Interim Report 2011

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

CONTENTS

CORPORATE INFORMATION

Executive Directors	Mr. Chen Yihong (Chairman) Mr. Qin Dazhong (Vice Chairman) Ms. Sandrine Zerbib (Chief Executive Officer)
Non-Executive Director	Mr. Gao Yu
Independent Non-Executive Directors	Mr. Xu Yudi Dr. Xiang Bing Mr. Jin Zhi Guo
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	Butterfield Fulcrum Group (Cayman) Limited Butterfield House 68 Fort Street P.O. Box 705 Grand Cayman KY1-1107 Cayman Islands
Hong Kong Branch Share Registrar and Transfer Office	Computershare Hong Kong Investor Services Limited Shops 1712–1716 17/F Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
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 (Asia) Bank of Communications China Merchants Bank
Website	www.dxsport.com

INFORMATION FOR INVESTORS

OTHER IMPORTANT INFORMATION

1. Share information

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

Stock code: 03818

Number of ordinary shares issued as at 30 June 2011: 5,666,401,000

2. Important dates

Announcement of 2011 interim results: 24 August 2011

Book closure date: 8 September 2011 to 12 September 2011 (both days inclusive)

3. 2011 interim dividend and interim special dividend

Interim dividend: RMB1.19 cents per share

Interim special dividend: RMB1.59 cents per share

Payment date: on or around 20 September 2011

4. Investor Relations Department

Building 21, No. 2 Jingyuanbei Street,

Beijing Economic-Technology Development Area,

Beijing 100176, China

Telephone: (8610) 6783 6585

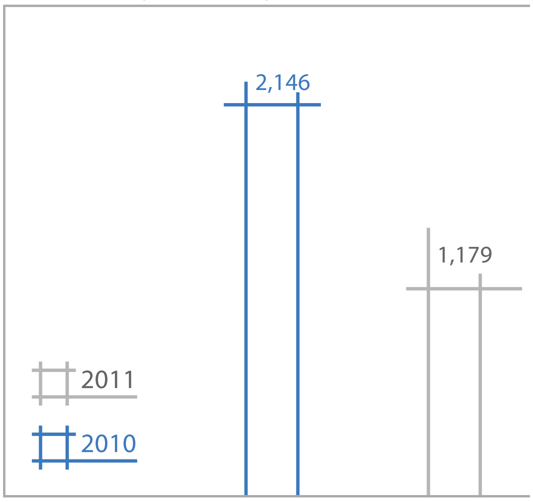
Facsimile: (8610) 6785 6606

Email: ir@dxsport.com.cn

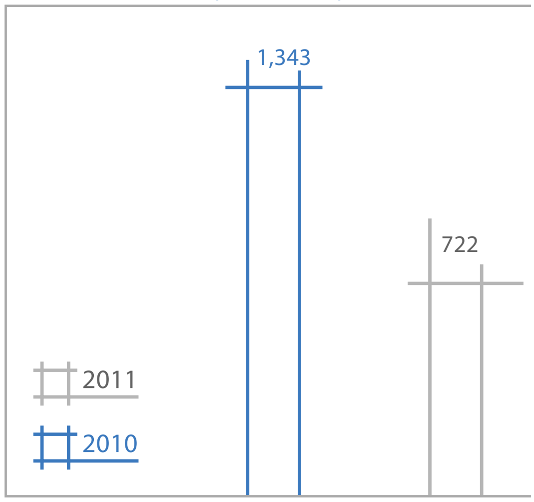
5. Website

www.dxsport.com

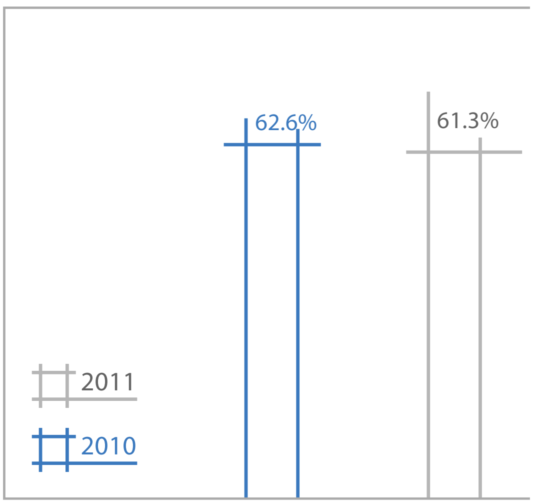
REVENUE (RMB MILLION)



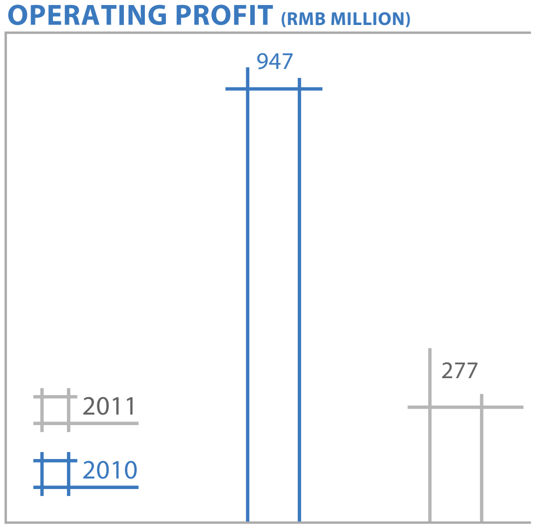
GROSS PROFIT (RMB MILLION)



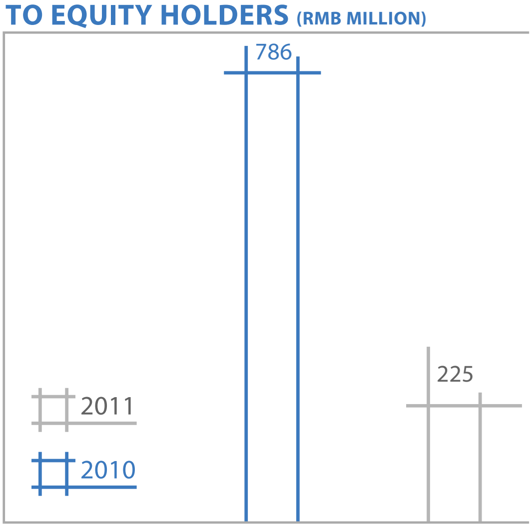
GROSS PROFIT MARGIN (%)



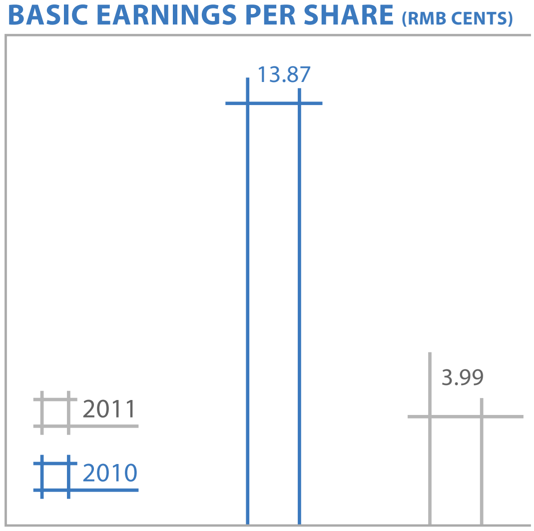
OPERATING PROFIT (RMB MILLION)



PROFIT ATTRIBUTABLE TO EQUITY HOLDERS (RMB MILLION)



BASIC EARNINGS PER SHARE (RMB CENTS)



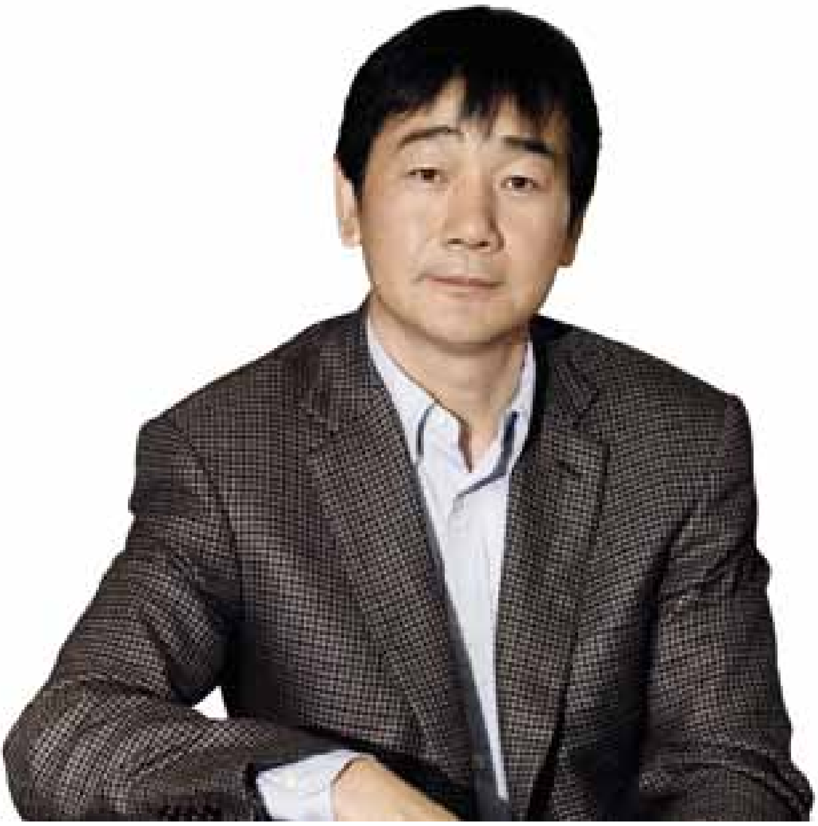
CHAIRMAN'S STATEMENT

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



Chen Yihong
Chairman

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

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.

Kappa "Back to the Mainstream of Fashion" activities

New Year Blessing from Kappa Lord Rabbit

— *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.


Curves


KAPPA FIXED

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 snap shots 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.


ROBE DI KAPPA


Red Bull
telenor
phenix


phenix

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

		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
	Note	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

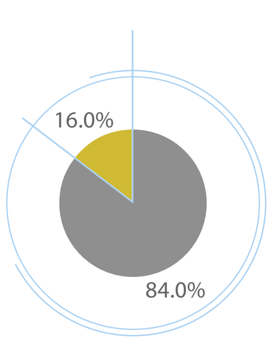
Revenue analyzed by geographical segments, business segments and product categories

	Six months ended 30 June 2011 RMB million	2011 % of product/brand mix	2011 % of Group Revenue	2010 RMB million	2010 % of product/brand mix	2010 % of Group Revenue	change
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%

Revenue Analysis — The Group

Revenue analysis by geographical segments

The Group

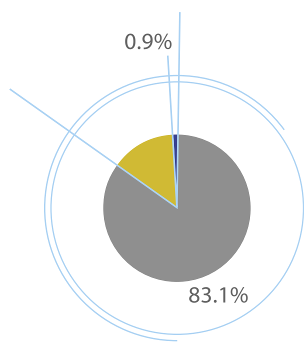


84.0% China Segment

16.0% Japan Segment

Revenue analysis by business

China Segment

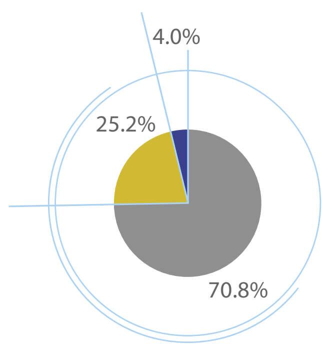


83.1% Kappa Brand

0.9% International business, RDK and others

Revenue analysis by products categories

Kappa Brand (China Segment)



70.8% Apparel

25.2% Footwear

4.0% Accessories

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.

International Business, RDK and Others

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 Gross profit margin	2010 Gross profit margin	Change % 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 (IH2010: 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 (IH2010: 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 RMB350 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 stretegy. 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.

1. SHARE OPTION SCHEME

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 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 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 9.8% 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 schemes of the Company under the Scheme Mandate as renewed must not exceed 10% of the total number of Shares in issue as of the date of Shareholders' approval.

Details of the Company's share options under the Share Option Scheme granted, exercised, lapsed or cancelled for the six months ended 30 June 2011 are as follows:

	Date of grant	Exercise price per Share HKD	As at 1/1/2011	Number of share options[1] exercised during the period	cancelled during the period	As at 30/6/2011	Exercise period of options[2]
Executive Director							
Ms. Sandrine Zerbib	23 November 2010	4.12	3,000,000	—	—	3,000,000	From the 23 Nov 2010 to 11 September 2017

Notes:

(1) On 23 November 2010, share option to acquire 3,000,000 shares of the Company at the exercise price of HKD4.12 each had been granted to Ms. Sandrine Zerbib. The fair value of the 3,000,000 share options granted as determined using the Binomial valuation model was HKD1.74 per option as at the date of grant. The closing price of the Shares immediately before the date on which the share options were granted was HK$4.12 per share.

(2) Vesting dates of share options: Not more than 30% of the share options granted shall be exercisable in each of the first two years from the date of grant and not more than 40% of the share options granted shall be exercisable during the third year from the date of grant, and all share options granted shall be exercisable from the fourth anniversary of the date of grant until the end of the exercise period.

Save as disclosed above, there were no other share options granted, lapsed, exercised or cancelled during six months ended 30 June 2011. Saved as disclosed above, there was no other share option outstanding under the Share Option Scheme for the six months ended 30 June 2011.

2. 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 million existing shares ("Restricted Shares") has to 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.

The Administration Committee will implement the Share Award Scheme in accordance with the Scheme Rules. 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. Since its adoption on 10 December 2010, no Restricted Shares were granted to eligible participant under the Share Award Scheme.

As at 30 June 2011, 30 million Restricted Shares had been purchased by 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 Scheme Rules, though the list of selected participants yet to be confirmed.

3. DISCLOSURE OF INTEREST

(a) Directors' Interests in Securities

As at 30 June 2011, 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 Stock Exchange of Hong Kong Limited (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 The Model Code for securities Transactions by directors of Listed Companies ("Model Code") contained in The Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules") on the Hong Kong Stock Exchange 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)	2,467,081,000 shares	—	43.54%
	Deemed interest (2)	325,520,000 shares	—	5.74%
Mr. Qin Dazhong	Interest of a controlled corporation (3)	211,864,000 shares	—	3.74%
Ms. Sandrine Zerbib	Share option (4)	3,000,000 share option	—	—

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) Ms. Liu Peiying is the spouse of Mr. Chen Yihong and Mr. Chen Yihong is therefore deemed to be interested in the shares held by Ms. Liu Peiying through Colour Billion Limited.

(3) 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.

(4) On 23 November 2010, share option to acquire 3,000,000 shares of the Company at the exercise price of HKD4.12 each had been granted to Ms. Sandrine Zerbib. Vesting dates of options: Not more than 30% of the options granted shall be exercisable in each of the first two years from the date of grant and not more than 40% of the options granted shall be exercisable in the third year from the date of grant, and all share options granted shall be exercisable from the fourth anniversary of the date of grant until the end of the exercise period.

Save as disclosed above, as at 30 June 2011, 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.

(b) Interests and Short Positions of Substantial Shareholders

As at 30 June 2011, 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 and class of securities		
Name of Shareholders	**Nature of interest**	**Long position**	**Short position**	**Approximate percentage of shareholding (%)**
Poseidon Sports Limited	Corporate interest	2,467,081,000 shares	—	43.54%
Talent Rainbow Far East Limited (1)	Interest in a controlled corporation	2,467,081,000 shares	—	43.54%
Harvest Luck Development Limited (1)	Interest in a controlled corporation	2,467,081,000 shares	—	43.54%
Colour Billion Limited (2)	Corporate interest	325,520,000 shares	—	5.74%
Ms. Liu Peiying (2)	Interest in a controlled corporation, deemed interest	2,792,601,000 shares	—	49.28%

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

Save as disclosed above, as at 30 June 2011, 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.

4. CHANGES IN DIRECTORSHIP

On 8 April 2011, Dr. Xiang Bing, an independent non-executive director of the Company was appointed to the board of directors of Shaanxi Qinchuan Machine Development Co., Ltd. (陝西秦川機械發展股份有限公司), a company listed on the main board of Shenzhen Stock Exchange, as its independent director and member of audit committee.

On 15 April 2010, Mr. Gao Yu, a non-executive director of the Company was appointed to the board of directors of Tongkun Group Co., Ltd (桐昆集團股份有限公司) as its director, a company listed on the Shanghai Stock Exchange on 18 May 2011.

5. 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.

6. 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.

7. 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.

8. PURCHASE, SALE OR REDEMPTION OF 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.

羅兵咸永道

Report on review of interim financial information
To the board of directors of China Dongxiang (Group) Co., Ltd.
(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 36 to 64, which comprises the interim condensed consolidated balance sheet of China Dongxiang (Group) Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2011 and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 August 2011

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CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

As at 30 June 2011

	Note	Unaudited 30 June 2011 RMB'000	Audited 31 December 2010 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	**128,770**	132,807
Lease prepayments	8	**15,696**	25,690
Intangible assets	9	**294,788**	302,861
Investments in jointly controlled entities		**19,209**	19,142
Available-for-sale financial assets	10	**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	12	**—**	153,211
Total non-current assets		**900,786**	950,494
Current assets			
Inventories		**380,396**	255,702
Trade receivables	11	**648,115**	694,508
Prepayments, deposits and other receivables		**161,239**	94,348
Other financial assets	12	**902,388**	1,369,286
Cash and bank balances	13	**4,819,582**	5,027,870
Total current assets		**6,911,720**	7,441,714
Total assets		**7,812,506**	8,392,208
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	14	**54,810**	54,810
Share premium account	14	**2,336,055**	2,889,096
Reserves	15	**4,655,117**	4,571,071
		7,045,982	7,514,977
Non-controlling interests		**(1,496)**	268
Total equity		**7,044,486**	7,515,245
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**25,567**	5,453
Total non-current liabilities		**25,567**	5,453

	Note	Unaudited 30 June 2011 RMB'000	Audited 31 December 2010 RMB'000
Current liabilities			
Trade payables	16	**204,953**	368,953
Accruals and other payables		**180,241**	235,626
Provisions	17	**285,785**	188,526
Current income tax liabilities		**71,474**	78,405
Total current liabilities		**742,453**	871,510
Total liabilities		**768,020**	876,963
Total equity and liabilities		**7,812,506**	8,392,208
Net current assets		**6,169,267**	6,570,204
Total assets less current liabilities		**7,070,053**	7,520,698

The notes on pages 43 to 64 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30 June 2011

	Note	Unaudited Six months ended 30 June 2011 RMB'000	 2010 RMB'000
Revenue	6	**1,178,787**	2,145,285
Cost of goods sold	19	**(456,233)**	(802,315)
Gross profit		**722,554**	1,342,970
Other gains, net	18	**37,190**	45,397
Distribution costs	19	**(317,261)**	(342,098)
Administrative expenses	19	**(165,086)**	(99,164)
Operating profit		**277,397**	947,105
Finance income, net	20	**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	21	**(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	22	**3.99**	13.87
— Diluted	22	**3.99**	13.87
Dividends	23	**157,526**	471,444

The notes on pages 43 to 64 form an integral part of this condensed consolidated interim financial information.

	Note	Unaudited Six months ended 30 June 2011 RMB'000	 2010 RMB'000
Profit for the period		**222,194**	786,000
Other comprehensive income:			
— Fair value change on available-for-sale financial assets, net of tax	10	**(123,072)**	—
— Foreign currency translation differences	15	**(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

The notes on pages 43 to 64 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011

		Unaudited						
		Attributable to equity holders of the Company						
	Note	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 period		—	—	—	224,958	224,958	(2,764)	222,194
Other comprehensive income								
Fair value change on available-for-sale financial assets	10	—	—	(123,072)	—	(123,072)	—	(123,072)
Currency translation differences	15	—	—	(21,800)	—	(21,800)	—	(21,800)
Total other comprehensive income		—	—	(144,872)	—	(144,872)	—	(144,872)
Total comprehensive income for the period ended 30 June 2011		—	—	(144,872)	224,958	80,086	(2,764)	77,322
Transactions with owners								
Contribution from non-controlling interests of a subsidiary		—	—	—	—	—	1,000	1,000
Share-based compensation	15	—	—	1,048	—	1,048	—	1,048
Dividends relating to 2010 paid in May 2011	23	—	(553,041)	2,912	—	(550,129)	—	(550,129)
Total transactions with owners		—	(553,041)	3,960	—	(549,081)	1,000	(548,081)
Balance at 30 June 2011		54,810	2,336,055	(309,980)	4,965,097	7,045,982	(1,496)	7,044,486

		Unaudited						
		Attributable to equity holders of the Company						
	Note	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 2010		54,810	4,094,339	(71,452)	3,276,507	7,354,204	—	7,354,204
Comprehensive income								
Profit for the period		—	—	—	786,000	786,000	—	786,000
Other comprehensive income								
Currency translation differences	15	—	—	(295)	—	(295)	—	(295)
Total other comprehensive income		—	—	(295)	—	(295)	—	(295)
Total comprehensive income for the period ended 30 June 2010		—	—	(295)	786,000	785,705	—	785,705
Transactions with owners								
Dividends relating to 2009 paid in May 2010	23	—	(733,799)	—	—	(733,799)	—	(733,799)
Total transactions with owners		—	(733,799)	—	—	(733,799)	—	(733,799)
Balance at 30 June 2010		54,810	3,360,540	(71,747)	4,062,507	7,406,110	—	7,406,110

The notes on pages 43 to 64 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM CASH FLOWS STATEMENT

For the six months ended 30 June 2011

		Unaudited	
		Six months ended 30 June	
	Note	**2011**	2010
		RMB'000	RMB'000
Cash flow from operating activities			
Cash generated from operations		**60,864**	1,020,653
Interest received		**30,957**	46,762
Income tax paid		**(143,328)**	(61,383)
Cash (outflow)/inflow from operating activities — net		**(51,507)**	1,006,032
Cash flow from investing activities			
Dividends received from associated companies		**—**	9,873
Purchase of property, plant and equipment	7	**(5,402)**	(4,933)
Purchase of intangible assets	9	**(2,116)**	(4,364)
Decrease in term deposits with initial terms over three months		**1,746,561**	468,089
(Increase)/decrease in restricted bank deposits		**(9,188)**	332
Proceeds from disposal property, plant and equipment and intangible assets		**10**	—
Increase in available-for-sales financial assets		**(228,295)**	—
Decrease/(increase) in other financial assets		**641,089**	(850,000)
Cash inflow/(outflow) from investing activities — net		**2,142,659**	(381,003)
Cash flow from financing activities			
Dividends paid	23	**(550,129)**	(733,799)
Cash outflow from financing activities — net		**(550,129)**	(733,799)
Net increase/(decrease) in cash and cash equivalents		**1,541,023**	(108,770)
Cash and cash equivalents at beginning of the period		**649,022**	1,473,361
Exchange losses on cash and cash equivalents		**(11,938)**	(18,521)
Cash and cash equivalents at end of the period		**2,178,107**	1,346,070

The notes on pages 43 to 64 form an integral part of this condensed consolidated interim financial information.

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) (Note 17), 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

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.

3 ACCOUNTING POLICIES

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.

(a) New and amended standards adopted by the Group

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.

(b) Amendments and interpretations to existing standards effective in 2011 but not relevant to the Group

- IAS 24 (Revised), "Related Party Disclosures" is effective for annual period beginning on or after January 2011. It introduces an exemption from all of the disclosure requirements of IAS 24 for transactions among government related entities and the government.

- Amendment to IAS 32 'Classification of rights issues' is effective for annual periods beginning on or after 1 February 2010. This is not currently applicable to the Group, as it has not made any rights issue.

- Amendment to IFRIC — Int-14 'Prepayments of a minimum funding requirement' is effective for annual periods beginning on or after 1 January 2011. This is not currently relevant to the Group, as it does not have a minimum funding requirement.

- IFRIC — Int 19 'Extinguishing financial liabilities with equity instruments' is effective for annual periods beginning on or after 1 July 2010. This is not currently applicable to the Group, as it has no extinguishment of financial liabilities replaced with equity instruments currently.

- Third improvements to International Financial Reporting Standards (2010) were issued in May 2010 by both IASB and the HKICPA, except for amendment to IAS 34 'Interim financial reporting' as disclosed in note 3(a) and the clarification to allow the presentation of an analysis of the components of other comprehensive income by item within the notes, all are not currently relevant to the Group. All improvements are effective in the financial year of 2011.

3 ACCOUNTING POLICIES (CONTINUED)

(c) The following new standards and amendments to standards have been issued but are not effective for the financial year beginning on 1 January 2011 and have not been early adopted:

- IFRS 9 'Financial instruments' addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. When adopted, the standard will affect in particular the Group's accounting for its available-for-sale financial assets, as IFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. The Group has yet to assess IFRS 9's full impact. However, initial indications are that it may not affect the Group's accounting policy as the Group's available-for-sale financial assets are equity instruments not held for trading.

- IAS 12 (Amendment) 'Deferred tax: Recovery of underlying assets' introduces 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. The amendment is applicable retrospectively to annual periods beginning on or after 1 January 2012 with early adoption permitted.

- IFRS 7 (Amendment) 'Disclosures — Transfers of financial assets' introduces new disclosure requirement on transfers of financial assets. Disclosure is required by class of asset of the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. The gain or loss on the transferred assets and any retained interest in those assets must be given. In addition, other disclosures must enable users to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. The disclosures must be presented by type of ongoing involvement. For example, the retained exposure could be presented by type of financial instrument (such as guarantees, call or put options), or by type of transfer (such as factoring of receivables, securitisations or securities lending). The amendment is applicable to annual periods beginning on or after 1 July 2011 with early adoption permitted.

4 ESTIMATES

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2010.

5 FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The interim condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2010.

There have been no changes in any risk management policies since year end.

5.2 Liquidity risk

Compared to year end, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

5.3 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).
- 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 that are measured at fair value at 30 June 2011 and 31 December 2010.

	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
At 30 June 2011				
Assets				
Available-for-sale financial assets — equity securities	**121,747**	**—**	**188,801**	**310,548**

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
At 31 December 2010				
Assets				
Available-for-sale financial assets — equity securities	—	—	213,938	213,938

In 2011, there were no reclassifications of financial assets.

6 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			
	China RMB'000	Japan RMB'000	Unallocated RMB'000	Total 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

6 SEGMENT INFORMATION (CONTINUED)

	Six months ended 30 June 2010			
	China RMB'000	Japan RMB'000	Unallocated RMB'000	Total RMB'000
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 RMB'000	2010 RMB'000
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

6 SEGMENT INFORMATION (CONTINUED)

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			
	China RMB'000	Japan RMB'000	Unallocated RMB'000	Total 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

6 SEGMENT INFORMATION (CONTINUED)

	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

7 PROPERTY, PLANT AND EQUIPMENT

	RMB'000
Six months ended 30 June 2010	
Net book amount as at 1 January 2010	120,101
Additions	4,933
Disposals	(482)
Impairment reversal	30
Depreciation (Note 19)	(6,621)
Exchange difference	1,591
Net book amount as at 30 June 2010	119,552
Six months ended 30 June 2011	
Net book amount as at 1 January 2011	**132,807**
Additions	**5,402**
Disposals	**(48)**
Impairment reversal	**4**
Depreciation (Note 19)	**(8,941)**
Exchange difference	**(454)**
Net book amount as at 30 June 2011	**128,770**

8 LEASE PREPAYMENTS

	Lease prepayments for land use rights RMB'000	Lease prepayments for stores RMB'000	Total RMB'000
Six months ended 30 June 2010			
Net book amount as at 1 January 2010	13,151	20,464	33,615
Additions	—	12,567	12,567
Amortization (Note 19)	(143)	(25,320)	(25,463)
Net book amount as at 30 June 2010	13,008	7,711	20,719
Six months ended 30 June 2011			
Net book amount as at 1 January 2011	**12,866**	**12,824**	**25,690**
Additions	**—**	**1,076**	**1,076**
Amortization (Note 19)	**(143)**	**(10,927)**	**(11,070)**
Net book amount as at 30 June 2011	**12,723**	**2,973**	**15,696**

9 INTANGIBLE ASSETS

	Trademarks RMB'000	Computer software RMB'000	Total RMB'000
Six months ended 30 June 2010			
Net book amount as at 1 January 2010	282,556	21,909	304,465
Additions	—	4,364	4,364
Exchange difference	835	287	1,122
Amortization (Note 19)	(3,931)	(4,095)	(8,026)
Net book amount as at 30 June 2010	279,460	22,465	301,925
Six months ended 30 June 2011			
Net book amount as at 1 January 2011	**276,814**	**26,047**	**302,861**
Additions	**—**	**2,116**	**2,116**
Exchange difference	**(285)**	**(80)**	**(365)**
Amortization (Note 19)	**(3,954)**	**(5,870)**	**(9,824)**
Net book amount as at 30 June 2011	**272,575**	**22,213**	**294,788**

10 AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

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

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

10 AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

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.

11 TRADE RECEIVABLES

	30 June 2011 RMB'000	31 December 2010 RMB'000
Trade receivables		
— Third parties	**414,167**	524,461
— Related parties (Note 25)	**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

12 OTHER FINANCIAL ASSETS

	30 June 2011 RMB'000	31 December 2010 RMB'000
Held to maturity financial assets		
— State treasury bonds	**152,339**	251,639
Loans and receivables		
— Treasury products issued by commercial banks	**750,049**	1,270,858
Total of other financial assets	**902,388**	1,522,497
Less: non-current portion — loans and receivables	**—**	(153,211)
Other financial assets — current portion	**902,388**	1,369,286

The Group invested in registered treasury bonds issued by the Ministry of Finance of the PRC in the amount of RMB150,000,000 (31 December 2010: RMB250,000,000). The treasury bonds are interest bearing at a fixed rate of 2.85% (2010: 2.75%) per annum, denominated in RMB and with a maturity of one year, neither endorsable nor transferrable. As at 30 June 2011, the amortized cost of these financial assets amounted to RMB152,339,000 (31 December 2010: RMB251,639,000).

The Group also 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 2.25 % to 3.87% per annum, denominated in RMB and with maturity periods within two years.

13 CASH AND BANK BALANCES

	30 June 2011 RMB'000	31 December 2010 RMB'000
Long term bank deposit-maturity of within one year	**150,000**	150,000
Restricted bank deposits	**45,295**	36,107
Term deposits with initial terms over three months and within one year	**2,446,180**	4,192,741
Cash and cash equivalents	**2,178,107**	649,022
	4,819,582	5,027,870

The restricted bank deposits as at 30 June 2011 and 31 December 2010 comprised deposits held in bank accounts as guarantee deposits for advertising fees payable and for issue of letters of credit for certain subsidiaries of the Group. The restricted bank deposits as at 30 June 2011 also included RMB10,000,000 deposits restricted for capital injection into a subsidiary to be set up.

13 CASH AND BANK BALANCES (CONTINUED)

The cash and cash equivalents represent cash deposits held at call with banks and in hand. As at 30 June 2011 and 31 December 2010, cash and bank balances were denominated in the following currencies:

	30 June 2011 RMB'000	31 December 2010 RMB'000
RMB	**3,826,942**	3,220,903
USD	**486,857**	1,120,128
HKD	**441,494**	613,679
JPY	**64,033**	72,610
Other	**256**	550
	4,819,582	5,027,870

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.

14 SHARE CAPITAL AND SHARE PREMIUM ACCOUNT

	Authorized capital	
	Number of ordinary shares of par value HK$0.01	Nominal value of ordinary shares HKD'000
At 31 December 2010 and 30 June 2011	10,000,000,000	100,000

	Issued and fully paid				
	Number of ordinary shares of par value HKD0.01	Nominal value of issued ordinary shares HKD'000	Equivalent nominal value of ordinary shares RMB'000	Share premium account RMB'000	Total RMB'000
At 1 January 2010	5,666,401,000	56,665	54,810	4,094,339	4,149,149
Dividends paid (Note 23)	—	—	—	(733,799)	(733,799)
At 30 June 2010	5,666,401,000	56,665	54,810	3,360,540	3,415,350
At 1 January 2011	**5,636,401,000**	**56,364**	**54,810**	**2,889,096**	**2,943,906**
Dividends paid (Note 23)	**—**	**—**	**—**	**(553,041)**	**(553,041)**
At 30 June 2011	**5,636,401,000**	**56,364**	**54,810**	**2,336,055**	**2,390,865**

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

15 RESERVES

	Capital reserves RBM'000	Share-based compensation reserve RMB'000	Statutory reserves RMB'000	Exchange reserve RMB'000	Fair value reserve RMB'000	Shares held for Restricted Share Award Scheme RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2010	295,001	—	15,958	(382,411)	—	—	3,276,507	3,205,055
Foreign currency translation reserve	—	—	—	(295)	—	—	—	(295)
Profit for the period	—	—	—	—	—	—	786,000	786,000
At 30 June 2010	295,001	—	15,958	(382,706)	—	—	4,062,507	3,990,760
At 1 January 2011	**295,001**	**1,575**	**16,018**	**(398,761)**	**4,237**	**(87,138)**	**4,740,139**	**4,571,071**
Change in fair value of available-for-sale financial assets (Note 10)	**—**	**—**	**—**	**—**	**(123,072)**	**—**	**—**	**(123,072)**
Foreign currency translation reserve	**—**	**—**	**—**	**(21,800)**	**—**	**—**	**—**	**(21,800)**
Share-based compensation	**—**	**1,048**	**—**	**—**	**—**	**—**	**—**	**1,048**
Dividends relating to the Shares held for Restricted Share Award Scheme (Note)	**—**	**—**	**—**	**—**	**—**	**2,912**	**—**	**2,912**
Profit for the period	**—**	**—**	**—**	**—**	**—**	**—**	**224,958**	**224,958**
At 30 June 2011	**295,001**	**2,623**	**16,018**	**(420,561)**	**(118,835)**	**(84,226)**	**4,965,097**	**4,655,117**

Note: The Company adopted the Restricted Share Award Scheme 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 was established in Hong Kong and purchased 30,000,000 shares of the Company from the open market in December 2010. 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.

There were no shares granted to directors or employees under Restricted Share Award Scheme during the period ended 30 June 2011.

16 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

17 PROVISIONS

	30 June 2011 RMB'000	31 December 2010 RMB'000
China segment	**272,160**	155,143
Japan segment	**13,625**	33,383
At 30 June (Note 1)	**285,785**	188,526

The provision for the China segment represents provision for the re-purchase of excessive inventories.

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

The movements in the provision account are as follows:

	Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
At 1 January	**188,526**	37,561
Utilization	**(181,212)**	(24,978)
Provision	**278,471**	25,030
At 30 June	**285,785**	37,613

18 OTHER GAINS, NET

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

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.

19 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
	RMB'000	RMB'000
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 (Note 7, 8 and 9)	**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 (Note)	**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
Total of cost of goods sold, distribution costs and administrative expenses	**938,580**	1,243,577

Note: 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 a valuation model. The changes in fair value of the liabilities are charged to the consolidated income statement.

During the six months ended 30 June 2011, the Group did not grant any performance units (2010: granted 19,355,000). A total of 25,059,000 performance units were effective as at 30 June 2011. Management calculated the fair value of the performance units granted as at 30 June 2011 using the valuation model, based on which, approximately RMB619,000 (2010: RMB4,629,000) was charged as employee benefit expenses to the condensed consolidated interim income statement for the six months ended 30 June 2011.

20 FINANCE INCOME, NET

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

21 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)
	113,013	210,048

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.

21 INCOME TAX EXPENSE (CONTINUED)

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 investors. 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.

22 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 (RMB'000)	**224,958**	786,000
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme (thousands)	**5,636,401**	5,666,401
Basic earnings per share (RMB cents per share)	**3.99**	13.87

(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 (RMB'000)	**224,958**	786,000
Weighted average number of ordinary shares in issue for diluted earnings per share (thousands)	**5,636,401**	5,666,401
Diluted earnings per share (RMB cents per share)	**3.99**	13.87

23 DIVIDENDS

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
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
	157,526	471,444

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 (Note 15).

24 COMMITMENTS

The Group had the following commitments as at 30 June 2011:

(a) Operating lease commitments — Group as lessee

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

	30 June 2011	31 December 2010
	RMB'000	RMB'000
No later than 1 year	**61,223**	65,359
Later than 1 year and no later than 5 years	**33,363**	45,880
	94,586	111,239

24 COMMITMENTS (CONTINUED)

(b) Operating lease commitments — Group as lessor

The Group leases out certain flagship stores under non-cancellable operating lease agreements. The leases have various terms and renewal rights. The Group's future aggregate minimum rental receivables under these non-cancellable operating leases were as follows:

	30 June 2011 RMB'000	31 December 2010 RMB'000
No later than 1 year	**1,935**	6,156
Later than 1 year and no later than 5 years	**—**	1,896
	1,935	8,052

(c) Capital commitments

	30 June 2011 RMB'000	31 December 2010 RMB'000
Authorized but not contracted for (note)	**350,000**	—
Contracted but not provided for	**5,695**	8,356
	355,695	8,356

Note: The establishment of new operating headquarters of the Group in Beijing with the budget of RMB350,000,000 has been approved by Board of Directors in 2011.

(d) 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:

	30 June 2011 RMB'000	31 December 2010 RMB'000
No later than 1 year	**24,985**	23,488
Later than 1 year and no later than 5 years	**55,507**	57,404
Over 5 years	**12,742**	17,552
	93,234	98,444

25 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.

The ultimate controlling party of the Group is Mr. Chen Yihong, the Chairman and Executive director 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's close family members are considered to be related parties of the Company as well.

Save as disclosed elsewhere in these financial information, during the six months periods and as at the balance sheet dates, the Group had the following transactions and balances with related parties:

(a) Transactions with related parties

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
Sales of goods		
— The MSYH Group	**457,533**	—
— Associated companies of the Group	**—**	551,109
	457,533	551,109
Purchase of goods		
— Jointly controlled entities of the Group	**12,695**	11,219
Lease income of flagship stores		
— The MSYH Group	**2,523**	—
— Associated companies of the Group	**—**	6,776
	2,523	6,776

25 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Balances with related parties

	30 June 2011 RMB'000	31 December 2010 RMB'000
Trade receivables (Note 11)		
— The MSYH Group	**260,883**	188,816
Trade payables		
— Jointly controlled entities of the Group	**604**	3,600
Other receivables — non-current portion		
— The MSYH Group	**—**	19,229
Other receivables — current portion		
— The MSYH Group	**21,737**	2,818
Other payables		
— The MSYH Group	**1,409**	—
— Jointly controlled entities of the Group	**110**	—
	1,519	—

The above balances with related parties were unsecured, non-interest bearing and without fixed repayment terms.

(c) Key management compensation

	Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
Salaries, bonus and other welfares	**9,563**	7,376
Pension — defined contribution plans	**59**	61
	9,622	7,437

26 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

The Company repurchased 30,000,000 of its own shares listed on the Main Board of the Stock Exchange of Hong Kong Limited in July 2011 and the aggregate consideration was HKD52,138,000. The shares repurchased represent approximately 0.53% of total outstanding shares of the Company. The shares repurchased were cancelled upon repurchase.

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