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

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 3818

Interim Report 2014


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Kappa

Corporate Information

Executive Directors	Mr. Chen Yihong (Chairman & Chief Executive Officer) Mr. Qin Dazhong (Chief Operating Officer)
Independent Non-Executive Directors	Mr. Gao Yu Dr. Xiang Bing Mr. Xu Yudi
Auditor	PricewaterhouseCoopers Certified Public Accountants
Legal Advisers	Norton Rose Fulbright Hong Kong Conyers Dill & Pearman (Cayman) Limited Hylands Law Firm
Authorised Representatives	Mr. Gao Yu Ms. Wai Pui Man
Company Secretary	Ms. Wai Pui Man
Principal Share Registrar and Transfer Office	Royal Bank of Canada Trust Company (Cayman) Limited 4th Floor, Royal Bank House 24 Shedden Road, George Town Grand Cayman KY1-1110 Cayman Islands
Hong Kong Branch Share Registrar and Transfer Office	Computershare Hong Kong Investor Services Limited Shops 1712–1716 17/F Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Registered Office	Cricket Square, Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Principal Place of Business in Hong Kong	Office Unit 9, 13/F Tower Two, Lippo Centre No. 89 Queensway Hong Kong
Head Office in People's Republic of China	Building 21, No. 2 Jingyuanbei Street, Beijing Economic-Technological Development Area, Beijing 100176, People's Republic of China
Principal Bankers	Industrial and Commercial Bank of China China Citic Bank China Merchants Bank The Hongkong and Shanghai Banking Corporation Limited
Website	www.dxsport.com


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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 2014: 5,536,401,000

2. Important dates

Announcement of 2014 interim results: 21 August 2014

Book closure date: 6 September 2014 to 11 September 2014 (both days inclusive)

3. 2014 interim dividend and interim special dividend

Interim dividend: RMB0.52 cents per share
Interim special dividend: RMB0.70 cents per share
Payment date: on or around 18 September 2014

4. Investor Relations Department

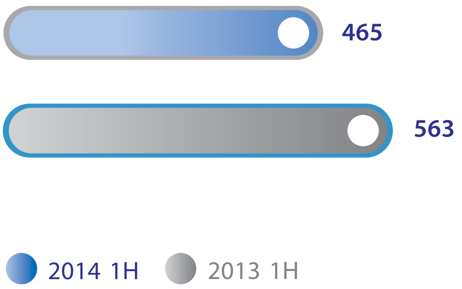
Building 21, No. 2 Jingyuanbei Street,
Beijing Economic-Technology Development Area,
Beijing 100176, China
Telephone: (8610) 6783 6585
Facsimile: (8610) 6785 6606
Email: ir@dxsport.com.cn

5. Website

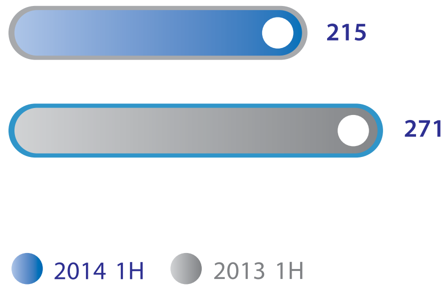
www.dxsport.com

Results Highlights

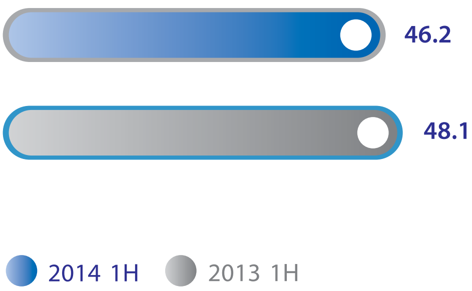
REVENUE (RMB MILLION)



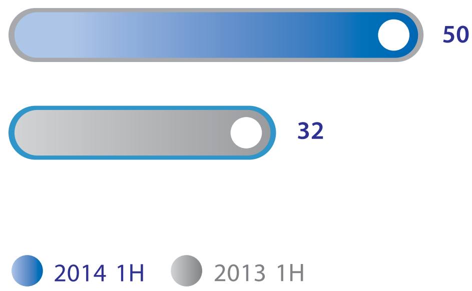
GROSS PROFIT (RMB MILLION)



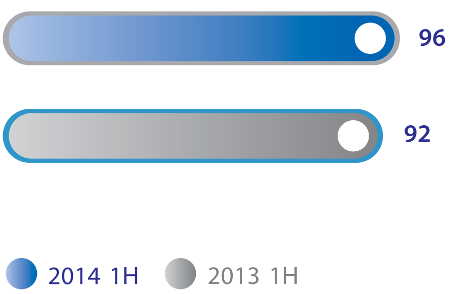
GROSS PROFIT MARGIN (%)



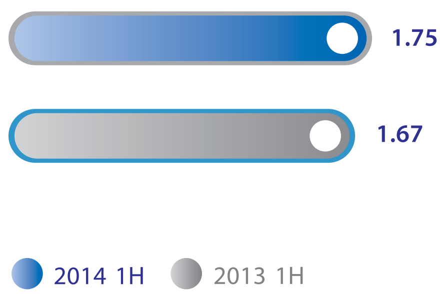
OPERATING PROFIT (RMB MILLION)



PROFIT ATTRIBUTABLE TO EQUITY HOLDERS (RMB MILLION)



BASIC EARNINGS PER SHARE (RMB CENTS)



Chairman's Statement

Dear Shareholders,

Fast away time passes as we welcome the gorgeous summer midway through the year. In retrospect of the first six months of 2014, the global economy was recovering, though at a slackened pace, while the PRC economy saw growth in stable development. Total retail sales of consumer goods for the apparel sector have topped growth forecasts for two consecutive months since April, growing by 10%, year-on-year, for the period from January to June. While the positive trend is encouraging, we should avoid premature optimism. For even though the overall indicators have improved, at a more subtle level the apparel sector is still undergoing a period of investigation for possibilities in transformation. The external challenges of increasing competition, rising costs and emerging new platforms remained, while the pressure from within, stemming from areas such as model-making, product innovation and retail control, has not for a moment been alleviated. Problems old and new are constantly testing the ability, vision and resolve of market players. If we look beyond the "small" boundaries of our industry and try to view things from a broader perspective, we will not fail to see that opportunities as well as challenges abound. Changing scenes in economic transformation, industrial revolution and technological breakthroughs that take place every day are giving rise to myriad of opportunities as we feel the pulse of a great era moment by moment.

Against such a backdrop, the Group reported revenue of RMB465 million for the 6 months ended 30 June 2014, representing a 17.4% year-on-year decrease, while net profit attributable to equity holders increased by 4.3% to RMB96 million. Basic earnings per share improved 4.8%, year-on-year, to RMB1.75 cents. As at 30 June 2014, cash and bank balance and treasury products amounted to RMB4,649 million. In view of the sound financial position of the Group, the Board of Directors has proposed to distribute 30% of the net profit attributable to equity holders for the 6 months ended 30 June 2014 as interim dividend, and has further proposed to distribute 40% of the net profit attributable to equity holders for the 6 months ended 30 June 2014 as special dividend to reward shareholders. As such, the total interim dividend payout ratio for the 6 months ended 30 June 2014 is 70%.

Notwithstanding the twists and turns in market trends, China Dongxiang continued to drive the channel combination model of "self-owned retail outlets + dealership + franchise chain" with steadfast determination, unwavering confidence and prudently planned actions. While optimising our existing network of dealers, we also made strong efforts to develop owned branch companies and vigorously promoted the franchise chain system. Thanks to the appropriate allocation, scientific control and effective operation of sales channels, we reported year-on-year improvements in overall same-store performance, while also securing more favourable discount rates. It is noteworthy that all stores under the "self-owned retail store" and "franchise chain" models reported positive year-on-year growth in same-store performance.

In terms of brand promotion, we have been engaged in consistent efforts to enhance the brand image of Kappa in line with our overall business development, as we continued to leverage our strengths and experience in sports and entertainment marketing. During the first half of 2014, a promotional activity entitled "Kappa Back to Back Once Again"was held, during which celebrities were invited to play interactive games with young spectators using offline props on uniquely crafted Kappa chairs placed at selected spots in the Beijing CBD, in a figurative expression of the theme of "Being Together with Kappa Once Again." The innovative "Bubble Soccer Match" became an instant market sensation upon its launch in Beijing during the World Cup Month, with close to 3,000 people joining in the game. Typically fun and creative and innovative, these activities have attracted a lot of attention from consumers and the media. In addition to close cooperation with traditional media, the brand was also increasing its investment in the addition of new media to enhance in-depth interaction with target groups through Internet platforms such as Weibo and Wechat.

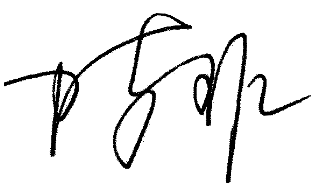
In the midst of rapid developments in e-commerce, the Group has strategically positioned its e-business as a platform integrating brands, products and channels in a prudent transformation from the rudimentary model in the past underpinned mainly by the offering of discounts. The offering of in season products was enhanced as a percentage of the overall product mix, while online exclusives products were manufactured for the e-platform. For Dongxiang, e-commerce is more than a new channel that contributes business results: it represents a mission with more strategic significance. Through this beautiful and special window, we aim to realise full-scale integration between our online and offline operations, which will allow us to communicate our brand image and product philosophy to consumers in affably close distance and provide the perfect brand appreciation and spending experience. In terms of business support, the Group has further strengthened its logistics system in tandem with its e-commerce development and network of retail outlets, striving to achieve high efficiency, capacity and turnover. Notable progress has been made as of now and a vertical logistics system capable of "single retail store delivery" is expected to materialise in the near future.

We initiated the back-up material mechanism in the supply chain system and succeeded in shortening the lead-time for meeting additional orders for current-season products. Meanwhile, the Group substantially increased the proportion of Japanese orders developed in China through rational and organic adjustment and control, completing another successful attempt at integrating our operations in China and Japan.

The world is experiencing unprecedented changes and developments and so is China. We are no longer mere spectators on the receiving end: we are partakers or even creators. Dongxiang is more than ready to be engaged in the prevalent trends of this era by making strong efforts to support forward-looking projects and conduct strategically significant investments. We will continue to pursue diversified developments on the back of our Group's resources and strengths with an open-minded, positive and prudent approach, in order to deliver more sustainable value to shareholders.

The world is constantly progressing and we don't want to be left behind. We have to actively revolutionise our development models in order to genuinely realise revolutionary development. There is a time to sow and a time to reap, so the toil of work is always rewarded with the fine fruits in reaping. Riding on firm belief in this simple truth, we will continue to advance in boldness and perseverance with persistent efforts to investigate new approaches for breakthroughs.

Looking back, we have been through rainy as well as sunny days, worries as well as happiness, and painstaking dedication as well as ambitious aspirations. May I express grateful thanks to all colleagues who have worked diligently in united efforts, and to all partners who have kept their faith in us. With fresh spirits and motivation, we are prepared to venture forward and embrace whatever challenges that come our way.



Chen Yihong
Chairman

21 August 2014

MACROECONOMIC REVIEW

Over the past six months in 2014, the global economy was still struggling to recover. In April 2014, International Monetary Fund (IMF) lowered the 2014 global economic growth forecast to 3.6%, which seems unlikely to be achieved. The potential of global economic growth shrank and investment expenditure remained sluggish. The U.S. economy had braked in the first quarter of 2014 and rebounded steadily in the second quarter. On the contrary, Japan's economy had recorded a slump in the second quarter of 2014 after a surge in the first quarter. The economy of European Union continued to recover languidly.

In time of uncertainty in the global economy, the macroeconomic data showed the gross domestic product (GDP) of China was RMB26,904.4 billion in the first half of 2014, a year-on-year increase of 7.4%. Signs of a rebound have relieved, to a certain extent, the excessive pessimistic sentiment towards economic growth forecast. However, as confirmed by the "Keqiang Index" for June 2014, the economic growth has lost its momentum coupling with weak consumption and continually dismal property market. Neither interim improvement in foreign consumption nor "mini stimulus" measures, such as short-term spending on "railway, utilities and infrastructure", for boosting economy could achieve and maintain economic turnaround. Downward pressure on the Chinese economy remains in the second half of 2014.

Since 2014, sluggish growth in domestic and international economies has restrained the recovery progress. However, with the new development of high technology and innovations, investment in emerging industries and consumer goods sectors increased significantly, becoming a vital engine for industrial development. The emerging industries, such as cloud computing, big data, mobile internet and information consumption, have created important opportunities for relevant companies. New technologies and innovations by corporations have continued to grow with the support of the determination of the PRC government on reform and structural adjustment. New technologies have given consumer goods sectors huge room and opportunities for innovation, and the emerging industries and consumer goods sectors represent the future direction of economic development as well as the driver of wealth growth. In the long run, those first movers with strong innovative capacity in emerging industries and consumer goods sectors are expected to gain advantages amid gloomy environment. Furthermore, emerging industries in China will lead the Chinese economy to further rebound.

INDUSTRY OVERVIEW

In the first half of 2014, growth in same-store sales of sportswear brands was positive with steady retail sales. Nevertheless, sportswear brands were cautious on their store-opening plans in due consideration of inventory issue. Sportswear brands in transit from old to new business model have tough but important tasks for reform. More and more sportswear brands implement plans on transformation and adjustment and concrete foundation has been laid for their long-term development.

In the first half of 2014, some sportswear brands launched low-priced product series to attract low tier cities customers in a timely manner though operating cost was high. In addition, the rapid development of e-commerce has allowed a majority of consumers to diverge from conventional consumption patterns, transforming their consumption habits, patterns and concepts and having impacts on consumer goods industries, particularly department stores. As current development shows, however, there is no direct conflict between e-commerce and off-line physical stores of sportswear brands. Ongoing expansion of foreign "fast fashion" brands will bring sportswear industry more competition.

In the second half of 2014, we expect that sportswear companies will face a certain level of competition. Niche marketing with new ideas is necessary for them to gain favor with consumers in the weak economic recovery. As such, sportswear industries have to follow the trend by merging the elements of internet and e-commerce into their branding and marketing strategies, reviewing fresh demand and new experience of consumers for sportswear and enhancing management and operating efficiency of brands. In the meantime, sportswear brands have to keep up the pace in design and innovation, magnifying the sports culture conveyed by sportswear brands. Furthermore, understanding consumers' preference and taste for precise product positioning and faster customer engagement in harmonized blend of technology, fashion and sports.

BUSINESS REVIEW

In the first half of 2014, sportswear industry began to show signs of rebound driven by feeble recovery of developed economies in Europe and the United States. As China Dongxiang has recognized the current economic and industrial situations clearly, we have aggressively made adjustments. By the end of 2013, China Dongxiang has cleared up inventory in huge quantity, reducing its inventory to a reasonable level. In 2014, the Group made an adjustment in business pace and enhanced its brand image and product recognition effectively. In terms of sales channels, we have evolved from a system comprising authorized dealers only to a mixture of "self-owned retail stores + dealership + franchise chain." These three formats were effectively integrated according to the characteristics and needs of different regions for maximum market development, better business control and the building of a solid and sound network. In addition, the Group has paid attention to the growth in emerging industries and consumer goods sectors and cautiously participated in the emerging growth, enhancing our competitive advantages and revenue.

Brand Building and Marketing

PRC-Kappa brand

During the period under review, the Group achieved successful results in advertising and promoting the Kappa brand in China in the first half of 2014. Through a series of targeted promotion programs, such as integrated marketing campaigns of non-internet interactive activities, online new media and platforms, product placement as well as interactive product promotions with celebrities, the Group has brought Kappa even closer to consumers and increased brand exposure, enhancing the Kappa's brand image among consumers.

In the first half of 2014, the Kappa brand closely followed popular trends of sports and fashion in respect of social networks and new media promotion. In addition to our Weibo official, Kappa has been more active in different platforms, such as douban, BBS and wechat. Kappa's exposure has focused on brand promotion campaigns, providing details of those events interacted and participated in by celebrities. For instance, live streaming of promotion event of "Kappa Back To Back Once Again" attended by Zhang Jingchu, one of the most popular actresses in China, on Weibo and wechat as well as "Bubble Football Game". In addition, the Group has distributed photos and videos featuring TV or movie stars and celebrities in Kappa outfit as planned to attract extensive interest from event audiences, netizens and mass media, effectively promoting the Kappa's brand image.

On 18 January 2014, Zhang Jingchu was invited by Kappa to attend a special fun event titled "Kappa Back To Back Once Again" in Beijing. Zhang Jingchu in Kappa KOMBAT one-piece jumpsuit played interactive games with event guests using Kappa remote-controlled swivel chair with special equipment, attracting the interest from the public. Moreover, the placing of Kappa new design V-shaped chairs at shopping districts, such as Beijing CBD, Sanlitun, Galaxy Soho, Shijingshan Wanda and Wukesong Yaolai, bringing Kappa closer to younger generation, the consumers of sports and fashion, and conveying the promotional information "Back To Back Once Again" of Kappa. The Group has released the theme messages through non-

1. Zhang Jingchu, one of the most popular actresses in China, attended the promotion event of "Kappa Back to Back One Again" and interacted with the event guests
2. Kappa's "Bubble Football Game"

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1. RDK participated in CHIC 2014 — the China International Clothing & Accessories Fair

2. RDK was exhibited in the trade show of CHIC 2014 — the China International Clothing & Accessories Fair

internet items, attracting exposure on Weibo of over 100 million visits. There were 60 portal websites, mass media and vertical portal websites following up on the event. Such event was a new form of theme concept to subliminally promote Kappa brand, allowing consumers to re-recognize the Kappa brand.

Another successful non-internet promotion event of Kappa brand was the "Bubble Football Game" held for a total of 19 days from 7 June 2014 to 13 July 2014. During the period of 2014 FIFA World Cup Brazil, innovative interactive activities were organized to attract interest of Kappa and its related products from consumers, and models and professional parkour athletes were invited to participate in an on-site VCR live shooting by professional production team. The event has attracted approximately 3,000 participants with one million customers directly involved during the event period. Such event has become a talk of the town after follow-up updates by international media, such as Associated Press and Reuters, expanding the Kappa's brand influence.

In respect of soft text and product placement, Kappa continued to enhance its close cooperation with popular lifestyle/sports magazines focusing on sports fashion for dynamics of youth, by publishing soft text and fashion photo on particular products in magazines/websites for promotion. Meanwhile, product placement and recommendation on Kappa KOMBAT series, World Cup series and its accessories appeared on selected fashion/lifestyle media and portal website. In the first half of 2014, magazines we have cooperated with included Fashion Weekly, Ceci China, Self Magazine, Trends Health for Women, Trends Health and "fashion.sohu.com", demonstrating Kappa's products with trendiness and fitness for use, and thus arousing readers' desire in consumption.

PRC-RDK brand

In the first half of 2014, the positioning of RDK as a high-end, sports and fashion brand was further consolidated. For the period from 26 March to 29 March 2014, RDK participated in CHIC 2014 — the China International Clothing & Accessories Fair where RDK was the fourth brand to be exhibited in the trade show for promoting the brand and displaying products.

In the CHIC fair, RDK products and the display have successfully attracted a large number of distributors. We presented the RDK brand in an integrated manner throughout the 4-day professional fair, putting our efforts in expanding commercial resources. In addition, RDK has been interviewed by a number of media during the fair period, including fashion.sohu.com, Esquire China and etc. Through trade show, fair and exhibition as well as media articles, attending guests, merchants, media and potential consumers were fully impressed by the sensations of youth, novelty and energy associated with RDK brand, and the interpretation of "essence of sportsmanship" could further contribute to the infiltration of middle-class consumers.


ROBE DI KAPPA

Furthermore, RDK has posted an IPAD e-advertisement on Esquire Magazine by resource replacement with magazine media. These series of activities illustrated independence and self-confidence of RDK brand, inspiring middle-class consumers in fashion and encouraging them to have their own thoughts in sportswear. Oho Ou, one of the young fashion icons, performed in "Song of Vengeance", a teenage musical drama, on Hunan Mango TV channel, wearing RDK brand, giving fresh energy to the style and voguishness of RDK brand.

Japan-Kappa brand

In the first half of 2014, Kappa Japan team sponsored a number of sports competitions, such as JEF United Ichihara Chiba Friendly Games and events for children by Consadole Sapporo and JA Group Hokaiddo, and invited star footballer Ogasawa Mitsuo to participate in Tohokujin Spirit football match. All young footballers were provided sportswear and offered a stationery set designed by Kappa, the crew at site was sponsored with apparel. Meanwhile, we have set up a booth for selling merchandises with Kappa logo and erected advertising signs at the competition venue, meetings was also arranged for the guests and children with renowned footballers. As a result, attention has successfully been drawn from media and audiences focusing on Kappa during the competitions and interactive activities, and Kappa's popularity in Japan has been greatly enhanced by maximizing celebrity effect of star football teams and individuals.

In 2014, Kappa launched magazine placement incorporating new elements to promote its products. The spirit and passion of Kappa was skillfully demonstrated in magazines, such as SoccerKing for Players, DoubleEagle and LEON, by creating motivational and inspirational slogan and introducing products from a special perspective, reflecting the close relationship between Kappa and ordinary living. Advertising of Kappa in magazines has gained attention and likes from consumers.

In addition, Ayaka Watanabe, a renowned golfer who has signed a contract with Kappa Golf, won the AXA Ladies Golf, and Rumi Yoshiba achieved excellent results in Nichirei Ladies, those young golfers who have been supported by Kappa have delivered brilliant performance in major competitions in the first half of 2014, establishing a closer relationship between Kappa brand and sports and ordinary living, drawing more attention on Kappa.

Japan-Phenix brand

In the first half of 2014, Phenix, as an international renowned top brand, placed advertisements in outdoor sports magazines, including MONOQLO, SEEDS, SOTO, TRAMPIN, MOOK, GAKUJIN, PEAKS, BRAVOSKI and Ski CATALOG, and the advertisements provided readers with information, such as product concept, quality and functions, complementary to overarching theme of magazines. In addition to effectively promote new products of Phenix, advertisement placing has differentiated Phenix from other outdoor sports brands in terms of materials, characteristics, designs and adaptability for extreme weather, and provide readers with information about trendiness of outdoor sportswear and equipment, consolidating the sports-core concept of Phenix for better development and expansion.

Meanwhile, sponsorship in sports competition has been one of key marketing strategies of Phenix. Sponsorship in the Olympic Games, the world's leading international sporting event, enjoys lift in brand recognition of Phenix. Phenix was the main sponsor of Norwegian National Team and Norwegian Alpine Ski Team in the 2014 Winter Olympic Games and Paralympic Games hosted in Sochi. The Norwegian National Team was provided the Olympic ceremony outfits, metal ceremony outfits, competition outfits as well as equipment for training and daily living; and Norwegian Alpine Ski Team was provided competition outfits. With 11 gold, 5 silver and 10 bronze, Norway put in a solid performance in Sochi, ranking the third, of which 1 gold and 2 bronze were gained by the Norwegian Alpine Ski Team. Such highest honors and brilliant opportunity for brand promotion further have demonstrated Phenix's perfect blend of voguishness and high functionality for outdoor sports.

Japan-Inhabitant brand

In 2014, marketing and promotion of Inhabitant, a fashionable sportswear brand for youth, focused on exhibiting products by professional categories as well as charity and sponsorship. By participating in exhibitions and fairs on apparel and equipment of various categories, namely surfing, snowboard and trekking, Inhabitant brand has expressed individual spirit and passion of new generation of youth, enhancing the exposure of the brand in its high functionality, professional materials and designs, and providing consumers new choices for extreme sports and leisure. In addition, Inhabitant has offered generous sponsorship to charity and recreational activities, such as brass band of Kawasaki High School in the affected area of the Tohoku Earthquake being offered free T-shirts for its opening performance. As a sponsor of outdoor concert, Inhabitant has sponsored attending


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guests a wristband with logo and apparel to production crew. Also, an Araba T-shirt for the outdoor concert was specially designed. As a result, brand image of Inhabitant has been enhanced, maintaining a closer distance between consumers and branded products.

Product Design and Research and Development

Design and research and development of apparel and accessories with different style and in different "stories" were in consonance with relevant product lines. With an effort of R&D in fine details, classic products combining new elements would carry on.

Kappa KOMBAT Series

The series can be considered as avant garde in a way it combines professional lively design and 3D slim-fit cutting, not only retaining spirit of fashion, but also elements of sports, demonstrating its unique personality of voguishness. Knit zip hoodie in 3D cutting with raw edge can perfectly reshape Asian figures; fit-hip design can highlight the beauty of the silhouette with a sense of sexiness. Slim-fit cutting of knit bottom can keep the shape of trousers, effectively stretching and streamlining the leg-shape. With particular design on details of waist, knee, hip and bottom of trouser legs, it provides more comfort with better appearance.

ESSENTIAL Series

Classics have been inherited by using Kappa's proprietary colors to create immortal DNA of the brand. Knit zip hoodie in regular fit bring out a sense of freshness and simplicity. 3D collars and color-clash buckle for hat are unique and fashionable design, with a variety of fancy colors available for trend spotters. Knit zip top in double strip design with half-spiral pattern shows the exquisite technique. Short-sleeve Polo in classical and simple design matching up with different patterns and colors projects elegance, simplicity and glamor.

RAINWAY Series

The use of water-proof coating materials provides protection against sunlight and cold rain with the advantages of comfort and easy-to-carry. Its trendiness and basic colours express the carefree but modern character. Such new and simple outfit is an evocative gesture of charm.

KOLOR Series

The design emphasizes natural, free and easy, simple and casual. Its apparent character remains even fashion trend changes. The front-back-sleeve colour clash design of the Knit zip hoodie in baseball style imparts senses of modernity and youth, a perfect combination of dynamics and elegance. Soft and comfortable materials of knitted tops are well suitable for sports and leisure. The raglan-sleeve design of short-sleeve Polo shirt highlights slim figures with a sense of modernity.

K-TEE Series

In addition to emphasis on comfort, short-sleeve T-shirt series come in designs of world cup features. Elements of the participating countries world in design give a breath of youth and trendiness.

Accessories Series

It is designed for fashionista who long for plainness and intelligence or pursue "COOL" and "IN". The series could interpret modernity in a more powerful way. It includes backpack, shoulder bag and handbag, baseball cap, leisure cap and hip hop cap, mix and match can play an unusual melody of youth and modernity with their own personality.

Running Shoes/Leisure Shoes

Classics can be inherited but also be mixed with fresh elements in design and colours, such as premium seamless production technology and flags-of-the-world designs. Wherever the trend goes, product details of Kappa will fully exhibit your personality and character.

In the first half of 2014, our team in Japan continued to expand its innovations by capitalizing its strong capability in research and development, resulting in special technique in finishing seam which gives products better appearance and enhances comfort. Development of details in zip and hoodie string has improved product's appearance as well as its user-friendliness. The launch of medium backpack by Phenix has demonstrated the strength of Phenix in accessories. Interlayered clothing of breathable raincoat and durable waterproof windbreaker is an alternative layering created by the differences of our products, projecting personality and trendiness.

Upgrading our retail network

During the period under review, the Group continued to optimize its sales network and store efficiency, assessed its store network and made adjustments accordingly. As at 30 June 2014, the Group had a total of 1,084 Kappa retail stores operated directly or indirectly under the China segment. The distribution network of retail stores covered all major provincial capital cities and other major cities and townships in China.

In the first half of 2014, the number of retail stores directly or indirectly operated by 7 self-owned subsidiaries of the Group increased to 301, and the franchise stores were expanded to 28 stores . As such, the Group has further developed the coverage of its self-owned retail network, consolidating its self-operating business, and generating revenue to the Group.

With rapid development of e-commerce, it is not merely regarded as a conventional channel for stock clearance. The base of consumer buying decision has progressively shifted to product orientation from price orientation. As a result of effective stock clearance by the Group over the past few years, we have increased the percentage of new products supply for on-line sale, and launched new products only for on-line sale, providing more choices for consumers. In the meantime, further expansion of self-owned e-commerce has allowed us to respond promptly at the retail end, addressing market needs and exhibiting products to consumers effectively in a timely manner.

The Group has launched its Kappa kids series nationally through close cooperation with Paclantic, and over 200 franchised stores of Kappa kids have been established in major cities and regions across China. Such move has aggressively expanded consumer base of Kappa brand, and laid a concrete reputation foundation for Kappa brand to develop next-generation consumers.

Maximizing contributions of the Group's projects

The Group has paid close attention to the growth in emerging industries and consumer goods sectors, and cautiously participated in the emerging growth. Leveraging our vision and comprehensive understanding, we gain competitive advantages and considerable financial revenue.

OUTLOOK

We believe adjustment in operational strategies is vital to our development in a gloomy market. To complete our mission and commitment and repay our investors for their loyalty, China Dongxiang will explore a new way for reform and innovation, introducing reforms and changes to fulfill consumer's fresh desires and new attitude for personality and variety. We will remain committed to its product philosophy of "sports, fashion, sexiness and style" and adjust direction of product development decidedly for consolidating our brand image.

The Group will continue to optimize inventory through a bunch of comprehensive channels, enhance the efficiency of its logistics and distribution, optimize supply chain, increase quick response to market feedbacks, maintain the business model of "self-operated stores + dealership +franchise chain" and accelerate the construction of a steady and highly-efficient channel network. In addition, we will address market demands, facilitate development of e-commerce channel and foster maturity in e-commerce business.

No matter how difficult reform is and how long it takes, China Dongxiang will remain confident in achieving it. Our determination and aggressiveness will support us to get through a difficult way of reforms and changes, leaving us tremendously fruitful return. Persistence in our beliefs for making more room and opportunity for development will assure maximum return for our shareholders and consumers.

FINANCIAL REVIEW

The sales for the first half of 2014 of the Group was RMB465 million, decreased by 17.4% as compared to RMB563 million for the first half of 2013. Profit attributable to equity holders for the first half of 2014 was RMB96 million, increased by 4.3% as compared to RMB92 million for the first half of 2013.

Key Financial Performance by Segments

		Group (Note 3) Six months ended 30 June			China Segment (Note 1) Six months ended 30 June			Japan Segment (Note 2) Six months ended 30 June		
	Note	2014 RMB million	2013 RMB million	Change	2014 RMB million	2013 RMB million	Change	2014 RMB million	2013 RMB million	Change
Key items of consolidated income statement										
Sales		**465**	563	–17.4%	**323**	392	–17.6%	**142**	171	–17.0%
Gross profit (before provision for impairment of inventories)	4	**215**	271	–20.7%	**170**	211	–19.4%	**45**	60	–25.0%
Operating profit	3	**50**	32	56.3%						
Profit attributable to equity holders of the Company	3	**96**	92	4.3%						
		RMB cents	RMB cents							
Basic and diluted earnings per share		**1.75**	1.67	4.8%						
		%	%	%pts	**%**	%	%pts	**%**	%	%pts
Profitability ratios										
Gross profit margin (before provision for impairment of inventories)	4	**46.2%**	48.1%	–1.9	**52.6%**	53.8%	–1.2	**31.7%**	35.1%	–3.4
Operating profit margin		**10.8%**	5.7%	5.1						
Effective tax rate		**36.6%**	34.1%	2.5						
Net profit margin		**20.6%**	16.3%	4.3						
Key operating expenses ratios (as percentage of sales)										
Sales expenses		**15.6%**	8.6%	7.0	**17.2%**	7.4%	9.8	**12.0%**	11.4%	0.6
Advertising and marketing expenses		**3.6%**	2.6%	1.0	**3.4%**	2.3%	1.1	**3.9%**	3.2%	0.7
Employee salary and benefit expenses		**14.8%**	13.6%	1.2	**13.6%**	12.0%	1.6	**17.4%**	17.3%	0.1
Design and product development expenses	3	**4.6%**	4.2%	0.4						
		in days	in days	in days	**in days**	in days	in days	**in days**	in days	in days
Working capital efficiency ratios										
Average trade receivable turnover days	5	**113**	117	–4	**124**	123	1	**86**	104	–18
Average trade payable turnover days	6	**95**	65	30	**63**	43	20	**145**	100	45
Average inventory turnover days	7	**152**	169	–17	**127**	182	–55	**181**	151	30

Notes:

1. The China segment principally represents the wholesale and retail of sport-related products under Kappa Brand in China and Macau, together with, among others, the operations of the international business under Kappa Brand and domestic business under RDK brand, as well as external investments by effectively utilizing the Group's financial resources.

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

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

4. Provision for inventories is included in costs to sell in accordance with International Financial Reporting Standards. The Group is in the opinion that for the ease of comparative analysis, gross profit before provision for impairment of inventories would be more reasonable for comparison.

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

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

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

Sales Analysis

Sales analyzed by geographical segments, business segments and product categories

	Six months ended 30 June						
	2014			2013			
	Sales RMB million	% of product/ brand mix	% of Group sales	Sales RMB million	% of product/ brand mix	% of Group sales	Change
CHINA SEGMENT							
Kappa Brand							
Apparel	**220**	**69.4%**	**47.3%**	270	70.7%	47.9%	–18.5%
Footwear	**85**	**26.8%**	**18.3%**	98	25.6%	17.4%	–13.3%
Accessories	**12**	**3.8%**	**2.6%**	14	3.7%	2.5%	–14.3%
Kappa Brand total	**317**	**100.0%**	**68.2%**	382	100.0%	67.8%	–17.0%
International business, RDK and others	**6**		**1.3%**	10		1.8%	–40.0%
CHINA SEGMENT TOTAL	**323**		**69.5%**	392		69.6%	–17.6%
JAPAN SEGMENT							
Phenix Brand	**59**	**41.5%**	**12.7%**	80	46.8%	14.2%	–26.3%
Kappa Brand	**83**	**58.5%**	**17.8%**	91	53.2%	16.2%	–8.8%
JAPAN SEGMENT TOTAL	**142**	**100.0%**	**30.5%**	171	100.0%	30.4%	–17.0%
THE GROUP TOTAL	**465**		**100.0%**	563		100.0%	–17.4%

China Segment

Kappa Brand

Total sales from the Kappa Brand business, the core business of the Group, for the first half of 2014 was RMB317 million, decreased by RMB65 million from RMB382 million for first half of 2013.

On the one hand, the Group actively reduced part of sales orders by distributors for easing inventory pressure at terminal retail channels, and maintained close communication with distributors in the first half of 2014. Stock replenishment through the "rolling order" method enabled Kappa brand products that meet consumers' needs to be launched to the end-user retail market. On the other hand, sportswear industry in China was still undergoing the process of adjustment, in a bid to save resources and enhance profitability, the Group and our distributors closed down most of the retail stores with low efficiency. The number of Kappa Brand retail stores decreased by approximately 22.5% to 1,084 as at 30 June 2014 from 1,398 as at 30 June 2013. Thanks to progressive enhancement of management and control on terminal retail stores by the Group, the efficiency of the stores, to a certain extent, has been lift, and thus secured a year-on-year decrease of 17.0% in total sales.

International Business, RDK and Others

Sales from international business, RDK and other brands decreased by RMB4 million to RMB6 million for the first half of 2014 from RMB10 million for the first half of 2013.

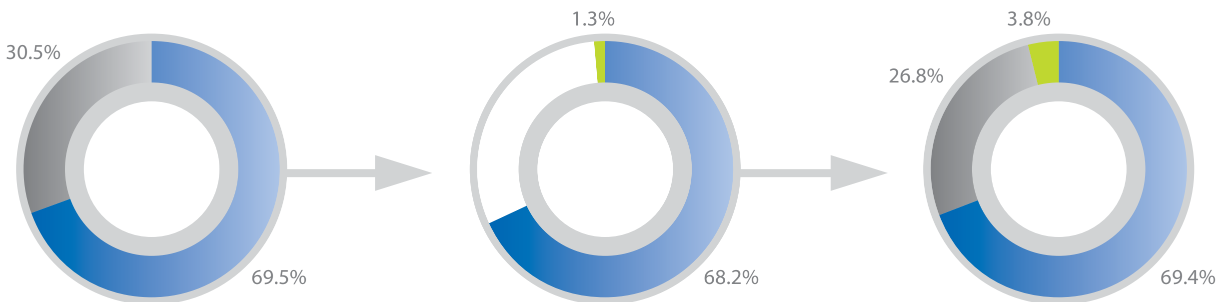
Japan Segment

Sales from Japan segment for the first half of 2014 decreased by RMB29 million to RMB142 million from RMB171 million for the first half of 2013. The decrease in sales of Japan Segment was mainly due to gloomy market in Japan and increase in return of products as compared with the same period last year.

Revenue analysis by geographical segments
THE GROUP

Revenue analysis by business
CHINA SEGMENT

Revenue analysis by products categories
KAPPA BRAND
(China Segment)



69.5% China Segment
30.5% Japan Segment

68.2% Kappa
1.3% International Business, RDK and Others

69.4% Apparel
26.8% Footwear
3.8% Accessories

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

	Six months ended 30 June				
	2014		2013		
	Sales RMB million	% of sales of Kappa brand	Sales RMB million	% of sales of Kappa brand	Change
Wholesale	**192**	**60.6%**	332	86.9%	–42.2%
Retail	**125**	**39.4%**	50	13.1%	150.0%
Total of Kappa brand	**317**	**100.0%**	382	100.0%	–17.0%

Sales of Kappa brand products via wholesale channel in China segment decreased by RMB140 million to RMB192 million for the first half of 2014 from RMB332 million for the first half of 2013, representing 60.6% of the total sales of Kappa brand in China segment in the first half of 2014 as compared with 86.9% in the first half of 2013.

Retail business of Kappa brand in China segment has developed rapidly since the second half of 2013. As at 30 June 2014, the number of self-owned retail stores operated by our subsidiaries reached 301. Sales via retail channel increased by RMB75 million to RMB125 million for the first half of 2014 from RMB50 million for the first half of 2013, representing 39.4% of the total sales of Kappa brand in China segment in 2014 (the first half of 2013: 13.1%).

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

	Six months ended 30 June					
	2014		2013		Change	
	ASP RMB	Total units sold in '000	ASP RMB	Total units sold in '000	ASP	Total units sold
Apparel	**115**	**1,971**	112	2,514	2.7%	–21.6%
Footwear	**160**	**550**	153	674	4.6%	–18.4%

Notes:

1. Average selling price per unit represent the sales for the period 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.

For the first half of 2014 and 2013, average selling prices per unit for apparel products were RMB115 and RMB112 respectively, and average selling prices per unit for footwear products were RMB160 and RMB153 respectively. Slight increase in average selling prices for apparel and footwear were mainly due to increase in percentage of sales of new products as well as increase in revenue from self-operated retail business.

Total units sold for apparel and footwear products for the first half of 2014, fell by 21.6% and 18.4%, respectively, as compared to the same period last year, which were primarily due to our initiative to decrease the distributors' target of sales orders for easing their terminal inventory pressure as well as decrease in number of terminal retail channels.

Cost of Goods Sold and Gross Profit

Cost of goods sold of the Group has dropped by RMB42 million, to RMB250 million for the first half of 2014 (the first half of 2013: RMB292 million).

In the first half of 2014, our gross profit before provision for impairment of inventories has dropped by RMB56 million to RMB215 million (the first half of 2013: RMB271 million). Our overall gross profit margin before provision for impairment of inventories for the first half of 2014 dropped by 1.9 percentage point to 46.2% from 48.1% for the first half of 2013.

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

	Six months ended 30 June		
	2014	**2013**	**Change**
	Gross profit margin*	**Gross profit margin***	**% pts**
China segment	**52.6%**	53.8%	−1.2
Kappa Brand:			
Apparel	**57.5%**	55.2%	2.3
Footwear	**49.8%**	51.0%	−1.2
Accessories	**61.8%**	63.1%	−1.3
Kappa Brand overall	**55.6%**	54.4%	1.2
Japan segment	**31.7%**	35.1%	−3.4
Group overall	**46.2%**	48.1%	−1.9

* Before provision for impairment of inventories

Gross profit margin of Kappa Brand in China segment for the first half of 2014 rose by 1.2 percentage point to 55.6% from 54.4% for the first half of 2013. Such rise was mainly due to high profit margin of new products in 2014, with such new products taking up a higher proportion of the sales.

Gross profit margin of Japan segment for the first half of 2014 was 31.7%, dropped by 3.4 percentage points as compared to 35.1% for the first half of 2013. Such decrease was mainly due to increase in production costs and increased discount offer for off-season inventory clearance.

Other Gains, Net

Other gains for the first half of 2014 was RMB67 million (the first half of 2013: RMB10 million), of which RMB32 million was income derived from the investment in available-for-sale financial assets, RMB29 million was a gain from transfer of equity interests in subsidiaries and the balance was other incomes, such as license fee.

Provision for Impairment of Available-for-sale Financial Assets

For the first half of 2014, the Group made fair value assessment on its available-for-sale financial assets in accordance with its accounting policy. In accordance with the assessment, the Group has not made further provision for impairment of available-for-sale financial assets.

Distribution Expenses and Administrative Expenses

Distribution expenses and administrative expenses mainly comprised employee salaries and benefit expenses, advertising and marketing expenses, sales expenses, logistic fees and design and product development expenses. Total distribution expenses and administrative expenses for the first half of 2014 was RMB247 million (the first half of 2013: RMB249 million), constituting 53.1% of the Group's total sales, substantially same as that for the first half of 2013. The Group has further optimized resources allocation and improved cost structure, in a bid to enhance production efficiency subject to reasonable cost control.

As a result of necessary adjustments made in internal organizational structure and human resources, efficiency of all staff members has increased, and our overall staff costs dropped by RMB7 million to RMB69 million for the first half of 2014 from RMB76 million for the first half of 2013;

In the first half of 2014, advertising and marketing expenses slightly increased by RMB3 million to RMB17 million from RMB14 million in the same period last year. The advertising and marketing expenses for the period focused on implementing strategies on maintaining and protecting existing brand image, while capital investment were concentrated on advantageous projects;

In the first half of 2014, sales expenses increased by RMB25 million to RMB73 million from RMB48 million in the first half of 2013, such increase was mainly due to the opening of 7 retail subsidiaries of the Group in the second half of 2013, increasing retail related sales expenses;

In the first half of 2014, logistics and transportation fee decreased by RMB4 million to RMB27 million from RMB31 million in the first half of 2013. Inventory in the period has been further reduced by conducting further stock clearance for offseason products and adopting the sales method of "sales order + rolling order" for new products. In addition, optimization and consolidation of procedures for stock transportation have cut down logistics fee;

In the first half of 2014, the Group took a more cautious approach in the investment in product development, which mainly drew on the Group's internal design resources. In the first half of 2014, our design and product development expenses was RMB21 million (the first half of 2013: RMB24 million).

Operating Profit

For the first half of 2014, operating profit of the Group was RMB50 million (the first half of 2013: RMB32 million). The operating profit margin was 10.8% for the first half of 2014 (the first half of 2013: 5.7%).

Finance Income, Net

For the first half of 2014, finance income of the Group amounted to RMB95 million (the first half of 2013: RMB98 million), which comprised income derived from investment in capital guaranteed treasury products of RMB99 million (the first half of 2013: RMB62 million) and interest income from bank deposit of RMB9 million (the first half of 2013: RMB34 million), while foreign exchange losses for the first half of 2014 was RMB11 million (the first half of 2013: foreign exchange gains of RMB4 million).

Taxation

For the first half of 2014, income tax expense of the Group amounted to RMB53 million (the first half of 2013: RMB45 million). The effective tax rate was 36.6% (the first half of 2013: 34.1%).

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

Profit attributable to equity holders of the Company for the first half of 2014 was RMB96 million (the first half of 2013: RMB92 million), and net profit margin of the Group was 20.6% (the first half of 2013: 16.3%).

Earnings Per Share

The basic and diluted earnings per share were both RMB1.75 cents for the first half of 2014, increased by 4.8% against the basic and diluted earnings per share of RMB1.67 cents for the first half of 2013.

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

Dividend and Special Dividend

The board of directors (the "Board") of the Company has resolved to declare an interim dividend and interim special dividend of RMB0.52 cents and RMB0.70 cents respectively per ordinary share (totaling RMB1.22 cents per ordinary share) for the first half of 2014, amounting to RMB29 million and RMB39 million respectively (totaling RMB68 million).

The interim dividend and interim special dividend will be paid in HK Dollars based on the rate of HKD1.00 = RMB0.7945 being the official exchange rate of HK Dollars against Renminbi as quoted by the People's Bank of China at 20 August 2014. The dividends will be paid on or around 18 September 2014 to shareholders whose names appear on the register of members of the Company on 11 September 2014.

FINANCIAL POSITION

Working capital efficiency ratios

China Segment

Average trade receivable turnover days for the first half of 2014 and 2013 were 124 days and 123 days, respectively, numbers of days for both periods were comparable.

Average trade payable turnover days for the first half of 2014 and 2013 were 63 days and 43 days respectively. Increase in average trade payable turnover days was primarily due to decrease in costs carried forward resulting from drop in sales for the year.

Average inventory turnover days for the first half of 2014 and 2013 were 127 days and 182 days respectively. Drastic decrease in average inventory turnover days was due to our proactive stock clearance for off-season products via various channels as planned, resulting in significant decline in closing balance of inventory in China Segment as compared with the opening balance.

Japan Segment

Average trade receivable turnover days and average trade payable turnover days were 86 days and 145 days, respectively for the first half of 2014 as compared to 104 days and 100 days, respectively for the first half of 2013. Average inventory turnover days were 181 days for the first half of 2014 as compared to 151 days for first half of 2013. Such increase was mainly due to product returns in the first half of 2014.

Liquidity and financial resources

As at 30 June 2014, cash and bank balances (including long-term deposits) of the Group amounted to RMB1,338 million, an increase of RMB241 million as compared to a balance of RMB1,097 million as at 31 December 2013. This increase mainly due to 1) a redemption of capital guaranteed treasury products issued by banks of RMB340 million; 2) payment of 2013 final dividend and special final dividend for an aggregate amount of equivalent to approximately RMB82 million; 3) cash outflow from operating activities of approximately RMB38 million; 4) distribution received from Rongyu Fund of approximately RMB8 million; 5) an investment expense in Yunfeng Fund LP II of RMB43 million; 6) refund of investment in CITIC Mezzanine Fund I of RMB30 million; 7) a gain of approximately RMB28 million on disposal of Mecox Lane's available-for-sale financial assets.

As at 30 June 2014, net assets attributable to our equity holders was RMB8,656 million (31 December 2013: RMB8,609 million). The Group's current assets exceeded current liabilities by RMB4,986 million (31 December 2013: RMB4,910 million). The Group also had a very strong liquidity position. The current ratio as of 30 June 2014 was 22.8 times (31 December 2013: 16.8 times).

As at 30 June 2014, the Group had no outstanding bank loans or other borrowings.

Investments in Available-For-Sale Financial Assets

As at 30 June 2014, our balance of investments in available-for-sale financial assets was RMB3,235 million, an increase of RMB11 million as compared with the balance of RMB3,224 million as at 31 December 2013. Such increase was mainly due to: 1) additional investment of approximately USD7 million (equivalent to approximately RMB43 million) in Yunfeng Fund LP II available for subscription; 2) investment gain on disposal of equity interests in Mecox Lane at nominal cost of approximately RMB22 million; 3) cost return from investment in CITIC Mezzanine Fund I of RMB30 million; 4) increase in USD capital contribution of approximately RMB21 million due to a slight appreciation of USD to RMB.

The investments included:

Yunfeng E-commerce Funds: In September 2011, the Group, through its wholly-owned subsidiary, subscribed for equity interests in limited partnership of Yunfeng E-commerce Funds with a total capital contribution of USD100 million. The Yunfeng E-commerce Funds are established for the purpose of making investments in Alibaba Group Holding Limited, an e-commerce company. As at 30 June 2014, the investment was stated at fair value of approximately USD398 million (equivalent to approximately RMB2,448 million);

CITIC Mezzanine Fund I: In September 2011, the Group, through its wholly-owned subsidiary, subscribed for equity interests in limited partnership of CITIC Mezzanine Fund I with a total capital contribution of RMB300 million, and the capital contribution was fully settled in June 2013. As at 30 June 2014, the investment was stated at fair value of approximately RMB246 million;

Rongyu Fund: In May 2013, the Group, through its wholly-owned subsidiary, subscribed for equity interests in limited partnership of Rongyu Fund with a total capital contribution of RMB200 million. As at 30 June 2014, the investment was stated at fair value of RMB200 million;

Tebon Capital Fund: In December 2013, the Group, through its wholly-owned subsidiary, subscribed for equity interests in limited partnership of Tebon Capital Fund with a total capital contribution of RMB200 million. As at 30 June 2014, the investment was stated at fair value of RMB200 million;

Yunfeng Fund LP II: In May 2013, the Group, through its wholly-owned subsidiary, subscribed for equity interests in limited partnership of Yunfeng Fund LP II with a total capital contribution of USD20 million. In May 2014, the Group was transferred equity interests of USD10 million in limited partnership of Yunfeng Fund LP II from another limited partner, totaling USD30 million equity interests in limited partnership. As at 30 June 2014, the investment was stated at fair value of approximately USD8 million (equivalent to approximately RMB49 million);

MSYH Group: The Group, through its wholly-owned subsidiary, held equity interests of 22.05% in "MSYH Group", and it was stated as an item of available-for-sale financial assets. As at 30 June 2014, the investment was stated at fair value of RMB70 million;

Other Investment: As at 30 June 2014, the Group had other available-for-sale financial assets stated as fair value of RMB21 million.

Pledge of assets

As at 30 June 2014, the Group had approximately RMB53 million (31 December 2013: RMB52 million) were held in banks as guarantee deposit for the issue of letters of credit.

Capital commitments and contingencies

In May 2013, the Group entered into a limited partner agreement with Yunfeng Fund LP II, pursuant to which the Group subscribed a capital contribution of USD20 million. In May 2014, the Group entered into a capital contribution transfer agreement with another limited partner of Yunfeng Fund LP II, increasing the Group's capital contribution to USD30 million. As at 30 June 2014, the Group paid a capital contribution of USD8.5 million with remaining balance of USD21.5 million (equivalent to approximately RMB132 million) as capital commitments.

Foreign exchange risk

The majority operations of the Group were mainly carried out in the PRC and transacted in Renminbi, thus the Group's reporting and consolidated accounts are presented in Renminbi. The Company's financial statements expressed in US dollar and the financial statements of the Group subsidiaries expressed in US dollar or Japanese Yen were translated into Renminbi, and the foreign exchange differences from the translation of financial statements were not recognized in the consolidated income statement. Instead, they should be recognized as a separate component of equity of the Group and the consolidated statement of comprehensive income.

The functional currency of the Company is US dollar, and the Company holds a small portion of assets in HK dollar and Renminbi due to the needs of our business. As a result, the exchange differences arising from appreciation or depreciation of the US Dollars against HK Dollars and Renminbi, were recognised as exchange gains or losses in the Company's income statement. The Group owns external investments expressed in US dollar through its subsidiaries. As the functional currency of the subsidiaries is US dollar, the foreign exchange differences from translation of financial statements into Renminbi were recognized in equity and the consolidated statement of comprehensive income, but not in the consolidated income statement. Except for the above, the foreign exchange risk of the Group was insignificant.

Significant investments and acquisitions

The Group has made no significant investment or any material acquisition or disposal of subsidiaries in the first half of 2014.

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

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

For the six months ended 30 June 2014, there were no share options granted, exercised, lapsed or cancelled and there was no other share option outstanding under the Share Option Scheme.

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

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

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

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

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

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

For the six months ended 30 June 2014, 2,774,000 Restricted Shares were granted to 4 eligible participants pursuant to the Restricted Share Award Scheme. 2,774,000 Restricted Shares were vested during the period. As at 30 June 2014, the number of Restricted Shares granted under the scheme amounted to 5,412,000 Shares, representing approximately 0.096% of the issued Shares as at the Adoption Date. Details of movements of the Restricted Shares under the Restricted Share Award Scheme for the six months ended 30 June 2014 are as follows:

	Number of Restricted Shares[1]		
Date of grant	**granted during the period**	**vested during the period**	**lapsed during the period**
3/4/2014	2,274,000	2,274,000	—
3/6/2014	500,000	500,000	—

Note:

(1) As at 1/1/2014, the number of restricted shares are 27,362,000 shares. As at 30/6/2014, the number of restricted shares are 24,588,000 shares.

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

3. DISCLOSURE OF INTEREST

(a) Directors' Interests in securities

As at 30 June 2014, 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:

Name of Directors	Nature of interest	Number and class of securities Long position	Short position	Approximate percentage of total issued Shares
Mr. Chen Yihong	Interest of a controlled corporation[1]	2,227,081,000 shares	—	40.23%
Mr. Qin Dazhong	Interest of a controlled corporation[2]	211,864,000 shares	—	3.83%

Notes:

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

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

Save as disclosed above, as at 30 June 2014, 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 2014, other than the interests and short positions as disclosed above, the following persons have interests or short positions in the shares, underlying shares and debentures of the Company which fall to be disclosed to the Company under Divisions 2 & 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under Part XV (s.336) of the SFO, or otherwise known to the directors:

Name of Shareholders	Nature of interest	Number and class of securities: Long position	Number and class of securities: Short position	Approximate percentage of shareholding
Poseidon Sports Limited	Corporate interest	2,227,081,000 shares	—	40.23%
Talent Rainbow Far East Limited[(1)]	Interest in a controlled corporation	2,227,081,000 shares	—	40.23%
Harvest Luck Development Limited[(1)]	Interest in a controlled corporation	2,227,081,000 shares	—	40.23%

Note:

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

Save as disclosed above, as at 30 June 2014, 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. COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE (THE "CG CODE")

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

During the period under review, the Company has complied with the code provisions set out in the CG Code as contained in Appendix 14 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), except one deviation from provision A.2.1 of the CG Code.

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

5. 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.

6. 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 2014.

The unaudited condensed consolidated interim financial information for the six months ended 30 June 2014 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.

7. PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2014, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

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 31 to 60, 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 2014 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, 21 August 2014

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
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Interim Consolidated Income Statement

For the six months ended 30 June 2014

	Note	Unaudited Six months ended 30 June 2014 RMB'000	2013 RMB'000
Revenue	6	**465,080**	562,682
Cost of goods sold	8	**(250,030)**	(292,066)
Reversal of impairment of inventories	8	**15,280**	12,397
Gross profit		**230,330**	283,013
Other gains, net	7	**66,532**	9,806
Provision for impairment of available-for-sale financial assets	16	**—**	(11,959)
Distribution costs	8	**(192,285)**	(181,102)
Administrative expenses	8	**(54,410)**	(67,689)
Operating profit		**50,167**	32,069
Finance income, net	9	**95,057**	98,442
Share of (losses)/profits of jointly controlled entities		**(53)**	143
Profit before income tax		**145,171**	130,654
Income tax expense	10	**(53,132)**	(44,532)
Profit for the period		**92,039**	86,122
Profit attributable to:			
— Equity holders of the Company		**96,498**	91,866
— Non-controlling interests		**(4,459)**	(5,744)
		92,039	86,122
Earnings per share for profit attributable to the equity holders of the Company (expressed in RMB cents per share)			
— Basic and diluted earnings per share	11	**1.75**	1.67
Dividends	12	**67,544**	64,776

The notes on pages 37 to 60 form an integral part of this condensed consolidated interim financial information.

Interim Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2014

		Unaudited Six months ended 30 June	
	Note	**2014** **RMB'000**	2013 RMB'000
Profit for the period		**92,039**	86,122
Other comprehensive income:			
Items that may be reclassified to profit or loss			
— Fair value change on available-for-sale financial assets, net of tax	21	**(5,633)**	(3,391)
— Foreign currency translation differences	21	**34,805**	(62,577)
Total items that may be reclassified subsequently to profit or loss		**29,172**	(65,968)
Other comprehensive income, net of tax		**29,172**	(65,968)
Total comprehensive income for the period		**121,211**	20,154
Total comprehensive income for the period attributable to:			
— Equity holders of the Company		**125,670**	25,898
— Non-controlling interests		**(4,459)**	(5,744)
		121,211	20,154

The notes on pages 37 to 60 form an integral part of this condensed consolidated interim financial information.

Interim Consolidated Balance Sheet

As at 30 June 2014

	Note	Unaudited 30 June 2014 RMB'000	Audited 31 December 2013 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	13	82,683	85,967
Lease prepayments	14	11,865	12,008
Intangible assets	15	254,442	257,141
Interests in jointly controlled entities		15,532	15,591
Available-for-sale financial assets	16	3,234,720	3,223,605
Deferred income tax assets		81,313	97,829
Prepayments, deposits and other receivables — non-current portion		43,965	55,304
		3,724,520	3,747,445
Current assets			
Inventories		210,782	182,758
Trade receivables	17	245,709	333,041
Prepayments, deposits and other receivables		109,871	57,166
Other financial assets	18	3,310,512	3,551,091
Cash and bank balances	19	1,338,186	1,096,797
		5,215,060	5,220,853
Total assets		8,939,580	8,968,298
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	20	53,589	53,589
Share premium account	20	1,781,427	1,863,919
Reserves	21	6,821,042	6,691,690
		8,656,058	8,609,198
Non-controlling interests		16,351	14,626
Total equity		8,672,409	8,623,824

As at 30 June 2014

	Note	Unaudited 30 June 2014 RMB'000	Audited 31 December 2013 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		37,900	33,574
		37,900	33,574
Current liabilities			
Trade payables	22	114,725	148,035
Accruals and other payables		99,715	114,258
Provisions	23	12,650	17,836
Current income tax liabilities		2,181	30,771
		229,271	310,900
Total liabilities		267,171	344,474
Total equity and liabilities		8,939,580	8,968,298
Net current assets		4,985,789	4,909,953
Total assets less current liabilities		8,710,309	8,657,398

The notes on pages 37 to 60 form an integral part of this condensed consolidated interim financial information.

Interim Consolidated Statement of Changes in Equity

For the six months ended 30 June 2014

		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 2014		53,589	1,863,919	1,468,200	5,223,490	8,609,198	14,626	8,623,824
Comprehensive income								
Profit for the period		—	—	—	96,498	96,498	(4,459)	92,039
Other comprehensive income								
Fair value change on available-for-sale financial assets	16	—	—	(5,633)	—	(5,633)	—	(5,633)
Currency translation differences	21	—	—	34,805	—	34,805	—	34,805
Total other comprehensive income, net of tax		—	—	29,172	—	29,172	—	29,172
Total comprehensive income		—	—	29,172	96,498	125,670	(4,459)	121,211
Transactions with owners								
Dividends relating to 2013, paid		—	(82,492)	377	—	(82,115)	—	(82,115)
Shares vested under Restricted Share Award Scheme		—	—	3,305	—	3,305	—	3,305
Disposal of subsidiary		—	—	—	—	—	6,184	6,184
Total contributions and distributions to owners of the Company		—	(82,492)	3,682	—	(78,810)	6,184	(72,626)
Balance at 30 June 2014		53,589	1,781,427	1,501,054	5,319,988	8,656,058	16,351	8,672,409
Balance at 1 January 2013		53,589	1,984,059	(130,041)	5,015,015	6,922,622	21,824	6,944,446
Comprehensive income								
Profit for the period		—	—	—	91,866	91,866	(5,744)	86,122
Other comprehensive income								
Fair value change on available-for-sale financial assets	16	—	—	(3,391)	—	(3,391)	—	(3,391)
Currency translation differences	21	—	—	(62,577)	—	(62,577)	—	(62,577)
Total other comprehensive income, net of tax		—	—	(65,968)	—	(65,968)	—	(65,968)
Total comprehensive income		—	—	(65,968)	91,866	25,898	(5,744)	20,154
Transactions with owners								
Dividends relating to 2012, paid		—	(55,364)	270	—	(55,094)	—	(55,094)
Shares vested under Restricted Share Award Scheme		—	—	1,635	—	1,635	—	1,635
Total contributions and distributions to owners of the Company		—	(55,364)	1,905	—	(53,459)	—	(53,459)
Balance at 30 June 2013		53,589	1,928,695	(194,104)	5,106,881	6,895,061	16,080	6,911,141

The notes on pages 37 to 60 form an integral part of this condensed consolidated interim financial information.

Interim Consolidated Statement of Cash Flows

For the six months ended 30 June 2014

	Note	Unaudited Six months ended 30 June 2014 RMB'000	2013 RMB'000
Cash flow from operating activities			
Cash generated from operations		**16,068**	194,083
Interest received		**7,059**	23,612
Income tax paid		**(60,879)**	(31,774)
Cash (outflow)/inflow from operating activities		**(37,752)**	185,921
Cash flow from investing activities			
Purchase of property, plant and equipment	13	**(2,539)**	(5,157)
Purchase of intangible assets	15	**(3,077)**	(1,183)
Decrease in term deposits with initial terms over three months		**290,781**	492,848
Increase in restricted bank deposits		**(534)**	—
Proceeds from disposal property, plant and equipment and intangible assets		**59**	958
Increase in investments in available-for-sale financial assets	16	**(42,989)**	(357,467)
Withdrawal of investments in available-for-sale financial assets	16	**30,000**	—
Decrease/(increase) in other financial assets		**339,522**	(426,549)
Dividends received from available-for-sale financial assets		**8,477**	5,436
Proceeds from disposal of available-for-sale financial assets		**28,435**	—
Proceeds from disposal subsidiary	7	**717**	—
Cash inflow/(outflow) from investing activities		**648,852**	(291,114)
Cash flow from financing activities			
Dividends paid		**(82,115)**	(55,094)
Cash outflow from financing activities		**(82,115)**	(55,094)
Net increase/(decrease) in cash and cash equivalents		**528,985**	(160,287)
Cash and cash equivalents at the beginning of the period		**280,852**	341,286
Exchange gain/(losses) on cash and cash equivalents		**2,651**	(538)
Cash and cash equivalents at the end of the period		**812,488**	180,461

The notes on pages 37 to 60 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 21 August 2014.

This condensed consolidated interim financial information has not been audited.

2 BASIC OF PREPARATION

The condensed consolidated interim financial information for the six months ended 30 June 2014 has been prepared in accordance with IAS 34, 'Interim financial reporting'. The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2013, which have been prepared in accordance with IFRSs.

3 ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2013, as described in those annual financial statements. There are no amended standards or interpretations that are effective for the first time for this interim period that could be expected to have a material impact on this Group.

The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2014 and have not been early adopted by the Group. Management is assessing the full impact of these new standards:

- Amendment to IAS19, 'Defined benefit plans', applies to contributions from employees or third parties to defined benefit plans. The amendment distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period. The amendment allows contributions that are linked to service, and do not vary with the length of employee service, to be deducted from the cost of benefits earned in the period that the service is provided. Contributions that are linked to service, and vary according to the length of employee service, must be spread over the service period using the same attribution method that is applied to the benefits.

- Amendment to IFRS 2, 'Share-based payment', clarifies the definition of a 'vesting condition' and separately defines 'performance condition' and 'service condition'. The amendment to IFRS 2 is prospectively applied to share-based payment transactions for which the grant date is on or after 1 July 2014.

- Amendment to IFRS 8, 'Operating segments', require disclosure of the judgments made by management in aggregating operating segments and a reconciliation of segment assets to the entity's assets when segment assets are reported. An entity shall apply the amendments to IFRS 8 for annual periods beginning on or after 1 July 2014.

3 ACCOUNTING POLICIES (CONTINUED)

- Amendment to IAS 24, 'Related Party Disclosures', the reporting entity is not required to disclose the compensation paid by the management entity (as a related party) to the management entity's employee or directors, but it is required to disclose the amounts charged to the reporting entity by the management entity for services provided. An entity shall apply the amendment to IAS 24 for annual periods beginning on or after 1 July 2014.

- Amendment to IFRS 13, 'Fair value measurement', clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including non-financial contracts) within the scope of IAS 39 or IFRS 9. An entity shall apply the amendment to IFRS 13 for annual periods beginning on or after 1 July 2014 and prospectively from the beginning of the first annual period in which IFRS 13 is applied.

- IFRS 14, 'Regulatory Deferral Accounts', describes regulatory deferral account balances as amounts of expense or income that would not be recognised as assets or liabilities in accordance with other standards, but that qualify to be deferred in accordance with IFRS 14 because the amount is included, or is expected to be included, by the rate regulator in establishing the price(s) that an entity can charge to customers for rate-regulated goods or services. IFRS 14 permits eligible first-time adopters of IFRS to continue their previous GAAP rate-regulated accounting policies, with limited changes. IFRS 14 requires separate presentation of regulatory deferral account balances in the balance sheet and of movements in those balances in the statement of comprehensive income. Disclosures are required to identify the nature of, and risk associated with, the form of rate regulation that has given rise to the recognition of regulatory deferral account balances. IFRS 14 is effective for an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2016.

- Amendment to IFRS 11, 'Accounting for acquisitions of interests in joint operation', requires an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a 'business' (as defined in IFRS 3, Business combinations). All other principles of business combination accounting apply unless they conflict with IFRS 11. The amendment is applicable to both the acquisition of the initial interest and a further interest in a joint operation. The previously held interest is not remeasured when the acquisition of an additional interest in the same joint operation with joint control maintained. Amendment to IFRS 11 is effective for an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2016.

- IFRS15, 'Revenue from Contracts with Customers', establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach: (1) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract (3) Determine the transaction price (4) Allocate transaction price to performance obligations and (5) recognise revenue when performance obligation is satisfied. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an 'earnings processes to an 'asset-liability' approach based on transfer of control. IFRS 15 provides specific guidance on capitalisation of contract cost and licence arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. IFRS 15 replaces the previous revenue standards: IAS 18 Revenue and IAS 11 Construction Contracts, and the related Interpretations on revenue recognition: IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue-Barter Transactions Involving Advertising Services. An entity shall apply IFRS 15 for annual reporting periods beginning on or after 1 January 2017.

3 ACCOUNTING POLICIES (CONTINUED)

- IFRS 9, 'Financial instruments' addresses the classification, measurement and derecognition of financial assets and financial liabilities. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess IFRS 9's full impact. The Group will also consider the impact of the remaining phases of IFRS 9 when completed by the Board.

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

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 judgments 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 2013.

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 2013.

There have been no changes in the risk management policies of the Group since the year end.

5.2 Liquidity risk

Compared to year end, there was no material change in the contractual undiscounted cash outflows 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).

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Fair value estimation (Continued)

The following table presents the Group's assets that are measured at fair value at 30 June 2014 and 31 December 2013.

	Unaudited			
	Level 1	Level 2	Level 3	Total
At 30 June 2014	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
Available-for-sale financial assets				
— Equity securities	—	—	3,234,720	3,234,720

	Audited			
	Level 1	Level 2	Level 3	Total
At 31 December 2013	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
Available-for-sale financial assets				
— Equity securities	22,496	—	3,201,109	3,223,605

In the six months ended 30 June 2014, there were no reclassifications of financial assets. No losses (2013: RMB11,959,000) were due to impairments.

5.4 Fair value measurements using significant unobservable inputs (Level 3)

	Unaudited Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Opening balance at 1 January	3,201,109	1,006,576
Exchange difference (Note 16)	20,622	(13,008)
Additions (Note 16)	42,989	357,467
Withdrawals (Note 16)	(30,000)	—
Losses recognised in profit and loss	—	(11,959)
Closing balance at 30 June	3,234,720	1,339,076
Total losses for the period including in profit or loss for assets held at the end of the reporting period	—	11,959

Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently. Level 3 instruments mainly include private equity. As observable prices are not available for these securities, the Group has used valuation techniques to drive the fair value.

Of the total losses recognised in profit or loss in these periods, all amounts are attributable to the change in unrealised losses relating to those assets or liabilities held at the end of the reporting period.

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.5 Group's valuation processes

The Group's finance department performs the valuations of financial assets required for financial reporting purposes, including Level 3 fair values. They reports directly to the chief financial officer (CFO) and the audit committee (AC). Discussions of valuation processes and results are held between the CFO, AC and the finance department at least half a year, in line with the Group's reporting dates.

The Level 3 equity investment consists of private equity position. The Group measures the fair value of these investments using valuation methodologies by considering a wide range of factors, including but not limited to the price at which the investments were acquired, the nature of the investments, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance and financing ability subsequent to the acquisition of the investments. The inputs to the determination of fair value require significant judgment.

The Level 3 debt investment consists of the investing in Funds with debt securities. The Group values these instruments using the net present value of estimated future cash flows. The Group also considers other liquidity, credit and market risk factors, and adjusts the valuation model as deemed necessary.

5.6 Fair value of financial assets and liabilities measured at amortised cost

The fair value of the following financial assets and liabilities approximate their carrying amount:

- Trade and other receivables
- Other current financial assets
- Cash and cash equivalents
- Trade and other payables
- Provisions

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

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

6 SEGMENT INFORMATION (CONTINUED)

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 interim consolidated income statement.

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

	Unaudited Six months ended 30 June 2014			
	China RMB'000	Japan RMB'000	Unallocated RMB'000	Total RMB'000
Total revenue before inter-segment elimination	323,580	142,912	—	466,492
Inter-segment revenue	(296)	(1,116)	—	(1,412)
Revenue from external customers	323,284	141,796	—	465,080
Cost of goods sold	(153,371)	(96,659)	—	(250,030)
Reversal of/(provision for) impairment of inventories	26,910	(11,630)	—	15,280
Segment gross profit	196,823	33,507	—	230,330
Segment operating profit/(loss)	126,303	(54,667)	(21,469)	50,167
Finance income	97,400	5	10,066	107,471
Finance cost	2,425	(2,348)	(12,491)	(12,414)
Share of losses of jointly controlled entities	—	(53)	—	(53)
Profit/(loss) before income tax	226,128	(57,063)	(23,894)	145,171
Income tax expense	(52,735)	(397)	—	(53,132)
Profit/(loss) for the period	173,393	(57,460)	(23,894)	92,039
Other items of income and expense				
Depreciation and amortisation	10,457	2,748	—	13,205
Reversal of impairment of trade and other receivables	(6,668)	(5,473)	—	(12,141)

6 SEGMENT INFORMATION (CONTINUED)

	Unaudited			
	Six months ended 30 June 2013			
	China RMB'000	Japan RMB'000	Unallocated RMB'000	Total RMB'000
Total revenue before inter-segment elimination	391,448	172,157	—	563,605
Inter-segment revenue	—	(923)	—	(923)
Revenue from external customers	391,448	171,234	—	562,682
Cost of goods sold	(181,160)	(110,906)	—	(292,066)
Reversal of/(provision for) impairment of inventories	15,525	(3,128)	—	12,397
Segment gross profit	225,813	57,200	—	283,013
Segment operating profit/(loss)	92,176	(36,285)	(23,822)	32,069
Finance income	92,780	2	3,133	95,915
Finance cost	(3,315)	183	5,659	2,527
Share of profits of jointly controlled entities	—	143	—	143
Profit/(loss) before income tax	181,641	(35,957)	(15,030)	130,654
Income tax expense	(44,037)	(495)	—	(44,532)
Profit/(loss) for the period	137,604	(36,452)	(15,030)	86,122
Other items of income and expense				
Depreciation and amortisation	11,402	3,860	—	15,262
Provision for impairment of available-for-sale financial assets	11,959	—	—	11,959
Reversal of impairment of trade and other receivables	—	(5,162)	—	(5,162)

6 SEGMENT INFORMATION (CONTINUED)

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

	Unaudited Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
China		
— Distribution of Kappa Brand products	**192,029**	331,048
— Retail of Kappa Brand products	**125,492**	50,460
— International business and others	**5,763**	9,940
	323,284	391,448
Japan		
— Distribution and retailing of Kappa Brand products	**83,298**	91,156
— Distribution and retailing of Phenix Brand products	**58,498**	80,078
	141,796	171,234
	465,080	562,682

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

	Unaudited As at 30 June 2014			
	China	**Japan**	**Unallocated**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Interests in jointly controlled entities	**—**	**15,532**	**—**	**15,532**
Available-for-sale financial assets	**3,234,720**	**—**	**—**	**3,234,720**
Deferred income tax assets	**81,313**	**—**	**—**	**81,313**
Other assets	**4,794,035**	**297,993**	**635,154**	**5,727,182**
Total assets before inter-segment elimination	**8,110,068**	**313,525**	**635,154**	**9,058,747**
Inter-segment elimination	**(22,100)**	**(11,136)**	**(85,931)**	**(119,167)**
Segment assets	**8,087,968**	**302,389**	**549,223**	**8,939,580**
Deferred income tax liabilities	**34,485**	**3,415**	**—**	**37,900**
Current income tax liabilities	**1,620**	**561**	**—**	**2,181**
Other liabilities	**125,527**	**135,331**	**30,098**	**290,956**
Total liabilities before inter-segment elimination	**161,632**	**139,307**	**30,098**	**331,037**
Inter-segment elimination	**(11,853)**	**(21,915)**	**(30,098)**	**(63,866)**
Segment liabilities	**149,779**	**117,392**	**—**	**267,171**

6 SEGMENT INFORMATION (CONTINUED)

	Audited As at 31 December 2013			
	China RMB'000	Japan RMB'000	Unallocated RMB'000	Total RMB'000
Interests in jointly controlled entities	—	15,591	—	15,591
Available-for-sale financial assets	3,223,605	—	—	3,223,605
Deferred income tax assets	97,829	—	—	97,829
Other assets	4,611,376	369,055	767,947	5,748,378
Total assets before inter-segment elimination	7,932,810	384,646	767,947	9,085,403
Inter-segment elimination	(21,699)	(10,529)	(84,877)	(117,105)
Segment assets	7,911,111	374,117	683,070	8,968,298
Deferred income tax liabilities	30,136	3,438	—	33,574
Current income tax liabilities	29,620	1,151	—	30,771
Other liabilities	146,266	166,301	29,068	341,635
Total liabilities before inter-segment elimination	206,022	170,890	29,068	405,980
Inter-segment elimination	(11,210)	(21,228)	(29,068)	(61,506)
Segment liabilities	194,812	149,662	—	344,474

7 OTHER GAINS, NET

	Unaudited Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Gain on disposal of subsidiary (Note (a))	**28,737**	—
Investment income from available-for-sale financial assets	**20,632**	5,436
Gain on disposal of available-for-sale financial assets	**11,572**	—
Government subsidy income (Note (b))	**41**	1,004
Others	**5,550**	3,366
	66,532	9,806

Notes:

(a) On 21 April 2014, the Group disposed of its whole equity interest in a 80% owned subsidiary Beijing Wing in Phenix Sports Goods Co., Ltd., for a cash consideration of RMB4,000,000. A gain of RMB28,737,000 were resulted and had been recognised in the interim consolidated income statement.

Financial information relating to Beijing Wing in Phenix Sports Goods Co., Ltd. for the period to the date of disposal is set out below:

	RMB'000
Total assets	5,328
Total liabilities	(36,249)
Total net liabilities	(30,921)
Less: Non-controlling interests	6,184
Net liabilities disposed	(24,737)
Cash consideration settled in cash	4,000
Gain from disposal of subsidiary	28,737

The net cash flow relating to the disposal of the subsidiary is as follows:

	RMB'000
Cash consideration received in cash	4,000
Cash and cash equivalents disposed	3,283
Total cash inflow from the disposal	717

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

8 EXPENSES BY NATURE

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

	Unaudited Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Cost of inventories recognised as cost of goods sold	**244,251**	286,604
Depreciation/amortisation of property, plant and equipment, lease prepayments and intangible assets (Note 13,14 and 15)	**13,205**	15,262
Loss on disposal of property, plant and equipment	**238**	1,016
Advertising and marketing expenses	**16,639**	14,433
Sales operating expenses	**72,510**	48,319
Employee salary and benefit expenses	**68,732**	76,455
Design and product development expenses	**21,469**	23,822
Legal and consulting expenses	**3,569**	1,982
Operating lease in respect of buildings	**12,086**	16,409
Logistic fees	**26,959**	30,518
Reversal of impairment of inventories	**(15,280)**	(12,397)
Reversal of impairment of trade and other receivables	**(12,141)**	(5,162)
Travelling expenses	**6,745**	8,659
Auditors' remuneration	**1,000**	900
Others	**21,463**	21,640
Total of cost of goods sold, reversal of impairment of inventories, distribution costs and administrative expenses	**481,445**	528,460

9 FINANCE INCOME, NET

	Unaudited Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Finance income:		
— Interest income from bank deposits	**8,528**	33,528
— Income from other financial assets	**98,943**	62,387
	107,471	95,915
Finance cost:		
— Foreign exchange (losses)/gains, net	**(10,945)**	4,105
— Others	**(1,469)**	(1,578)
	(12,414)	2,527
	95,057	98,442

10 INCOME TAX EXPENSE

	Unaudited Six months ended 30 June	
	2014 **RMB'000**	2013 RMB'000
Current income tax		
— PRC enterprise income tax ("EIT")	**31,870**	30,344
— Taxation in Japan	**420**	667
Deferred income tax	**20,842**	13,521
	53,132	44,532

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 2014 (2013: nil).

According to the New CIT Law, distribution of profits earned by PRC companies since 1 January 2008 to foreign investors is subject to withholding tax of 5% or 10%, depending on the country of incorporation of the foreign investor, upon the distribution of profits to overseas-incorporated immediate holding companies. During the six months ended 30 June 2014, the major operating subsidiary of the Group obtained approval from tax bureau on 5% withholding income tax rate. As at 30 June 2014, the Group had provided a deferred withholding tax liability amount to RMB34,485,000 (2013: RMB30,136,000) in relation to the profit of the PRC subsidiaries that will be distributed.

The subsidiary incorporated in Japan is subject to income tax and local inhabitant tax. The corporate income tax rate for the six months ended 30 June 2014 applicable to the subsidiary is 30% (2013: 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 2014 (2013: nil), such subsidiary was subject to the minimum inhabitant tax payments.

11 EARNINGS PER SHARE

(a) Basic

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

	Unaudited Six months ended 30 June	
	2014	2013
Profit attributable to equity holders of the Company (RMB'000)	**96,498**	91,866
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme (thousands)	**5,510,235**	5,508,241
Basic earnings per share (RMB cents per share)	**1.75**	1.67

(b) Diluted

No diluted earnings per share has been presented since there was no potential diluted ordinary share as at 30 June 2014.

12 DIVIDENDS

	Unaudited Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Interim dividend of RMB0.52 cents per share (2013: RMB0.50 cents per share)	**28,789**	27,682
Interim special dividend of RMB0.70 cents per share (2013: RMB0.67 cents per share)	**38,755**	37,094
	67,544	64,776

Pursuant to a resolution passed on 21 August 2014, the board of directors declared an interim dividend and an interim special dividend of RMB0.52 cents and RMB0.70 cents per share, respectively (2013: RMB0.50 cents and RMB0.67 cents per share), totalling RMB1.22 cents, to be distributed from the share premium account of the Company. The interim dividend and interim special dividend, amounting to RMB67,544,000 (2013: RMB64,776,000) have not been reflected as dividends payable in the consolidated interim financial information. They will be recognised in shareholders' equity in the year ended 31 December 2014.

During the six months ended 30 June 2014, RMB82,492,000 was paid in May 2014 (Note 20), including the dividends of RMB377,000 to the Shares held for Restricted Share Award Scheme (Note 21) (2013: RMB270,000).

13 PROPERTY, PLANT AND EQUIPMENT

	Unaudited RMB'000
Six months ended 30 June 2014	
Opening amount as at 1 January 2014	**85,967**
Additions	**2,539**
Disposals	**(333)**
Depreciation (Note 8)	**(6,452)**
Exchange difference	**962**
Closing amount as at 30 June 2014	**82,683**
Six months ended 30 June 2013	
Opening amount as at 1 January 2013	101,201
Additions	5,157
Disposals	(1,974)
Depreciation (Note 8)	(7,787)
Exchange difference	(3,771)
Closing amount as at 30 June 2013	92,826

14 LEASE PREPAYMENTS

	Unaudited RMB'000
Six months ended 30 June 2014	
Opening amount as at 1 January 2014	**12,008**
Amortisation (Note 8)	**(143)**
Closing amount as at 30 June 2014	**11,865**
Six months ended 30 June 2013	
Opening amount as at 1 January 2013	12,293
Amortisation (Note 8)	(143)
Closing amount as at 30 June 2013	12,150

15 INTANGIBLE ASSETS

	Unaudited		
	Trademarks RMB'000	Computer Software RMB'000	Total RMB'000
Six months ended 30 June 2014			
Opening amount as at 1 January 2014	**247,036**	**10,105**	**257,141**
Additions	**—**	**3,077**	**3,077**
Exchange difference	**776**	**58**	**834**
Amortisation (Note 8)	**(3,865)**	**(2,745)**	**(6,610)**
Closing amount as at 30 June 2014	**243,947**	**10,495**	**254,442**
Six months ended 30 June 2013			
Opening amount as at 1 January 2013	258,809	13,218	272,027
Additions	—	1,183	1,183
Exchange difference	(2,749)	(334)	(3,083)
Amortisation (Note 8)	(3,901)	(3,431)	(7,332)
Closing amount as at 30 June 2013	252,159	10,636	262,795

16 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Unaudited Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
At 1 January	**3,223,605**	1,026,587
Additions (Note (c), (d), (e))	**42,989**	357,467
Withdrawals (Note (d))	**(30,000)**	—
Disposals (Note (g))	**(16,863)**	—
Exchange differences	**20,622**	(13,319)
Net losses transfer from equity (Note (g))	**(5,633)**	—
Changes in fair value (Note (g))	**—**	(3,391)
Impairment losses (Note (d))	**—**	(11,959)
At 30 June	**3,234,720**	1,355,385

16 AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

The available-for-sale financial assets as at the balance sheet date include the following:

	Unaudited 30 June 2014 RMB'000	Audited 31 December 2013 RMB'000
Unlisted equity securities in the PRC		
— MSYH Group (Note (a))	70,000	70,000
— Yunfeng E-commerce Funds (Note (b))	2,448,375	2,427,785
— Yunfeng Fund II (Note (c))	49,092	6,071
— CITIC Mezzanine Fund I (Note (d))	246,253	276,253
— Rongyu Fund (Note (e))	200,000	200,000
— Tebon Fund (Note (f))	200,000	200,000
— Other investment	21,000	21,000
Listed equity securities in the US		
— Mecox Lane (Note (g))	—	22,496
	3,234,720	3,223,605
Market value of listed securities	—	22,496

Notes:

(a) This represents the Group's holding of 22.05% equity interests in Mai Sheng Yue He Sporting Goods Co., Limited which owns various companies engaging in the distribution and retail of sport-related products in various provinces in the PRC ("MSYH Group"). The fair value of the investment in MSYH Group as at the balance sheet date is determined with reference to a valuation model based on estimated discounted cash flows.

(b) In September 2011, the Group subscribed for limited partnership agreements with Yunfeng E-commerce funds ("Yunfeng E-commerce Funds"), pursuant to which the Group subscribed for limited partnership interests with a total capital commitment of USD100,000,000 (equivalent to RMB638,080,000 at historical exchange rate), which had been fully paid as at 31 December 2012. The Yunfeng E-commerce Funds are established for the purpose of making investments in Alibaba Group Holding Limited, a leading group in the Chinese e-commerce industry. As at 30 June 2014, the investment was stated at fair value.

(c) In May 2013, the Group subscribed for limited partnership interests with a total capital commitment of USD20,000,000 in Yunfeng Fund II. The Yunfeng fund II is a limited partnership established for the purpose of making equity investments in the PRC.

In May 2014, the Group was transferred an additional limited partnership interest with a total capital commitment of USD10,000,000 in Yunfeng Fund II from another limited partner. As at 30 June 2014, the Group has paid USD8,523,000 (equivalent to RMB52,501,000 at historical exchange rate), being 28% of the capital commitment. As at 30 June 2014, the investment was stated at fair value.

(d) In September 2011, the Group subscribed for limited partnership interests with a total capital commitment of RMB300,000,000 in CITIC Mezzanine Fund I. The CITIC Mezzanine Fund I is a limited partnership established for the purpose of making equity and debt investments in the PRC. In November 2011 and June 2013, the Group had paid RMB150,000,000 respectively. In June 2014, the Group withdrew RMB30,000,000 of the total capital. As at 30 June 2014, the investment was stated at fair value.

(e) In May 2013, the Group subscribed for limited partnership interests with a total capital commitment of RMB200,000,000 in Rongyu Fund, which had been fully paid as at 30 June 2013. The Rongyu Fund is a limited partnership established for the purpose of making equity investments in the PRC. As at 30 June 2014, the investment was stated at fair value. In July 2014, the investment has been fully recovered.

(f) In December 2013, the Group subscribed for limited partnership interests with a total capital commitment of RMB200,000,000 in Tebon Innovation Fund ("Tebon Fund"), which had been fully paid as at 31 December 2013. The Tebon Fund is a limited partnership established for the purpose of making equity investments in the PRC. As at 30 June 2014, the investment was stated at fair value.

16 AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

Notes: (Continued)

(g) In March 2011, the Group purchased 40,519,226 ordinary shares of Mecox Lane Limited ("Mecox Lane"), representing approximately 10% of the issued shares of Mecox Lane, at a price of USD0.8571 per share, totaling USD34,729,000 (equivalent to approximately RMB228,295,000). Mecox Lane is a company listed on NASDAQ in the United States of America and engaged in sales of apparel and accessories on online platforms in the PRC. During the year ended 31 December 2013, the Group disposed 5,138,420 shares of Mecox Lane.

During the six months ended 30 June 2014, the Group disposed all the remaining 35,380,806 shares of Mecox Lane, and had recognised disposal gains of approximately RMB11,572,000 (Note 7).

17 TRADE RECEIVABLES

	Unaudited 30 June 2014 RMB'000	Audited 31 December 2013 RMB'000
Trade receivables		
— Third parties	**270,075**	353,455
— Related parties (Note 25)	**148,093**	163,250
	418,168	516,705
Less: provision for impairment	**(172,459)**	(183,664)
Trade receivables, net	**245,709**	333,041

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

	Unaudited 30 June 2014 RMB'000	Audited 31 December 2013 RMB'000
Current	**115,032**	223,509
Within 30 days	**37,209**	37,274
31 to 120 days	**72,040**	90,579
Over 120 days	**193,887**	165,343
	418,168	516,705

18 OTHER FINANCIAL ASSETS

	Unaudited 30 June 2014 RMB'000	Audited 31 December 2013 RMB'000
Treasury products issued by commercial banks	3,310,512	3,551,091

The Group invested in unlisted treasury products issued by commercial banks in the PRC. The principals of these investments are guaranteed by the corresponding commercial banks. The investments are interest bearing at rates ranging from 4.00% to 6.13% per annum, denominated in RMB and with maturity periods within one year.

19 CASH AND BANK BALANCES

	Unaudited 30 June 2014 RMB'000	Audited 31 December 2013 RMB'000
Restricted bank deposits	52,910	52,376
Term deposits with initial terms over three months and within one year	472,788	763,569
Cash and cash equivalents	812,488	280,852
	1,338,186	1,096,797

The restricted bank deposits as at 30 June 2014 comprised deposits held in bank accounts for issue of letters of credit for certain subsidiaries of the Group. As at 30 June 2014, the average interest rate on the restricted bank deposits was 2.05% (2013: 2.03%) per annum.

The cash and cash equivalents represent cash deposits held at call with banks and in hand. As at 30 June 2014 and 31 December 2013, cash and bank balances were denominated in the following currencies:

	Unaudited 30 June 2014 RMB'000	Audited 31 December 2013 RMB'000
RMB	417,873	558,930
USD	562,070	139,508
HKD	327,396	313,590
JPY	30,256	84,083
Other	591	686
	1,338,186	1,096,797

19 CASH AND BANK BALANCES (CONTINUED)

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.

20 SHARE CAPITAL AND SHARE PREMIUM ACCOUNT

	Authorised capital	
	Number of ordinary shares of par value HK$0.01	**Nominal value of ordinary shares**
		HK$'000
At 31 December 2013 and 30 June 2014	10,000,000,000	100,000

	Issued and fully paid				
	Number of ordinary shares of par value	**Nominal value of issued ordinary shares**	**Equivalent nominal value of ordinary shares**	**Share premium account**	**Total**
		HK$'000	RMB'000	RMB'000	RMB'000
At 1 January 2014	**5,536,401,000**	**55,365**	**53,589**	**1,863,919**	**1,917,508**
Dividends relating to 2013, paid	**—**	**—**	**—**	**(82,492)**	**(82,492)**
At 30 June 2014	**5,536,401,000**	**55,365**	**53,589**	**1,781,427**	**1,835,016**
At 1 January 2013	5,536,401,000	55,365	53,589	1,984,059	2,037,648
Dividends relating to 2012, paid	—	—	—	(55,364)	(55,364)
At 30 June 2013	5,536,401,000	55,365	53,589	1,928,695	1,982,284

21 RESERVES

	Other Reserves							
	Capital reserves RMB'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 2014	292,041	3,693	21,838	(623,969)	1,854,072	(79,475)	5,223,490	6,691,690
Profit for the period	—	—	—	—	—	—	96,498	96,498
Change in fair value of available-for-sale financial assets (Note 16)	—	—	—	—	(5,633)	—	—	(5,633)
Foreign currency translation reserve	—	—	—	34,805	—	—	—	34,805
Dividends relating to the shares held for Restricted Share Award Scheme	377	—	—	—	—	—	—	377
Shares vested under Restricted Share Award Scheme	(8,057)	3,305	—	—	—	8,057	—	3,305
At 30 June 2014	284,361	6,998	21,838	(589,164)	1,848,439	(71,418)	5,319,988	6,821,042

	Other Reserves							
	Capital reserves RMB'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 2013	296,390	2,058	20,047	(501,317)	137,194	(84,413)	5,015,015	4,884,974
Profit for the period	—	—	—	—	—	—	91,866	91,866
Change in fair value of available-for-sale financial assets (Note 16)	—	—	—	—	(3,391)	—	—	(3,391)
Foreign currency translation reserve	—	—	—	(62,577)	—	—	—	(62,577)
Dividends relating to the shares held for Restricted Share Award Scheme	270	—	—	—	—	—	—	270
Shares vested under Restricted Share Award Scheme	(4,938)	1,635	—	—	—	4,938	—	1,635
At 30 June 2013	291,722	3,693	20,047	(563,894)	133,803	(79,475)	5,106,881	4,912,777

Note: The Company adopted the Restricted Share Award Scheme on 10 December 2010 with an objective 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 the Group benefits from the Trust's activities, the Trust is consolidated in the Group's financial statements as a special purpose entity.

During the six months ended 30 June 2014, 2,774,000 shares with the fair value of RMB3,305,000 (2013: 1,700,000 shares with the fair value of RMB1,635,000) were granted to four members of senior management under Restricted Share Award Scheme.

22 TRADE PAYABLES

The ageing analysis of trade payables is as follows:

	Unaudited 30 June 2014 RMB'000	Audited 31 December 2013 RMB'000
Current	74,845	119,107
Within 30 days	10,430	5,231
31 to 120 days	18,407	15,739
Over 120 days	11,043	7,958
	114,725	148,035

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

23 PROVISIONS

The provision represents provision for sales returns and sales discount for the Japan operations of the Group.

The movements in the provision are as follows:

	Unaudited Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
At 1 January	17,836	22,771
Utilisation	(22,644)	(37,603)
Provision	17,458	27,624
At 30 June	12,650	12,792

24 COMMITMENTS

The Group had the following commitments as at 30 June 2014:

(a) Operating lease commitments — Group as lessee

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

	Unaudited 30 June 2014 RMB'000	Audited 31 December 2013 RMB'000
No later than 1 year	36,770	38,546
Later than 1 year and no later than 5 years	14,936	16,235
Over 5 years	42	134
	51,748	54,915

(b) Capital commitments

	Unaudited 30 June 2014 RMB'000	Audited 31 December 2013 RMB'000
Contracted but not provided for		
— For investment in Yunfeng Fund II (Note 16(c))	132,142	112,474

(c) Other commitments

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

	Unaudited 30 June 2014 RMB'000	Audited 31 December 2013 RMB'000
No later than 1 year	10,259	13,926
Later than 1 year and no later than 5 years	3,995	10,969
	14,254	24,895

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 this 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

	Unaudited Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Sales of goods to		
— MSYH Group	**126,588**	190,303
Purchase of goods from		
— Jointly controlled entities of the Group	**9,269**	4,097

(b) Balances with related parties

	Unaudited 30 June 2014 RMB'000	Audited 31 December 2013 RMB'000
Trade receivables (Note 17)		
— MSYH Group	**148,093**	163,250
Other receivables		
— MSYH Group	**19,291**	18,723
Trade payables		
— Jointly controlled entities of the Group	**270**	186

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

25 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Key management compensation

	Unaudited Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Salaries, bonus and other welfares	**4,543**	4,636
Pension — defined contribution plans	**94**	36
	4,637	4,672

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