RMB'000</i>	Japan <i>RMB'000</i>	Unallocated <i>RMB'000</i>	
Total revenue before inter-segment elimination	1,963,271	193,941	—	2,157,212
Inter-segment revenue	(6,639)	(5,288)	—	(11,927)
Revenue from external customers	1,956,632	188,653	—	2,145,285
Cost of goods sold	(698,956)	(103,359)	—	(802,315)
Segment gross profit	1,257,676	85,294	—	1,342,970
Segment operating profit	1,018,800	(11,653)	(60,042)	947,105
Interest income	34,698	5	9,190	43,893
Interest expenses and others, net	6,044	(951)	(5,390)	(297)
Share of profits/(losses) of jointly controlled entities and associated companies, net	6,068	(721)	—	5,347
Profit before income tax	1,065,610	(13,320)	(56,242)	996,048
Income tax expense	(210,457)	409	—	(210,048)
Profit for the period	855,153	(12,911)	(56,242)	786,000
Other items of income and expense				
Depreciation and amortization	11,646	3,144	—	14,790
Provision for impairment losses of inventories	6,007	3,553	—	9,560
Reversal of impairment losses of trade and other receivables	—	(6,280)	—	(6,280)

Further analysis of revenue by brands and activities in China and Japan is as follows:

	Six months ended 30 June	
	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
China		
— Distribution of Kappa Brand products	978,666	1,952,095
— International business and others	10,878	4,537
	989,544	1,956,632
Japan		
— Distribution and retailing of Kappa Brand products	110,337	116,391
— Distribution and retailing of Phenix Brand products	78,861	72,223
— Distribution and retailing of products of other brands	45	39
	189,243	188,653
	1,178,787	2,145,285

The China segment revenue was reduced by the effect of the re-purchase of excessive inventories relating to 2010 and 2009 products of the Group held by the distributors of the Group amounting to RMB388,035,000 (2010: RMB23,932,000).

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

	As at 30 June 2011			Total RMB'000
	China RMB'000	Japan RMB'000	Unallocated RMB'000	
Total assets before inter-segment elimination	6,989,327	431,310	515,043	7,935,680
Inter-segment elimination	(15,686)	(21,310)	(86,178)	(123,174)
Total assets	6,973,641	410,000	428,865	7,812,506
Deferred income tax assets	(107,229)	—	—	(107,229)
Interests in jointly controlled entities	—	(19,209)	—	(19,209)
Available-for-sale financial assets	(310,548)	—	—	(310,548)
Segment assets	6,555,864	390,791	428,865	7,375,520
Total liabilities before inter-segment elimination	647,641	157,804	40,965	846,410
Inter-segment elimination	(22,481)	(14,944)	(40,965)	(78,390)
Total liabilities	625,160	142,860	—	768,020
Deferred income tax liabilities	(21,575)	(3,992)	—	(25,567)
Current income tax liabilities	(70,319)	(1,155)	—	(71,474)
Segment liabilities	533,266	137,713	—	670,979
	As at 31 December 2010			
	China RMB'000	Japan RMB'000	Unallocated RMB'000	Total RMB'000
Total assets before inter-segment elimination	6,710,176	498,857	1,313,732	8,522,765
Inter-segment elimination	(18,437)	(25,608)	(86,512)	(130,557)
Total assets	6,691,739	473,249	1,227,220	8,392,208
Deferred income tax assets	(57,448)	—	—	(57,448)
Interests in jointly controlled entities	—	(19,142)	—	(19,142)
Available-for-sale financial assets	(213,938)	—	—	(213,938)
Segment assets	6,420,353	454,107	1,227,220	8,101,680
Total liabilities before inter-segment elimination	719,434	199,409	41,142	959,985
Inter-segment elimination	(25,737)	(16,143)	(41,142)	(83,022)
Total liabilities	693,697	183,266	—	876,963
Deferred income tax liabilities	(1,412)	(4,041)	—	(5,453)
Current income tax liabilities	(76,680)	(1,725)	—	(78,405)
Segment liabilities	615,605	177,500	—	793,105

4 Available-for-sale financial assets

	Six months ended 30 June	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January	213,938	—
Additions (<i>note (b)</i>)	228,295	—
Exchange differences	(2,329)	—
Changes in fair value (<i>note (c)</i>)	(129,356)	—
	<u>310,548</u>	<u>—</u>
At 30 June	<u>310,548</u>	<u>—</u>

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

	30 June	31 December
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted equity securities in the PRC		
— Mai Sheng Yue He Sporting Goods Co., Limited (“MSYH”) (<i>note (a)</i>)	167,801	192,938
— Other investment	21,000	21,000
Listed equity securities in the US (<i>note (b)</i>)	121,747	—
	<u>310,548</u>	<u>213,938</u>
Market value of listed securities	<u>121,747</u>	<u>—</u>

Notes:

- (a) The unlisted equity securities represent the Group’s holding of 22.05% equity interests in MSYH (formerly Han Bo Jia Ye (Beijing) Company Limited) which wholly owns the companies engaging in the distribution and retail of sport-related products in various provinces in the PRC (collectively the “MSYH Group”). The Group started the investments in the companies now comprising the MSYH Group in 2009, by then the companies were regarded as associated companies of the Group. Pursuant to a re-organization in August 2010, the Group ceased to have significant influence over the MSYH Group, accordingly, the Group’s interests in associated companies were transferred to available-for-sale financial assets in August 2010.
- (b) On 2 March 2011, the Group entered into a share purchase agreement with two shareholders of Mecox Lane Limited (“Mecox Lane”), a company listed on NASDAQ in the United States (“US”) and engaged in sales of apparel and accessories on online platforms. Under the share purchase agreement, the Group purchased 40,519,225 ordinary shares of Mecox Lane, representing approximately 10% of the issued and outstanding 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 will be subject to a one-year lock-up period, starting from the closing date of the share purchases. In addition, the vendor also agreed to grant to the Group options to purchase 18,306,117 ordinary shares of Mecox Lane. The options are exercisable during a two-year period starting from the closing date of the above share purchases and the exercise price is US\$1.1429 per ordinary share.
- (c) The fair values of investments in MSYH and other investments as at each balance sheet date are determined with reference to a valuation model based on estimated discounted cash flows. The fair value of investment in Mecox Lane as at each balance sheet date is determined by reference to quoted prices in an active market. Changes in the fair values of the investments are recognised in other comprehensive income with no impairment losses charged to the income statement as none of the available-for-sale financial assets was impaired as at 30 June 2011.

5 Trade receivables

	30 June 2011 RMB'000	31 December 2010 RMB'000
Trade receivables		
— Third parties	414,167	524,461
— Related parties	260,883	188,816
	675,050	713,277
Less: provision for impairment	(26,935)	(18,769)
Trade receivables, net	648,115	694,508

The Group's sales are mainly made on credit terms ranging from 30 to 60 days. The ageing analysis of trade receivables is as follows:

	30 June 2011 RMB'000	31 December 2010 RMB'000
Current	356,997	571,110
Within 30 days	197,358	116,985
31 to 120 days	104,899	24,880
Over 120 days	15,796	302
	675,050	713,277

6 Trade payables

The ageing analysis of trade payables is as follows:

	30 June 2011 RMB'000	31 December 2010 RMB'000
Current	203,427	367,251
Within 30 days	445	670
31 to 120 days	320	178
Over 120 days	761	854
	204,953	368,953

7 Other gains, net

	Six months ended 30 June	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Government subsidy income	36,517	41,787
Others	673	3,610
	<u>37,190</u>	<u>45,397</u>

Government subsidy income is granted by the local finance bureaus at their full discretion and is recognised at fair value where there is a reasonable assurance that the subsidy will be received.

8 Expenses by nature

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

	Six months ended 30 June	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Cost of inventories recognised as cost of goods sold and distribution costs	441,811	776,324
Depreciation/amortization of property, plant and equipment, lease prepayments and intangible assets	18,908	14,790
Loss on disposal of property, plant and equipment	38	522
Advertising and marketing expenses	129,430	158,096
Employee salary and benefit expenses	102,558	89,822
Withholding business tax on licence fees payable for an overseas subsidiary	4,965	7,395
Design and product development expenses	51,779	60,042
Legal and consulting expenses	17,740	3,964
Operating lease in respect of buildings	26,906	24,278
Logistic fees	37,554	38,947
Provision for impairment losses of inventories	43,185	9,560
Provision for/(reversal of) impairment losses of trade and other receivables	8,353	(6,280)
Travelling expenses	14,624	14,395
Auditors' remuneration	1,120	1,120
Others	39,609	50,602
	<u>938,580</u>	<u>1,243,577</u>

9 Finance income, net

	Six months ended 30 June	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Finance income:		
— Interest income from bank deposits	41,738	43,893
— Interest income from treasury bonds and treasury products	20,979	7,374
	<u>62,717</u>	<u>51,267</u>
Finance cost:		
— Foreign exchange losses, net	(4,095)	(5,485)
— Others	(879)	(2,186)
	<u>(4,974)</u>	<u>(7,671)</u>
	<u>57,743</u>	<u>43,596</u>

10 Income tax expense

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
Current income tax		
— PRC enterprise income tax (“EIT”)	135,793	238,402
— Taxation in Japan	603	(372)
Deferred income tax	(23,383)	(27,982)
	<u>113,013</u>	<u>210,048</u>

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

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 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 six months ended 30 June 2011 (2010: 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 EIT Law”) as approved by the National People’s Congress on 16 March 2007. The EIT rate applicable to subsidiaries of the Group established in the PRC is reduced to 25% for those with original applicable EIT rates higher than 25%, or gradually increase to 25% over a 5-year period from 2008 to 2012 for those with original applicable EIT rates lower than 25%, where appropriate.

According to the New EIT Law, distribution of profits earned by PRC companies since 1 January 2008 to foreign investors is subject to a withholding tax of 5% to 10% depending on the country of incorporation of the foreign investor. Should the Group’s PRC subsidiaries distribute dividends to overseas-incorporated entities within the Group, the Group should accrue the withholding tax. The Group determined no deferred withholding tax liabilities shall be recognised in respect of the profits of the PRC subsidiaries for 2008 to 2010 since the Group has no plan to distribute such profits in the foreseeable future. From year 2011, the Group planned to distribute the profit earned by Shanghai Kappa, one of its wholly-owned subsidiary of the PRC, a deferred withholding tax liabilities of RMB21,575,000 was recognised accordingly at a rate of 10%. The withholding tax rate is still subject to the approval from the PRC local tax bureau and the Group prudently used 10% for the calculation of deferred withholding tax liabilities as at 30 June 2011.

The subsidiary incorporated in Japan is subject to income tax and local inhabitant tax. The corporate income tax rate for the six months ended 30 June 2011 applicable to the Group’s subsidiary in Japan is 30% based on the assessable profit. The inhabitant tax is determined based on rates (determined by the prefecture and city where the company maintains its operations) on the income tax payable, subject to a certain minimum payment. As there was no assessable profit derived during the six months ended 30 June 2011, the subsidiary was subject to the minimum inhabitant tax payments.

11 Earnings per share

(a) Basic

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

	Six months ended 30 June	
	2011	2010
Profit attributable to equity holders of the Company (<i>RMB'000</i>)	224,958	786,000
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme (<i>thousands</i>)	5,636,401	5,666,401
Basic earnings per share (<i>RMB cents per share</i>)	<u>3.99</u>	<u>13.87</u>

(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. The Company's dilutive potential ordinary shares comprise shares to be issued under its share options outstanding of 3,000,000 shares, excluding shares held for Restricted Share Award Scheme that were not granted (30 June 2010: nil). As at 30 June 2011, as the quoted price of share of the Company was lower than the exercise price of the share options outstanding, there was no potential diluted ordinary share.

	Six months ended 30 June	
	2011	2010
Profit attributable to equity holders of the Company (<i>RMB'000</i>)	224,958	786,000
Weighted average number of ordinary shares in issue for diluted earnings per share (<i>thousands</i>)	5,636,401	5,666,401
Diluted earnings per share (<i>RMB cents per share</i>)	<u>3.99</u>	<u>13.87</u>

12 Dividends

	Six months ended 30 June	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Interim dividend of RMB1.19 cents per share (2010: 4.16 cents per share)	67,430	235,722
Interim special dividend of RMB1.59 cents per share (2010: 4.16 cents per share)	90,096	235,722
	<u>157,526</u>	<u>471,444</u>

Pursuant to a resolution passed on 24 August 2011, the board of directors declared an interim dividend and an interim special dividend of RMB1.19 cents and RMB1.59 cents per share (2010: 4.16 cents and 4.16 cents per share), totalling RMB2.78 cents per share, to be distributed from the share premium account of the Company. The interim dividend and interim special dividend, amounting to RMB157,526,000 (2010: RMB471,444,000) have not been reflected as dividends payable in the condensed consolidated interim financial information. They will be recognised in shareholders' equity in the year ending 31 December 2011.

During the six months ended 30 June 2011, dividends that relates to the year ended 31 December 2010 amounting to RMB553,041,000 was paid in May 2011 (2010: RMB733,799,000 paid in May 2010). The dividends of RMB2,912,000 were paid to the Shares held for Restricted Share Award Scheme.

MANAGEMENT DISCUSSION AND ANALYSIS

Macro-economic and Industry Review

Macro-economic Review

Global economy continued to suffer from a series of turbulence since the beginning of 2011. The European economy was still deeply wounded and saw dim hope of recovery with the lingering effects of the European debt crisis that spread from Greece to other members of the PIIGS (Portugal, Italy, Ireland, Greece and Spain). On the other hand, the US economy saw steady recovery with the help of second-wave quantitative easing. Looking at the Asia Pacific region, the severe earthquake in Fukushima, Japan that happened in March shook the region's economy.

Nevertheless, China's economy witnessed robust growth amidst the dismal global economic environment in the first half of 2011. The Chinese government continued to reinforce its macro control measures, setting a pleasant foundation for the development of the country's economy in the first half of the year. Domestic demand continued to boost economic development despite rising inflation and the government's monetary tightening policies, causing both consumer and commodity prices to surge within the period.

According to The National Bureau of Statistics of China, GDP in the first half of 2011 increased 9.6% compared to the same period in the previous year, reaching RMB20,446 billion. Continuous and rapid urbanization in China contributed to the increase in the average disposable income of urban residents to RMB11,041, up by 13.2% year-on-year. Per capita net income of rural residents was RMB3,706, that is a jump of 20.4% compared to the same period in 2010. After eliminating the price factor, the growth rates were 7.6% and 13.7%, respectively, in real terms. Increased household spending, improved living standards and rising purchasing power all lay down a solid foundation for further development of China's economy.

Industry Review

Growth in the Chinese sportswear market has normalized to low- to mid-teens from the period of rapid expansion between 2004 and 2008 where stunning growth rates of over 30% or even a maximum of 45% were recorded. The Chinese sportswear market has now reached a certain level of maturity. Although we can expect continued growth going forward since the overall sportswear consumption in China remains low against the global market, growth has inevitably slowed down.

Middle-class families are the main target customer group of sports and leisure brands and over the years of explosive growth, higher-tier cities have become relatively mature and mildly saturated. Core areas of growth have shifted from higher tier cities to lower tier cities, where the expanding urban population contributed most to the consumer spending. In the gradually developing small cities with fast increasing middle and affluent class, there is a stronger will to consume than what can be observed in bigger cities. Such trade-up trends will ultimately benefit mid- to high- end industry players in the long run. High-end industry players will have to expand their target market segment in order to capture the immense market potential that a prospering lower tier market brings.

In the meantime, the market competition has become much fiercer as both sports performance brands and casual brands strive to expand into the Chinese market. This added challenges to the business environment of existing sports casual players as over 60% of consumer spending is actually generated from the same group of heavy spenders. The percentage that sportswear is taking up in overall consumers' wardrobes have dropped from 33% in 2005 to 32% in 2010, and the declining trend is

expected to continue with an accelerating rate. Meanwhile competition among the sportswear market players has further intensified as local and international sportswear brands continue to fight for market share expansion and profit enhancement in a more difficult operating environment.

In all, the extensive growth in the sportswear field will give way to refined growth, and enterprises that lay more emphasis on product diversity, initiate a mode of refined management and make multi-dimensional brand innovations will be the winners in the future.

Business Review

2011 marks a year of adjustment of the Group. The Group has dedicated efforts to strengthen its products and brand positioning through various marketing campaigns. It has also enhanced operation efficiency to solidify the platform for sustainable growth in the coming years.

Reinforce Internal Infrastructure and External Marketing

— Enhancing GTM Flow

The Group has been committed to improve the GTM (“Go-To-Market”) flow, which facilitates products to enter the marketplace. By introducing flow reengineering, sharing platforms and enhancing cross-functional communication, Kappa has further defined the matrix of responsibilities of different departments, promoted information transparency and efficient communication. This helps to gradually build an efficient GTM flow, which interlinks and echoes from brand strategy, product strategy, promotional concepts for seasonal products, product packaging, sales, event planning, execution and evaluation on event effectiveness, and thus form a complete closed loop to jointly propel products to head to the market more vigorously and effectively.

— 360° Integrated Marketing Strategy

360° refers to the integrated marketing strategy focusing on multiple points of contact with consumers, including communicating core messages via media with nationwide coverage, such as magazines and the Internet. In the key markets, advertisements in subways and outdoor LED screens are used to create a buzz. In the aspect of public relations, press conferences for product launches, interviews with spokespersons, media cover stories, in-depth cooperation with TV programs and advertorials help to promote products. In addition, organizing street events throughout the country will effectively attract public attention, driving local end users to go shopping, and effectively enhancing product sales. A broad range of Internet promotional means will also be adopted, together with exhibition booths and purchase incentive programs at retail stores. All these marketing strategies echo with each other and jointly propel products to the market more efficiently.

Brand building and Marketing

— “Back to the Mainstream of Fashion”

As a trend setter, Kappa organized a series of “Back to the Mainstream of Fashion” activities with the theme of retro fashion. Through online marketing and exhibitions, Kappa has raised the concept of re-creating the classic elements of former fashion styles, further connecting with fashionistas across the country.

— *Online Call for Creative Works*

Kappa has brought on the retro fashion trend by calling for innovative and environmental-friendly retro artworks through the top five most frequently visited online platforms, including the official Kappa website, www.weibo.com, www.kaixin001.com, www.douban.com and www.tianya.cn, in January this year. In the first week of launch alone, an overwhelming record of over 800 creative pieces were submitted by more than 300,000 visitors.

— *“DIY of The Fashion Bunny” and “Telling Your Story of Fashion”*

The “Fashion Bunny” is the main cartoon mascot of the “Back to the Mainstream of Fashion” campaign. To encourage creativity of consumers, a “DIY of The Fashion Bunny” webpage was added to the Kappa official website where consumers designed their own “Fashion Bunnies” with different backgrounds and graffiti drawing tools. Winners were awarded pieces from Kappa’s collection. Moreover, Kappa launched a forum named “Telling Your Story of Fashion” on www.weibo.com to encourage the sharing of fashion opinions and experiences with incentives for participants.

— *Caravan Art Tour*

To get closer to retro fashion icons across the country and promote a new way of retro lifestyle, Kappa organized an art tour in eight representative cities, namely Beijing, Shanghai, Guangzhou, Shenzhen, Tianjin, Hangzhou, Chengdu and Shenyang. Driving the “retro” caravan on 8 February 2011, Kappa visited the famous meet-up points of fashionistas, the plaza outside of Dayuecheng, a shopping mall in Shanghai. The event attracted many stylish youngsters and successfully created noise for the re-creation of classic fashion elements.

Sports Sponsorships

This year, Kappa continued to promote its brand as a fusion of sports and fashion through a series of sport sponsorships, including:

— *Co-sponsorship of team uniform for Virgin Racing F1 Team*

The special cutting and fabric applied to the trendy sponsored clothing enabled the Virgin Racing F1 Team players to perform to their best ability in style during the high-speed and high-pressure moments. The sponsorship served as an effective means to promote the Kappa brand as a fusion of sports and fashion to the public in the speedy and passionate games of the F1 Race.

Under the theme of “Speed, Sexiness and Fashion”, Kappa Fashion 1 Trip was organized for F1 fans for firsthand experience with the F1 Race. The F1 fans fully engaged themselves in a game which simulated the F1 Race ranking mechanism and participated in a race which was held in Shanghai F1 arena to show their strong support for the Virgin Racing F1 Team.

— *Co-sponsorship of German Bundesliga Club Borussia Dortmund Soccer Team uniform*

Kappa continued to be the team uniform sponsor of Borussia Dortmund with the goal of promoting its brand as a fusion of sports and fashion to the soccer fans.

Functional and Trendy Product Portfolio

Curves Series

Kappa Curves, the newly-launched sports shoes series this summer, denotes contours of the human body. The unique design of the dual curvy sole can accentuate women's beauty by bringing out their energy and inner power. Kappa Curves activates leg muscles and helps burn more energy from each step. Kappa Curves presents to city girls a new concept of "shaping your body with no extra time and effort", which means one can carry out bodybuilding while working, shopping or strolling. The Kappa Curves series kick-starts the initiative to systematically feed technology and design into its footwear.

To make its debut, Kappa organized the Kappa Curves New Product Launch Press Conference with the theme "More Beautiful, One Step at a Time" and engaged celebrity, Ms. Karen Mok, as spokesperson of the product series. Also, "Curves Flash Action" was simultaneously held in Beijing, Shanghai, and Shenzhen. A large group of female participants recruited online wore pink Curves while trotting on the street, creating a magnificent scene. The promotion will be sequentially launched across the country in Shenyang, Changsha, Nanjing, Chongqing, Hangzhou, Chengdu, Wuhan, Taiyuan and Harbin. This is the initial step towards Kappa's implementation of 360 Degree Integrated Marketing Strategy, which switches from above-the-line to go-to-market, aiming at stronger impact through multiple points of contact with consumers.

Kappa Soccer Series

In May, Kappa launched its Spring/Summer Soccer Series, which comprised professional performance lines and soccer-fan-culture lines targeted for young people. The series is designed to cater for different tastes for easy mix and match. Footwear is designed with a multi-functional concept to fulfill consumers' needs for flexible styling in different seasons. The value for money as well as environmental awareness is significantly enhanced.

In order to promote the Soccer Series, Kappa organized a press conference with the theme "A Sexy Shout-out". It took the participants into the soccer world to share the incredible moments of Borussia Dortmund, the team sponsored by Kappa, winning the championship of the Bundesliga, and to simply enjoy the fascination of soccer.

Kappa P-A.C Series

Subsequent to the introduction of Kappa P-A.C last year, renowned German designer Michael Michalsky continues to design the new collection with the theme "back to basics". Products in this season comprise knitwear, Polo shirts, T-Shirts, jackets, shorts and sneakers. Bright color mix showcases the stylish and dynamic senses in the metropolis. Product weight was trimmed by applying lightweight fabric, while hollow fiber used also made the products more permeable, more washable and anti-wrinkle, thus achieving "back to basics" via easy steps in apparel care. Kappa cooperated with print media outlets Hotpot, Trends Health and Modern Weekly to launch a series of marketing campaigns in the second quarter.

C19 Series

Fixed Gear, which is also known as "Fixed Wheel Bicycle" in China, is a popular street sport. The design of newly launched series, C19, was inspired by Fixed Gear incorporating the needs of cyclists and trendy style. The pioneering products integrated street styles and sports functions through the use of 3D cutting and innovative application of fabrics.

At the launching press conference themed “Ride with Mind” in July 2011, designer Eric Haze, F.E.S.S (Far East Smotin Skidders), the cycling team from Tokyo, Japan, and a number of fashionistas attended to show support. Street culture items such as graffiti, cycling performance and street snapshots were presented to unveil the debut of C19. In Beijing, a city cycling tour named “Discovering Fixed Gear Culture While Integrating Trendy Cultures” was kicked off and F.E.S.S led the cycling team to pass through fashionable cities including Beijing, Chengdu, Guangzhou, Hangzhou, Harbin and Shanghai, to interact with young local cyclists and introduced C19.

Diversified Brand Portfolio

Robe Di Kappa Business

The Group continues to develop Kappa’s sister brand, Robe Di Kappa (RDK), following its official launch in China last year. As of 30 June 2011, there were 22 RDK stores. In addition, the Group held a trade fair for RDK Fall/Winter collection in April 2011, in which our distributors and fashion buyers experienced various activities, such as product runway show, brand education, retail and assortment training, etc.

Phenix Business

The Group introduced Japanese largest ski and outdoor brand in terms of market share, Phenix, to China last year, and planned to promote extensively this year. To mitigate the effects of the high seasonality of the brand and make it more suitable for the China market, the Group has successfully developed the outdoor series of Phenix. In February 2011, Phenix made its debut at ISPO China (International Tradeshow for Sports Equipment and Fashion in Asia) and received unexpectedly valuable feedback. In June 2011, the Phenix store in the Wanliu Hualian Mall recorded over RMB510,000 in sales in the three-day exhibition.

Leveraging on the strong promotions, Phenix marketing activities will be carried out in a comprehensive way in the second half of 2011, covering all the way from professional mountain climbing, rock climbing and skiing athletes, to fashion magazines, fashionistas and new media. Phenix will also have its new stores open in Beijing and first-tier cities in North and Northeast China.

Other Brands

Furthermore, the Group also owns X-nix, a snowboard sportswear brand, and Inhabitant, a sportswear brand with products covering various extreme sports, composing a diversified brand mix for the Group.

Optimization of Sales Network

The Group has been committed to enhance its sales network distribution and store operating efficiency. During the period under review, the Group restructured its sales network by redefining five sales regions and establishing five regional teams to support the execution of channel, product and retail management. Eight functional divisions based on sales and retail related requirements were also set for better specialization and dedication and an aim to increase sales contribution. As of 30 June 2011, the Group had 40 distributors who directly or indirectly operated 3,502 retail outlets selling Kappa brand products in China. The store distribution covered all major provincial cities and other major urban areas and towns in China.

Apart from the traditional sales format in retail outlets, the Group placed an increased emphasis on Internet sales. In particular, under the current market circumstances, online platform serves as an efficient channel for inventory sales. Through joint efforts with www.taobao.com, the leader of e-commerce in China, consumers are able to easily purchase Kappa products over the Internet. The Group aims to devote to the establishment of an integrated online sales platform while, at the same time, tapping into multiple popular Internet channels to increase sales.

Design and Development

The Group believes that offering differentiated products that are well-received by the market has always been one of the most important factors to capture market growth. To avoid falling into price competition, the Group will continue to develop products with both creativity and functionality by leveraging its in-house design expertise in Japan and cooperating with renowned international design houses in The United States and Europe. The key contributions of R&D in the first half of the year included:

- The Group joined hands with a famous footwear design house in Boston, the United States, to launch a new footwear series, “Curves”. The design features a dual curvy sole, inspired by the seesaw theory that activates leg muscles and provides best support to the wearer. The seamless outer elastic shoestring with stopper and the silky materials used in the inner part all work together to offer style, comfort and convenience.
- The Group has introduced the K-series, enriching the variety and enhancing the excitement for consumers. The K-series is the first launch of the design team at The University of the Arts London.
- The Group continued to collaborate with Michael Michalsky in the development of P-A.C. this year. Inspired by indoor rock climbing and street dancing, the in-season series continues to adopt the floral design, lightweight and silky fabric, and sophisticated cuttings. The Group believes this series can gain higher brand recognition and sales performance.

Business Review in Japan

During the period under review, Japan segment’s business performance was affected by the severe earthquake that happened in the Northeast of Japan on 11 March 2011. Approximately 30 retail outlets suspended their business owing to structural damage. While some of the retail outlets are still under renovation at present, majority of the retail outlets have resumed normal business operation in March. Since electricity supply was impaired by the Fukushima nuclear incident, areas in Eastern and Northeastern Japan only received limited electricity supply, causing business hours to shorten in department stores and outlet malls. The earthquake also seriously affected consumers’ behavior. In Eastern Japan, consumers exerted strict control over their spending, leading to a significant drop in retail outlets’ sales in March and increased goods returned.

To strengthen product differentiation, the Group gradually enhanced shop in shop and multi-brand consignment store for its brands during the period under review, including the opening of ICI石井sports吉祥寺店 since last Autumn, setting up a separate Phenix Outdoor corner in Harajuku standalone store. Among which, a total of 4 shop in shop outlets were opened in ICI石井sports. Kappa also expanded its retail outlet networks, opening 5 new outlets in STEP. Kappa Golf also entered 越谷lake town in the first half of 2011, which is the first retail outlet opened in large scale commercial facilities in the suburbs.

Financial Review

Our revenue for the six months ended 30 June 2011 was RMB1,179 million, decreased by 45.1% as compared to that for the six months ended 30 June 2010. Profit attributable to equity holders of the Company for the six months ended 30 June 2011 was RMB225 million, decreased by 71.4% as compared to RMB786 million for the six months ended 30 June 2010.

Key Financial Performance

	Note	Group (Note 3)			China Segment (Note 1)			Japan Segment (Note 2)		
		Six months ended 30 June			Six months ended 30 June			Six months ended 30 June		
		2011	2010	change	2011	2010	change	2011	2010	change
		RMB million	RMB million		RMB million	RMB million		RMB million	RMB million	
Key items of condensed consolidated income statement										
Revenue		1,179	2,146	-45.1%	990	1,957	-49.4%	189	189	0.0%
Gross profit		722	1,343	-46.2%	637	1,258	-49.4%	85	85	0.0%
Operating profit	3	277	947	-70.7%						
Profit attributable to equity holders of the Company	3	225	786	-71.4%						
		RMB cents	RMB cents							
Basic earnings per share		3.99	13.87	-71.2%						
Diluted earnings per share		3.99	13.87	-71.2%						
Profitability ratios										
Gross profit margin		61.3%	62.6%	-1.3% pts	64.4%	64.3%	0.1% pt	45.0%	45.2%	-0.2% pt
Operating profit margin		23.5%	44.1%	-20.6% pts						
Effective tax rate		33.7%	21.1%	12.6% pts						
Net profit margin		19.1%	36.6%	-17.5% pts						
Key operating expenses ratio (as percentage of Revenue)										
Advertising and marketing expenses		11.0%	7.4%	3.6% pts	10.7%	7.2%	3.5% pts	12.5%	9.2%	3.3% pts
Employee salary and benefit expenses		8.7%	4.2%	4.5% pts	7.0%	3.1%	3.9% pts	17.6%	15.9%	1.7% pts
Design and product development expenses	3	4.4%	2.8%	1.6% pts						

Notes:

1. The China segment is principally engaged in the wholesale of sport-related products under Kappa Brand in the PRC and Macau. It is also engaged in 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 sale 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 of the Company and segmental design and products development expenses as a percentage of revenue are not meaningful.

Revenue

Revenue analyzed by geographical segments, business segments and product categories

	Six months ended 30 June						change
	2011			2010			
	RMB million	% of product/ brand mix	% of Group Revenue	RMB million	% of product/ brand mix	% of Group Revenue	
CHINA SEGMENT							
Kappa Brand							
Apparel	693	70.8%	58.8%	1,467	75.2%	68.4%	-52.8%
Footwear	247	25.2%	21.0%	416	21.3%	19.4%	-40.6%
Accessories	39	4.0%	3.3%	69	3.5%	3.2%	-43.5%
Kappa Brand total	979	100.0%	83.1%	1,952	100.0%	91.0%	-49.8%
International business, RDK and others	11		0.9%	5		0.2%	120.0%
CHINA SEGMENT TOTAL	990		84.0%	1,957		91.2%	-49.4%
JAPAN SEGMENT							
Phenix Brand	79	41.8%	6.7%	72	38.3%	3.4%	9.7%
Kappa Brand	110	58.2%	9.3%	117	61.7%	5.4%	-6.0%
JAPAN SEGMENT TOTAL	189	100.0%	16.0%	189	100.0%	8.8%	0.0%
THE GROUP TOTAL	1,179		100.0%	2,146		100.0%	-45.1%

China Segment

Kappa Brand

Total revenue from the Kappa Brand business, the core business of the Group, for the six months ended 30 June 2011 was RMB979 million, decreased by RMB973 million from RMB1,952 million for the six months ended 30 June 2010. Such decrease was principally due to our initiative to solve the problem of accumulation of inventory faced by our distributors by reducing their volume of sales orders in 2011 as well as making a one-time repurchase offer to distributors, in a bid to scale their inventory back to normal level for laying a good foundation for subsequent healthy growth.

As of 30 June 2011, the Group had 40 distributors who directly or indirectly operated 3,502 retail outlets selling Kappa brand products in China. The store distribution covered all major provincial cities and other major urban areas and towns in China.

Apparel was the major product of the Kappa Brand in China and its revenue represented 70.8% (1H2010: 75.2%) of the brand's total revenue. During the period under review, revenue of footwear constituted 25.2% of total revenue of the brand, representing an increase of 3.9 percentage points as compared to 21.3% for the same period in 2010. Substantial increase in revenue percentage of Kappa Brand footwear was mainly due to our gradual expanded efforts in research, development and design of footwear since 2010 to responsively fulfill customers' demand.

Revenue from international business, RDK and other brands increased by RMB6 million to RMB11 million for the six months ended 30 June 2011 from RMB5 million for the six months ended 30 June 2010.

Japan Segment

Revenue from Japan segment for the six months ended 30 June 2011 at RMB189 million was broadly flat compared to that for the six months ended 30 June 2010. In spite of the impact of 9.0-magnitude Japan earthquake on the Japan economy this year, our revenue from Japan segment remained stable primarily due to the combined positive effects of channels development, branding and sales promotion by Phenix. As a result, the market share has been secured.

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

	Six months ended 30 June					
	2011		2010		Change	
	Average selling price RMB	Total units sold in '000	Average selling price RMB	Total units sold in '000	Average selling price	Total units sold
Apparel	135	6,475	125	12,085	8.0%	-46.4%
Footwear	181	1,738	175	2,443	3.4%	-28.9%

Notes:

1. Average selling price represent the revenue for the period, before deduction of provisions for sales return, divided by the total units sold for the period.
2. Accessories cover a wide range of products that vary significantly in terms of average selling price per unit. We believe that the average selling price per unit analysis of this product category is not meaningful.

Average selling price per unit for apparel products for the six months ended 30 June 2011 went up more substantially to RMB135 from RMB125 for the six months ended 30 June 2010, primarily due to product improvements and innovations achieved this year following an introduction of a design and planning team by the Group since 2010, pricing structure has been optimized. Additionally, given the rising costs of raw materials and labor, the Group has partially passed these additional costs on to consumers by applying an upward adjustment in price reasonably.

Average selling price per unit for footwear products grew by 3.4% to RMB181 for the six months ended 30 June 2011 from RMB175 for the six months ended 30 June 2010. Such growth was largely driven by our expanded effort in improving design as well as research and development of footwear products during the period, and product offerings have been further diversified. As a result, average selling price for footwear products moved up fairly.

Total units sold for apparel and footwear products for the period under review significantly fell by 46.4% and 28.9%, respectively, as compared to the same period last year, which was primarily due to our initiative to reduce the distributors' volume of sales orders as well as making a one-time repurchase offer to our distributors in the first half of 2011.

Cost of Goods Sold and Gross Profit

Cost of goods sold by the Group has dropped by RMB346 million, or 43.1%, to RMB456 million for the six months ended 30 June 2011 from RMB802 million for the six months ended 30 June 2010, which was impacted by our strategic reduction in sales orders from the distributors as well as stock repurchase provision made in the first half of the year. Gross profit of the Group was RMB722 million (1H2010: RMB1,343 million), representing a decrease of RMB621 million (or 46.2%). Overall gross profit margin of the Group fell by 1.3 percentage points to 61.3% for the six months ended 30 June 2011 from 62.6% for the six months ended 30 June 2010.

The gross profit margin analyzed by geographical and business segments are detailed as follows:

	Six months ended 30 June		
	2011	2010	Change
	Gross profit margin	Gross profit margin	% pts
China segment			
Kappa Brand:			
Apparel	66.7%	67.0%	-0.3
Footwear	58.1%	55.0%	3.1
Accessories	66.8%	63.7%	3.1
Kappa Brand overall	64.5%	64.3%	0.2
International business, RDK and others	52.9%	38.6%	14.3
China segment overall	64.4%	64.3%	0.1
Japan segment	45.0%	45.2%	-0.2
Group overall	61.3%	62.6%	-1.3

Gross profit margin of Kappa Brand in China segment for the six months ended 30 June 2011 and 2010 were 64.5% and 64.3%, respectively. Excluding the effect of provision for sales return on gross profit margin, gross profit margin of Kappa Brand in 2011 was 63.1%, representing a decrease of 1.2 percentage points over the same period last year.

Gross profit margin of our apparel products fell fractionally by 0.3 percentage point to 66.7% for the six months ended 30 June 2011 from 67.0% for the six months ended 30 June 2010. Excluding the effect of provision for sales return, gross profit margin of apparel products of Kappa Brand was 65.1%, representing a decrease of 1.9 percentage points over 2010. Such change was primarily due to gross profit margin of our apparel products was narrowed down by increases in costs of fabric, ancillary materials and labor during the period under review. Although the Group did partially pass on cost increases to end consumers by increasing prices of some of our products, while adjusting our product mix for uplifting our overall retailing prices, the effects of cost increases on gross profit margin have not been fully offset.

Gross profit margins of our footwear products and accessories increased to 58.1% and 66.8% for the six months ended 30 June 2011, respectively, from 55.0% and 63.7% for the six months ended 30 June 2010, respectively, which were mainly driven by increase in product prices as well as effective cost control. Excluding the effect of provision for sales return on gross profit margin, gross profit margin of our footwear products and accessories in 2011 were 55.7% and 65.0%, respectively, representing increases of 0.7 and 1.3 percentage points respectively over 2010.

Gross profit margin of Japan segment for the first half of 2011 remained flat at 45.0% as compared to 45.2% for the first half of 2010.

Distribution Costs and Administrative Expenses

Distribution costs and administrative expenses mainly comprised advertising and marketing expenses, employee salaries and benefit expenses, design and product development expenses, legal and consulting expenses as well as logistic fees. Total distribution costs and administrative expenses for the six months ended 30 June 2011 grew by RMB41 million as compared to the six months ended 30 June 2010 to RMB482 million (1H2010: RMB441 million), constituting 40.9% of the Group's total revenue. In the period under review, the Group adopted a conservative approach to make a provision for impairment losses of inventories of RMB43 million and a provision for impairment losses of trade receivables of RMB8 million (1H2010: RMB10 million and reversal of RMB6 million). In addition, the Group has engaged experienced senior management talent with capabilities in international management for enhancement on strategies of retail management as well as support for execution of our 5-year strategic plan, leading to an increase in staff costs of the Group by RMB13 million to RMB103 million for the six months ended 30 June 2011 from RMB90 million for the six months ended 30 June 2010. Consulting fees increased by RMB14 million to RMB18 million for the six months ended 30 June 2011 from RMB4 million for the six months ended 30 June 2010, mainly due to the launch of consulting projects on strategic planning, human resources and internal management upgrade. Advertising and marketing expenses reduced by RMB29 million to RMB129 million for the six months ended 30 June 2011 from RMB158 million for the same period last year.

Operating Profit

For the six months ended 30 June 2011, operating profit of the Group was RMB277 million (1H2010: RMB947 million). The operating profit margin was 23.5% for the six months ended 30 June 2011 (1H2010: 44.1%). The change in the operating profit margin was mainly due to a drop in gross profit margin by 1.3 percentage points, an increase in expense ratio by 20.3 percentage points and an increase of 1.0 percentage point in ratio of other income to revenue.

Net Finance Income

For the six months ended 30 June 2011, finance income mainly comprised interest income of RMB42 million (1H2010: RMB44 million), a foreign exchange losses of RMB4 million (1H2010: exchange losses of RMB5 million), and interest income from treasury bonds and principal protected treasury products of RMB21 million (1H2010: RMB7 million).

Taxation

For the six months ended 30 June 2011, income tax expense of the Group amounted to RMB113 million (1H2010: RMB210 million). The effective tax rate was 33.7% (1H2010: 21.1%). Increase in effective tax rate was primarily due to the increase in income tax rate of our major operating subsidiaries established in the Shanghai Pudong New Area from 22% for 2010 to 24% for 2011. In accordance with the 2008 new PRC Enterprise Income Tax Law, a 5% or 10% withholding tax is

imposed on dividends paid to a non-resident company by a resident company. Withholding income tax of RMB22 million has been provided based on management estimation on future dividend payment to offshore company.

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 entitled to preferential income tax rate of 24% in the first half of 2011 (2010: 22%).

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

Profit attributable to equity holders of the Company for the six months ended 30 June 2011 was RMB225 million (1H2010: RMB786 million), and net profit margin of the Group was 19.1% (1H2010: 36.6%).

Earnings Per Share

The basic and diluted earnings per share were RMB3.99 cents and RMB3.99 cents for the six months ended 30 June 2011, respectively, decreases of 71.2% and 71.2% against the basic and diluted earnings per share of RMB13.87 cents and RMB13.87 cents for the six months ended 30 June 2010, 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 less shares held for Restricted Share Award Scheme during the period.

Interim Dividend and Interim Special Dividend

The board of directors (the “Board”) of the Company has resolved to declare an interim dividend and interim special dividend of RMB1.19 cents and RMB1.59 cents respectively per ordinary share (totaling RMB2.78 cents per ordinary share) for the six months ended 30 June 2011, amounting to RMB68 million and RMB90 million respectively (totaling RMB158 million).

The interim dividend and interim special dividend will be paid in HK Dollars based on the rate of HKD1.00 = RMB0.8204 being the official exchange rate of HK Dollars against Renminbi as quoted by the People’s Bank of China at 23 August 2011. The dividends will be paid on or around 20 September 2011 to shareholders whose names appear on the register of members of the Company on 12 September 2011.

Financial Position

Working capital efficiency ratios

China Segment

The average trade receivable turnover days for the six months ended 30 June 2011 and 2010 were 102 days and 26 days, respectively. Such relatively significant increase was primarily due to our initiative to scale down our distributors’ excessive inventory by reducing their volume of sales orders in the period under review as well as making a one-time repurchase offer to its distributors, resulting in a material decrease in our revenue over the same period last year. In addition, the Group have,

subject to market conditions and liquidity position of its distributors, reasonably extended credit limit and credit terms to our major distributors for supporting the development of their Kappa Brand business on the basis of adequate assessment on distributors and stringent credit risk management by the Group. The Group will continue to implement a sound credit management policy, review and adjust such credit policy, when necessary, to adapt to industry environment and fulfill the needs for our business development.

The average trade payable turnover days for the six months ended 30 June 2011 and 2010 were 100 days and 58 days respectively. Such increase was mainly due to a decrease in cost of goods sold in the first half of 2011.

The average inventory turnover days for the six months ended 30 June 2011 and 2010 were 125 days and 33 days respectively. Such increase was primarily due to an increase in closing inventory as a result of a one-time repurchase offer made by the Group in the first half of 2011, and a significant decline in cost of goods sold in the first half of the year as a drop in our revenue. With our business gradually returns to normal condition, the average inventory turnover days will resume to a healthy level.

Japan Segment

The average trade receivable turnover days for the six months ended 30 June 2011 and 2010 were 133 days and 116 days, respectively. Such increase was primarily due to the impact of the Japanese earthquake.

The average trade payable turnover days for the six months ended 30 June 2011 and 2010 were 161 days and 154 days, respectively, which remained broadly flat.

The average inventory turnover days for the six months ended 30 June 2011 and 2010 were 257 days and 227 days, which were primarily due to an increase in closing inventory affected by the earthquake.

Liquidity and financial resources

As at 30 June 2011, cash and bank balances (including long term bank deposits) of the Group amounted to RMB4,820 million, a decrease of RMB208 million compared to a balance of RMB5,028 million as of 31 December 2010. This decrease mainly due to (1) redemption of treasury bonds issued by the Ministry of Finance of the PRC and capital guaranteed treasury products offered by PRC commercial banks amounting to RMB600 million, (2) pay off 2010 final and final special dividends for an aggregate amount of RMB550 million, (3) an investment in equity interest in Mecox Lane of RMB228 million and (4) a decrease in net cash generated from operating activities of RMB52 million as a result of decreases in revenue and receivables.

As at 30 June 2011, net assets attributable to our equity holders was RMB7,046 million (31 December 2010: RMB7,515 million). The Group's current assets exceeded current liabilities by RMB6,169 million (31 December 2010: RMB6,570 million). The Group also had a very strong liquidity position. The current ratio as of 30 June 2011 was 9.3 times (31 December 2010: 8.5 times).

As at 30 June 2011, the Group had no outstanding bank loans or other borrowings.

Pledge of assets

As at 30 June 2011, the Group had approximately RMB45 million (31 December 2010: RMB36 million) were held in banks as deposits of advertising fee payable to a third-party business partner, guarantee deposit for the issue of letters of credit and deposits for registered capital of subsidiaries.

Capital commitments and contingencies

The establishment of new operating headquarters of the Group in Beijing with the budget of RMB 350 million has been approved by Board of Directors in 2011.

Except as mentioned above, the Group had no material capital commitment or contingencies as at 30 June 2011.

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 recognized as exchange gains or losses in the Company's income statement. The exchange gains or losses were not significant because HK Dollars are pegged to US Dollars. The Company's financial statements expressed in US Dollars were translated into Renminbi for the Group's reporting and consolidation purposes. The foreign exchange differences from the translation of financial statements is 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 for the year mainly derived from our unutilized capital in foreign currencies in the PRC, the exchange rate risk of the Group was insignificant.

Significant investments and acquisitions

On 2 March 2011, the Group entered into a share purchase agreement with two shareholders of Mecox Lane Limited ("Mecox Lane"), a company listed on NASDAQ and engaged in sales of apparel and accessories on online platforms. Under the share purchase agreement, the Group purchased 40,519,225 ordinary shares of Mecox Lane representing approximately 10% of the issued and outstanding shares of Mecox Lane at a price of US\$0.8571 per share, totaling US\$35 million (equivalent to approximately RMB228 million). The Group was subject to a one-year lock-up period, starting from the closing date of the share purchases. In addition, the vendor also agreed to grant to the Group options to purchase 18,306,117 ordinary shares of Mecox Lane. The options are exercisable during a two-year period starting from the closing date of the above share purchases and the exercise price is US\$1.1429 per ordinary share.

Except as mentioned above, the Group has made no significant investment or any material acquisition or disposal of subsidiaries during the six months ended 30 June 2011.

Events occurring after the balance sheet date

Pursuant to the repurchase mandate granted to the Board at the annual general meeting of the Group held on 12 May 2011 (the "Repurchase Mandate"), the Group repurchased 30,000,000 of its own shares in July 2011 (the "Share Repurchase"). The aggregate consideration for the Share Repurchase is HK\$52 million and was funded from internal resources of the Group. The shares repurchased by the Group represent approximately 0.53% of the existing issued share capital of the Group.

Human Resources

As of 30 June 2011, the Group had approximately 492 employees throughout the PRC (As of 31 December 2010: 507). Phenix Co., Ltd. had 242 employees in Japan (As of 31 December 2010: 250 employees). In order to cope with our business expansion, the Group still has to recruit more talented employees in all departments.

In this year of adjustment, the Group had made some adjustments in the company structure and job responsibility. Together with the launch of the “Recharge for Growth” program, we have also hire more middle/senior management and specialists to support this strategy. The Group’s business focus changed from pure “sell-in” to “sell-through” this year, and under this new business focus we have re-organized and subdivided our sales department. In addition to the new “Retail Excellence team”, we have also put in place on-site retail management offices in all five sales regions across china, with the purpose to support and accomplish our business focus alterations.

In addition, the Group has engaged experienced senior management with international exposures for enhancement on strategies of retail management as well as support to our 5-year strategic plan. New senior management members, namely Mr. James Li, Vice President Sales, has more than 20 years experience in Sales and Distribution management with rich and proven track record of business turnaround via sales force restructuring and revitalization. Mr. Li was also the former National Commercial Excellence Director of GSK Consumer OTC & healthcare China. Mr. Alan Chamberlin, Vice President of Supply Chain, has worked in the apparel industry for more than 25 years, of which he specialized in the areas of sourcing, product development and demand-chain management. Mr. Chamberlin was the former Vice President of Brand Operations of Adidas Sourcing, Ltd. In the mean time, we also recruited several senior professionals into other key positions in Sales, Supply Chain and Administration department.

The Group deployed a work-value and performance based remuneration scheme to its employees under which KPI and annual bonuses were awarded to high performance employees on top of their basic salary. The Group also implemented long-term cash-settled performance based employees benefit plan (also known as Performance Unit Plan) with key employees to reward long-term contribution from employees. In addition, the Group will further implement new long-term benefit plan so as to motivate and reward those employees for their long-term contribution to our growth.

Outlook

Notwithstanding the challenges brought by fierce competition and accumulated inventory, the Group has implemented a series of medium- to long-term action plans for turnaround and sustainable growth in the coming years. With dedication of its new senior management, the Group is confident to steer back to a healthy growth path.

Initiatives of Product and Marketing

The Group will refine and strengthen its product positioning of sports performance and sports style that can utterly demonstrate Kappa brand DNA. Going back to its sports root, it will offer authentic sports performance products in soccer, running, tennis, fitness and training. While rejuvenating its existing sports casual segment, the Group will expand its product range to sports style through the introductions of P-A.C. and C19 to cater for evolving customers’ needs.

In July, the launch of “Curves”, a new footwear line especially designed for women, kick-started the Group’s initiative to expand footwear product offerings and consolidate its presence in the women sportswear market. Also, “Curves” perfectly presents the integration of technology and design. Going

forward, the Group will further fortify its product design capabilities, in particular of footwear products, through internal and external resources. By leveraging the R&D resources at the technical centers in Japan and the PRC. Also, the group will work together with international expertise from the U.S. to introduce more technology-driven and performance-based products, whilst new product design will be brought in mainly from Japan and Europe.

The Group wants to ignite new brand excitement for consumers by adopting a 360 degree integrated marketing approach. The engagement of celebrity, Ms. Karen Mok, as spokesperson of “Curves” was a solid step towards this innovative strategy. To raise brand awareness, the Group will be a pioneer in the new media and digital marketing area and will organize more joint marketing campaigns with world-class, high-end, non-competing brands such as crossover with BMW. Outdoor campaigns will be more frequently launched as a means to enhance retail marketing.

Initiatives of Retail Operation Management

To get closer to market pulse, the Group has shifted its focus of sales operation from sell-in to sell-through. It has established key account management and local field retail teams to prioritize efforts and provide tailored assortment planning support for best and better stores, by store type, city tier and customer demographics. Visual merchandizing and store inventory check will be conducted on regular basis to ensure the assortment plan is in full execution.

Looking into further segmentation of its retail outlets, the Group has redefined five sales regions which are more consistently customer-oriented and established an onsite office in each sales region. The field retail team of each sales office will pay frequent visits to evaluate store operations and provide in-store support and performance feedback. This enables the Group to develop systematic retail operation monitoring and provide sufficient guidance to distributors.

Besides, the Group will build its own retail stores in selected prime locations in high-tier cities. This approach not only helps detect the market pulse for new products and provide holistic Kappa brand experience for consumers, but also assists in implementing staff training and best practices sharing, thus achieving further retail excellence.

Initiatives of Store Network Optimization and Geographical Expansion

To strengthen its brand positioning in top-tier cities, the Group will open more new stores in conformity with Kappa’s brand requirements. Meanwhile, it will capture the opportunities from the rising middle and affluent class and penetrate into lower-tier markets. During this geographical expansion, it will restructure its retail portfolio through conversion and more openings of direct customer stores so as to gain better channel control and monitoring.

From the end of 2011 onwards, the Group will roll-out its new store format at all new openings and progressively upgrade the image of all existing stores in higher-tier cities and of 50% of stores in lower-tier cities. The design of the new Kappa store format will be tailored for different store types and segments. The Group will also review the store portfolio in close partnership with distributors. More resources will be allocated to best-performing stores and underperforming stores will be adjusted to better locations and fitted in new store format.

Continuing to Drive Growth in New Business

Nevertheless, the Group will continue to explore the development of online sales platform. The establishment of its own e-commerce platform will serve as a multi-purpose channel covering brand building, customer service and feedback on new products and a forum for Kappa fans. The Group

will also work closely with Taobao and other leading online platforms to developing comprehensive consumer database, capture online shopping trends and facilitate product development, with a goal to ensure competitive market share in the online channels. The Group believes that e-commerce is an engine for business growth which is an efficient and cost-effective way to reach target customers, complementary to the traditional retail sales network.

Subsequent to a great success of the opening of the first RDK store in Beijing in 2010, the Group will further promote the RDK series as a high-end sports casual brand and gradually develop RDK's retail network with the support of the new sales organization.

In addition, the Group will keep on assessing market potential and exploring business opportunities in new relevant segments in order to sustain long-term growth and maximize shareholders' value.

OTHER INFORMATION

Compliance with the Code on Corporate Governance Practices (the “CG Code”)

The Company is committed to ensuring high standards of corporate governance in the interests of shareholders and devotes considerable effort in identifying and formalising best practices.

During the period under review, the Company has complied with all the code provisions set out in the CG Code contained in Appendix 14 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

Details of the Company's corporate governance practices can be found in the Corporate Governance Report set out in the Company's annual report for the year ended 31 December 2010.

Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”)

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the standard for securities transactions by directors. Having made specific enquiry by the Company, all the directors of the Company confirmed that they had complied with the required standard regarding securities transactions by the directors as set out in the Model Code during the period under review.

Audit Committee

The Audit Committee of the Company, comprising three independent non-executive directors, has reviewed the interim financial information, financial reporting system and internal control of the Company, including the interim results for the six months ended 30 June 2011.

The unaudited condensed consolidated interim financial information for the six months ended 30 June 2011 of the Group has also been reviewed by PricewaterhouseCoopers, the auditor of the Company, in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”, whose review report is included in the interim report to be sent to shareholders.

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

During the six months ended 30 June 2011, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

During the month of July 2011, the Company repurchased a total of 30,000,000 ordinary shares at purchase prices ranging from HKD1.68 to HKD1.79 per share. These repurchased shares were cancelled upon repurchase and the issued share capital of the Company was reduced by the par value thereof accordingly.

Book Closure

The Register of Members of the Company will be closed from 8 September 2011 to 12 September 2011, both days inclusive, for the purpose of determining shareholders' entitlements to the 2011 interim dividend and interim special dividend. In order to qualify for the 2011 interim dividend and interim 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 no later than 7 September 2011 at 4:30 p.m.

Publication of Results Announcement

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

By Order of the Board of Directors
China Dongxiang (Group) Co., Ltd.
Chen Yihong
Chairman

Hong Kong, 24 August 2011

As at the date of this announcement, the executive directors of the Company are Mr. Chen Yihong, Mr. Qin Dazhong and Ms. Sandrine, Suzanne, Eléonore, Agar Zerbib, the non-executive director of the Company is Mr. Gao Yu, and the independent non-executive directors of the Company are Mr. Xu Yudi, Dr. Xiang Bing and Mr. Jin Zhi Guo.

In this announcement, RMB are translated for illustration purpose only into HK\$ at the exchange rate of RMB0.8204 to HK\$1.