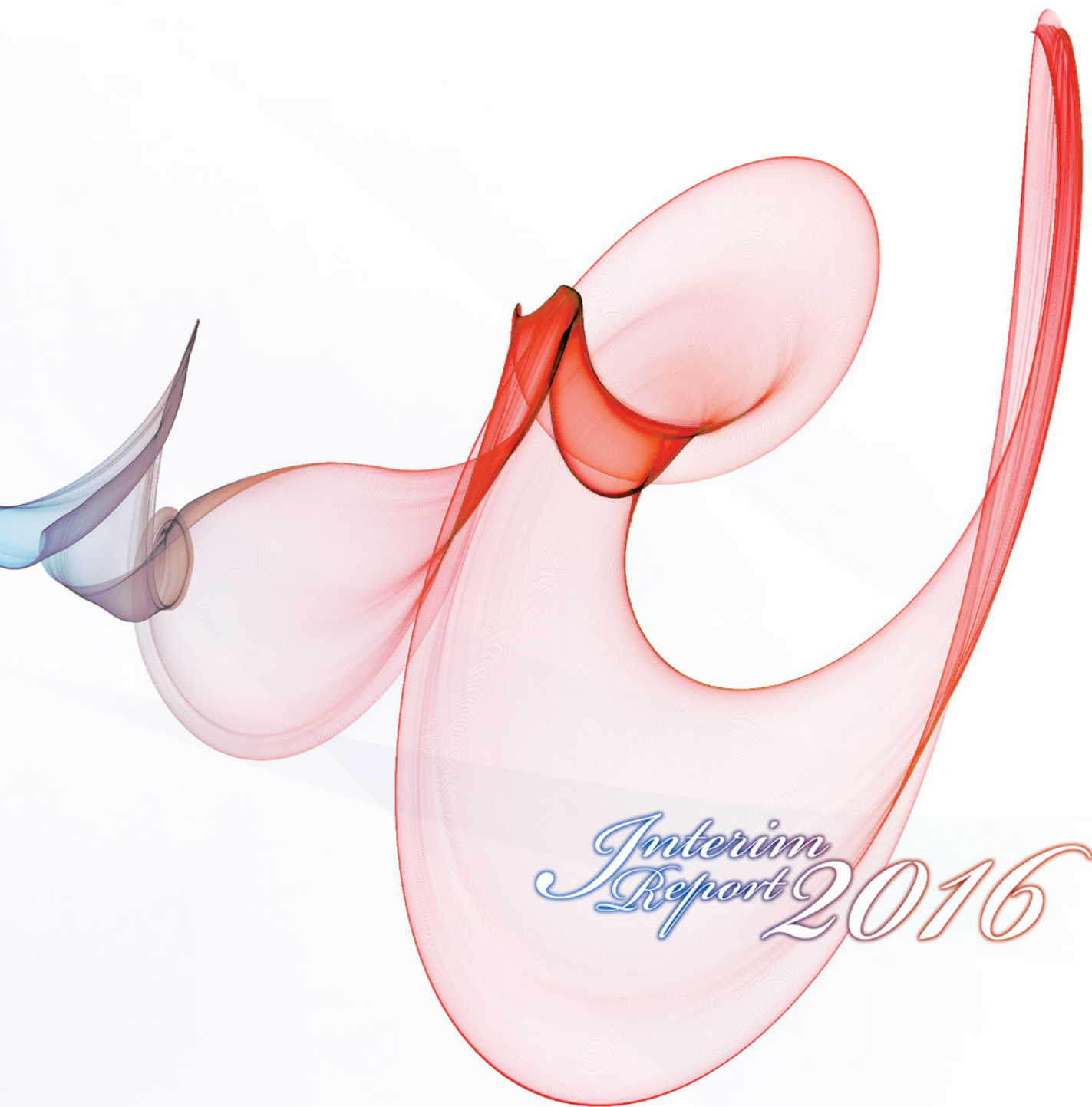


DONGXIANG

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

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





DDONGJANG

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CORPORATE INFORMATION

Executive Directors

Mr. Chen Yihong (Chairman & Chief Executive Officer)
Ms. Chen Chen

Independent Non-Executive Directors

Dr. Chen Guogang (appointed and effective from 1 June 2016)
Mr. Gao Yu
Dr. Xiang Bing
Mr. Xu Yudi (resigned and effective from 1 June 2016)

Auditor

PricewaterhouseCoopers
Certified Public Accountants

Legal Advisers

Norton Rose Fulbright Hong Kong
Conyers Dill & Pearman (Cayman) Limited
East & Concord Partners (Beijing)

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

Morgan Stanley Asia International Limited
Industrial and Commercial Bank of China

Website

www.dxsport.com



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 2016: 5,536,401,000 shares

2. Important dates

Announcement of 2016 interim results: 17 August 2016

Book closure date: 1 September 2016 to 5 September
2016 (both days inclusive)

3. 2016 interim dividend and interim special dividend

Interim dividend: RMB2.59 cents per share

Interim special dividend: RMB2.59 cents per share

Payment date: on or around 12 September 2016

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

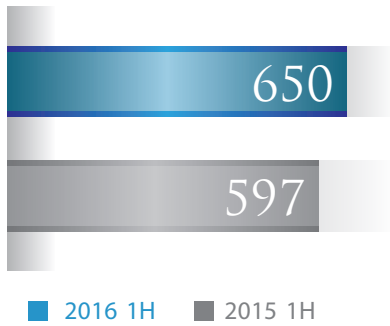
Email: ir@dxsport.com.cn

5. Website

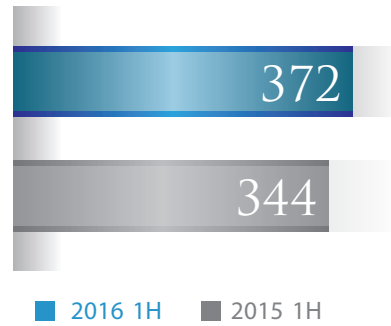
www.dxsport.com

RESULTS HIGHLIGHTS

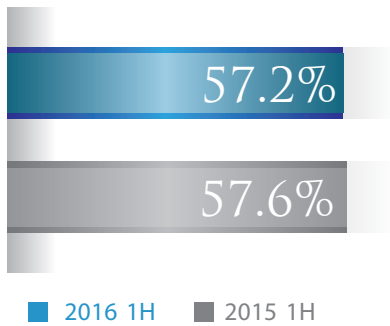
REVENUE (RMB MILLION)



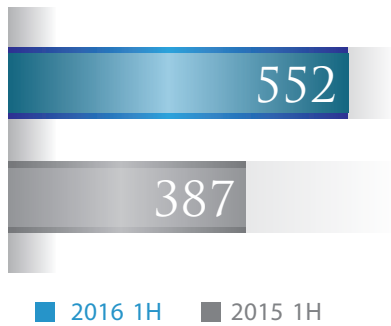
GROSS PROFIT (RMB MILLION) — before provision for inventories



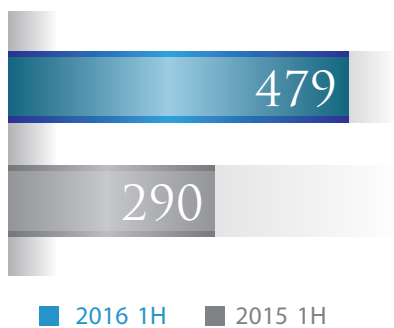
GROSS PROFIT MARGIN (%) — before provision for inventories



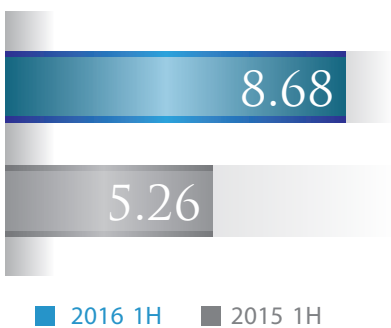
OPERATING PROFIT (RMB MILLION)



PROFIT ATTRIBUTABLE TO EQUITY HOLDERS (RMB MILLION)



BASIC EARNINGS PER SHARE (RMB CENTS)



CHAIRMAN'S STATEMENT

Dear Shareholders,

As we greet the gorgeous summer of 2016, I am pleased to present on behalf of the Board our interim results for the six months ended 30 June 2016.

In 2016, the global economy remained in a stage of recovery marked by overall sluggishness. The Chinese economy also experienced a slowdown in economic growth as it underwent a crucial period of transition. For the first half of 2016, China reported year-on-year GDP growth of 6.7%, while per capita disposable income also grew at a similar pace. Total retail sales of consumer goods of the nation grew by 10.3%, a slight setback compared to 10.6% for the comparable period of 2015. Nevertheless, the prospects for development of the sportswear industry remained sound with the introduction of the "Universal Workout Plan (2016-2020)" and other policies favourable to the sporting industry following the commencement of the "13th Five Year Plan Period," coupled with the upgrade of retail spending underpinned by growing health consciousness among the population. Against this backdrop, we reported stable growth in results as our people sought to enhance our management capabilities and clarify our brand positioning with concerted and dedicated efforts in a proactive move to address changes in market demands. Meanwhile, our investment operations continued to report steady growth as we made diligent planning efforts to invest in scarce resources and reaped considerable reward by employing a prudent and flexible investment strategy.

The Group's revenue for the reporting period grew by 8.9% to RMB650 million. Revenue in China increased by 6.8%, year-on-year, to RMB506 million, while operating profit grew by 42.6% to RMB552 million. Profit attributable to equity holders for the reporting period increased by 65.2% to RMB479 million. Basic earnings per share increased by 65.0%, year-on-year, to RMB8.68 cents. To reward shareholders for their support, the Board of Directors has proposed to distribute 30% and 30% of the Group's net profit attributable to equity holders for the six months ended 30 June 2016 as interim dividend and special interim dividend, amounting to a dividend rate of 60% in aggregate.

We remain convinced that, we must be bold and aggressive in seeking breakthroughs in order to establish our foothold in a market of escalating competition, and that reforms that would pull off successes with the element of surprise must be set in the right direction and implemented in a practicable manner. During the reporting period, the Group continued to reinforce the business models of "brand + product" and "brand + retail" and strengthen its strategic initiatives focused on brand positioning, operational models, marketing approaches and supply chain patterns. Notable success has been achieved as a result. The retail sales (in terms of retail value) of Kappa branded products for the first half of 2016 increased by a mid single-digit compared to the same period of 2015.

In connection with "brand + product", the Group consistently adhered to the principle designing to meet consumers' preferences and needs, as well as accurately grasping business opportunities by adjusting our product structure and the pace of product launch accordingly to meet actual market demand. Also, the Group continued to increase our product competitiveness and added-value while maintaining superb product quality. In terms of brand promotion, the Group made vigorous efforts to develop marketing channels while continuing to pursue comprehensive, multi-dimensional exposure in all media forms to ensure further penetration of its brand sound bite — "passionate, rebellious and outgoing". To mark the centenary of the Kappa brand, the Group invited Asian pop and fashion superstar G-Dragon to become the new ambassador of Kappa during the first half of 2016, launching massive promotional campaigns in connection with this appointment. With an astute sense of fashion in his rebellious, outgoing and passionate image, G-Dragon has been a perfect complement to the brand ethos of Kappa. Such promotional and marketing activities have resulted in significant enhancement in our brand exposure and recognition.

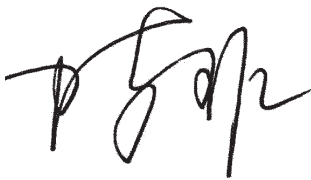
Under the business model of "brand + retail", the Group achieved notable results in streamlining and broadening its channels on the back of meticulous analyses and surveys in an in-depth research on the prospects of the domestic market for retail consumption. As at the end of June 2016, the Group had a total of 1,282 Kappa stores, representing a net increase of 15 stores compared to the end of last year. These included 419 self-owned retail stores run by subsidiaries. Elsewhere, our Kappa

Kids business recorded a revenue of RMB33 million for the first half of the year in steady commencement, accounting for 6.5% of our revenue from China. As at the end of June 2016, we had 216 Kappa kids wear stores and we expect to maintain a prudent pace in new store opening up to the end of the year.

In line with the phenomenal growth in nationwide online retail sales during the first half of the year, the Group also delivered spectacular performance in its e-commerce business. As at the end June 2016, our e-commerce revenue for the reporting period increased by 88.7%, year-on-year, with a gross profit margin of approximately 60%. The Group's e-commerce business has successfully completed transformation with an optimised product mix. Our Internet sales platform was focused mainly on the sales of on-season new products, which commanded a substantially higher profit margin. At the same time, we encouraged consumers' online spending by enriching our online product range through stronger efforts in the development of exclusive product lines for e-commerce.

With the dawning of the "13th Five Year Plan Period," China's demand will gradually shift to a more diverse range of requirements at different levels, given the larger context of the ongoing penetration of supply-side structural reforms, developments in technologies and industries. While assuring the stable progress of its principal operations, the Group will also be engaged in an ongoing effort to develop new businesses and bring innovative approaches into practice on the back of judicious market analysis. Our business profile comprising principal sportswear operations and supplementary investment operations continues to mature. The Group recorded net profit from investments of RMB437 million in the reporting period, representing a year-on-year growth of 64.3%. The Group will leverage its existing resources and strengths to enhance cooperation with its investment partners, in an effort to broaden opportunities for development by identifying and exploring projects with sound potentials. We believe our efforts will yield substantial and long-term return for our shareholders.

Given the elusive economic landscape, the Group will take on opportunities as well as challenges by embracing diversity in its thought and action. Looking ahead, we will continue stand at the forefront of the market to ride with the tide of development, against uncertainties in the global economy, and against increasing market competition. With the characteristic fighting spirit of the people of Dongxiang, we will continue to venture forward and seek profitable return for our shareholders.



Chen Yihong
Chairman

17 August 2016



MANAGEMENT DISCUSSION AND ANALYSIS

MACROECONOMIC REVIEW

The global economy continued to stagger along the path of recovery in the first half of 2016, as growth became dependent mainly on the service sector rather than the manufacturing sector, given lackluster global demand for manufactured products. Global prices continued to trend following the slowdown in the expansion of the global value chain and the lack of progress in international trade talks. In the absence of any meaningful turnaround in the low growth rate for trade, the risk of trade protectionism and competitive currency devaluation was escalating. Insufficient gross demands for products and suppressed growth rates for prolonged periods were evident in developed economies, while there was no effective cure for the declining overall growth rate of emerging economies. In particular, the overall indebtedness of nations in the emerging markets was rising in the wake of the financial crisis and feeble economic recovery. The grave challenge of cyclical as well as structural problems made any systematic economic reforms or corrections in emerging-market nations extremely difficult with a lot of uncertainties. In addition, the economic outlook of these countries was also subject to geo-political risks which had become increasingly apparent in certain strife-ridden regions. In the United States, economic growth was subject to new uncertainties following the reversal of its fiscal policy. The Euro Zone and Japan were steering weak economic recovery with the help of monetary easing, while Britain's exit from the European Union had an enormous impact on global economy.

In the meantime, the Chinese economy was gradually undergoing a crucial period in the first half of 2016 for its transition from investment-driven growth in the past to economic growth driven by domestic demand and retail spending. In the course of structural reform, there were gradual declines in the manufacturing sector and the export sector, resulting in growing pressure for forced RMB devaluation, while state-owned as well as private enterprises went into growing indebtedness. The exodus of foreign capital in the wake of the 2015 stock crash and the property market bubble also had a profound impact on the economy. Nevertheless, the continuous growth in domestic retail spending, the rapid rise of the service sector, increased investments in infrastructure building and the implementation of "One Belt One Road" and other policies will provide support to the Chinese economy going forward.

INDUSTRY OVERVIEW

China recorded year-on-year growth of 6.7% in gross domestic production for the period from January to June 2016, which was 1% lower compared to the corresponding period of last year, while growth in total domestic retail sales of consumer goods also slowed down to 10.3% from 10.6% for 2015. While consumers' willingness to spend was visibly hampered by the lacklustre macro-economy, they were more demanding than ever when it came to product quality and value for money. Meanwhile, the prospects of the sportswear industry remained sound as the pursuit of healthy lifestyle had become a popular consensus.

During the first half of the year, China recorded strong growth of 26.6% in online retail sales. The rapid development of e-commerce had an enormous impact on the physical retail sector, in particular the spending at shopping malls. In the meantime, the "Internet+" model also had a profound influence on the industry, as it provided a broader platform for business enterprises. Hence, there were opportunities as well as challenges. Elsewhere, more sporting brands were forging closer ties with the capital market, resulting in further integration with the new economy. Consequently, there were increasing consolidations, acquisitions and cross-sector transactions in the sportswear industry.

Despite abnormal weather conditions, such as the warm winter and rainstorms, and the ongoing weakness of the global economy in the first half of 2016, all of which brought adverse effect for industry growth, with the strong support afforded by national policies and increasing public enthusiasm in sporting activities, the sportswear industry should be able to forge steadily ahead.



MANAGEMENT DISCUSSION AND ANALYSIS

Brand Building and Marketing

PRC — Kappa brand

To mark the centenary of the Kappa brand, the Group appointed G-Dragon, Asian pop and fashion superstar, as the new brand ambassador of Kappa during the first half of 2016. Massive promotional campaigns were launched in connection with this appointment to enhance the brand value of Kappa on all fronts whilst ongoing efforts were made to enhance online and offline brand marketing activities.

In connection with brand name, our brand philosophy was communicated to the mass market with lasting impressions on its style through posters of the brand ambassador and promotion on we-media which provided consumers with effective elucidations on the quality of our products. In the meantime, our brand value was further enhanced by promotion through product packaging.

On the product front, our product message was communicated to potential customers through multiple channels, such as the display of promotional props at outlets and media advertisements. Moreover, comments from our ambassador and other fashion opinion leaders fostered positive views on our products on the part of consumers.

In the first half of 2016, the coverage of the brand marketing initiatives was further expanded to online promotion, including our official media and popular mass media, as well as offline promotion, such as in stores and media in Metro and business circles. Our marketing has basically covered all possible media.

Japan — Kappa brand

A series of brand promotion activities launched by Kappa Japan to mark the 100th anniversary of Kappa to enhance consumers' recognition and understanding of the Kappa brand.

The main initiative involved the uniform adoption of a soccer theme across all outlets to refresh and enhance brand impressions, in keeping with Kappa's traditional engagement in the popular sport to highlight and refresh the qualities of Kappa brand. Meanwhile, promotional materials on the brand's history over the past century and centenary editions of selected outfits were placed on WEB/SNS to highlight our brand culture and boost the image of Kappa among consumers. Next, we also sought media promotion by publishing articles on matching ideas in *EVEN* and other popular magazines to showcase the Italian charm of Kappa and help readers to improve their fashion style enhancement. Complemented by specific designs in store display and SNS dissemination, our media promotion efforts have resulted in enormous publicity for the brand.

In recent years, Kappa Japan has been sponsoring a number of sporting tournaments to increase its brand influence. During the first half of 2016, we organized the "Kappa Friendship Day" tournament, where Kappa-sponsored teams dominated with outstanding performances. The brand centenary was successfully publicized in the tournament, driving greater customer satisfaction and brand loyalty.

Japan — Phenix brand

During the first half of 2016, Phenix made impeccable statements of what it meant to be an upscale brand with functional excellence, while maintaining its usual flair in fashion. As the sponsor for the Norwegian Ski Federation Alpine Team, one of the best in this specialised sport, Phenix SKI brought the visual effect of the athlete's image into full play by placing advertising materials at the outlets and inviting players' to participate in promotional activities to underpin the high-end, functional qualities of the brand. Promotion of the Phenix OUTDOOR series was mainly conducted via outdoor activities with enhanced media coverage to drive stronger market penetration of the products by encouraging consumers' participation in such outdoor activities.



phenix



MANAGEMENT DISCUSSION AND ANALYSIS

Japan — X-niX brand

Promotion of the X-niX brand was conducted mainly through the combination of a variety of online and offline marketing initiatives. By inviting sponsored athletes to host the press conferences of X-niX, our brand has enjoyed stronger exposure with massive followers on Facebook and other social media, resulting in stronger consumer recognition and enormous publicity for X-niX.

Japan — Inhabitant brand

In face of intense market competition, Inhabitant made vigorous efforts to enlarge its market shares and create a unique brand image. Initiatives in 2016 included Fukubukuro (“goodies bags”) 2016, coupons in celebration of the first anniversary of INHABITANT STORE TOKYO, “Inhabi Day” and other fun and dynamic marketing campaigns. Marketing was further enhanced by activities such as redemption of purchase points and complimentary gifts during the anniversary and other occasions, such as Valentine’s Day. Inhabitant’s brand value has also been further enhanced by interviews with professional skiboarder Yasuo Aiuchi and professional angler Hitoshi Suzuki posted on its official website.

Product Design and Research and Development

Apparel Series

KOMBAT Series

The KOMBAT Series is derived from Kappa’s cooperation with Italian football giants Juventus since early years. The cultural essence of the series is highlighted by the black and white stripes, the main theme of the design, complemented by side ribbons, embroidered chamois logo and large-print numeric. Refined 3D cutting is employed to tailor the men’s version and the ladies’ version. The fabric made of polyester compound affords comfort in a loosely upright cutting, as the jersey strikes a perfect balance between fitting wear and aesthetics. The KOMBAT Series showcases Kappa’s unique art of football fashion with a seamless blending between a strong retro touch and the ethos of football.

GIRO DI KAPPA The Italian Journey — Commuter Collection

Inspired by the fascinating and colorful traffic signs in Turin of Italy, the home of the Kappa brand, GIRO DI KAPPA is an embodiment of all elements in young fashion. Contrary to the typical bright colors in other Kappa lines, this series resorts to a quiet, down-to-earth tone that makes the logo stand out more prominently, while affording ease for matching. Be it the unique kangaroo pocket or the loose shape with shoulder-overlapping sleeves, the series has set a paradigm for the street chic. The GIRO DI KAPPA Commuter Collection has created a striking new fashion by blending young vigor into the distinctive Italian style.

The Centenary Special Edition

Since its birth in Italy in 1916, Kappa has always been at the forefront of fashionable sportswear over the past 100 years, creating countless classics. As the brand celebrates its centenary, Kappa pays tribute to past masterpieces by presenting the retro 222BANDA series with multiple logos. The blue-red color clash and the brand new upgraded LOGO are statements of the latest fashion, while the rose gold zipper symbolizes the glory of the brand’s centenary. The series epitomizes the quintessence of the brand cultivated over the past century and stands as a signature product created through the combination of the Kappa retro trend and modern craft.

MANAGEMENT DISCUSSION AND ANALYSIS

COLORS Series

Clothing colors are practically character labels, as well as a gauge for moods and emotions that change from day to day. As a master with unique tastes in colors, Kappa has adopted colors with high saturation for this season to convey passion, rebellion and buoyancy. Inheriting the design motif of People on the Move, Kappa indulges in graffiti, clashing colors and large-print texts with the use of tie-dye, grading and flocking, as it turns itself to a color magician performing wonders that gratify every fashion lover.

Pants Series

The Kappa pants series for the season features mainly the KOMBAT pants, created originally for professional football training purposes to support competitive actions. To tailor to the body build of Asians, Kappa has produced pants in refined categories such as physical, sporting, regular fit and comfort based on extensive research and analysis on the leg features and hip measurement of Asians. The pants are well suited to sporting purposes while providing a ready match for any casual wear to meet the needs of all groups.

Shoes Series

To ride on the market trend of craving for retro styles in 2016, as well as in celebration of its centenary, Kappa has decided to launch the retro edition of US MEDAL, an all-time classic shoe personally designed by famous Italian maestro Giorgetto Giugiaro. While preserving most of the original features of the model, contemporary craftsmanship and ideas have also been incorporated to enhance the rebirth of this classic after decades. Meanwhile, Kappa has launched a brand new retro model featuring the combination of traditional nylon and suede in an integration of popular nostalgic trends and classical elements of Giorgetto Giugiaro, presenting the market with a refreshing design. We expect this influence of amalgamation of modern styles and new technologies to become a dominant market trend in the future. Hence, our focus in footwear development will also be underpinned by the meticulous combination of past, present and future ideas to facilitate the rebirth and upgrade of classical models. The application of standardized footwear technologies and seamless integration of manufacturing processes will ensure the perfect blend of trends and new craftsmanship. In terms of design and style, the introduction of brand elements will also represent a key aspect in forging the classic Kappa shoes.

Accessories Series

Kappa's unique interpretation of sports fashion and its commitment to constant innovations and upgrades are vigorously reflected in its accessories, emphatically showcased by brand ambassador G-Dragon in 2016 as Kappa celebrates its centenary. Thanks to craftsmanship and imagination of Kappa designers, common items such as double-strap bags, single-strap bags, baseball caps and plain caps have been lit up with the unmistakable sophistication of Kappa. Creative stringed-top bags, bucket hats and stylish small bags designed exclusively for girls have been hugely favored by consumers and have grown into important components of the Kappa brand. Elsewhere, the pursuit of excellence has also been evident in our cotton socks. The 100% cotton socks with unique odor-free features made possible by advanced technologies afford additional comfort as daily wear or sports gear. In 2016, efforts have been made to bring our accessories into greater accord with our apparel and footwear series visually, providing buyers with more matching options.

MANAGEMENT DISCUSSION AND ANALYSIS

Upgrading our retail network

During the period under review, the Group continued to optimize its retail network and store efficiency while assessing and making necessary adjustments to its store network under its brand-oriented business model. As at 30 June 2016, the Group had a total of 1,282 Kappa retail stores, representing a net increase of 15 stores as compared to the end of last year. A total of 419 retail stores out of 1,282 were operated by our subsidiaries, in further consolidation of the position and influence of self-owned operations. Moreover, the Group started operating the Kappa kids' line during the year. As at 30 June 2016, there were 216 Kappa kids' stores. The sales network formed by Kappa retail stores covered all major provincial capitals and other major large cities and towns in China.

On the e-commerce front, the Group continued to optimize its online product mix. Revenue from off-season items as a percentage of total sales continued to decline, as we made strong efforts to develop products for exclusive online sales while driving sales of on-season products. We reported stellar e-commerce sales in the promotional campaigns organized by several major e-commerce platforms during the first half of the year. E-commerce sales for the six months ended 30 June 2016 surged by 88.7% as compared to the same period of last year.

Increasing the contributions of Group projects

During the first six months of 2016, the Group sustained stable development of its principal operations against the backdrop of braked macro-economic growth. With the gradual formation of a brand new business profile dominated by sportswear and complemented by investment projects, the latter was also generating sound earnings for the Group on a continuous basis. Diversified investments, prudent risk control and effective investment planning and distribution were some of features of the work of our Investment and Fund Management Department, which was consistently focused on safeguarding the security of funds and ensuring reasonable returns. In future, the Group continue to generate long-term, sustainable returns for shareholders by enhancing cooperation with its investment partners on the back of its existing strengths and resources in a safe and risk-proof manner.

OUTLOOK

In the first half of 2016, the sporting industry was under pressure amid the global economic downside. Despite such austere conditions, however, China Dongxiang was able to deliver spectacular results and maintain a high ratio of shareholders' return thanks to its unique brand ethos and prudent investments.

As Kappa celebrates its centenary in 2016, the Company will take this opportunity to promote its brand culture and further enhance its brand value. The sequence of sporting events to take place in the second half of the year will also provide a favourable boost for the sporting industry.

Going into the second half of 2016, we find ourselves treading steadily and prudently moving forward in a highly volatile marketplace. In the remainder of the year, we pledge to tackle challenges and difficulties with a strong commitment to progress and improvement, working diligently to study new models and experiment new approaches. As we savour the century-old heritage of the Kappa brand, the ongoing integration and perfection of the operations in China and in Japan, and the creation of products with brand new design concepts, we are truly grateful to all shareholders and friends of Dongxiang who have abided with us through stormy days. We at Dongxiang are committed to fulfilling our mission of enhancing return for our Group and shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The sales for the first half of 2016 of the Group was RMB650 million, increased by 8.9% as compared to RMB597 million for the first half of 2015. Profit attributable to equity holders for the first half of 2016 was RMB479 million, increased by 65.2% as compared to RMB290 million for the first half of 2015.

Sales Analysis

Sales analyzed by geographical segments, business segments and product categories

	Six months ended 30 June						Change
	2016			2015			
	RMB million	% of product/ brand mix	% of Group sales	RMB million	% of product/ brand mix	% of Group sales	
CHINA SEGMENT							
Kappa Brand							
Apparel	325	70.1%	50.0%	323	69.6%	54.1%	0.6%
Footwear	125	26.9%	19.2%	129	27.8%	21.6%	-3.1%
Accessories	14	3.0%	2.2%	12	2.6%	2.0%	16.7%
Kappa Brand total	464	100.0%	71.4%	464	100.0%	77.7%	0.0%
Kappa Kids business	33		5.1%	—		N/A	N/A
International business and others	9		1.4%	10		1.7%	-10.0%
CHINA SEGMENT TOTAL	506		77.9%	474		79.4%	6.8%
JAPAN SEGMENT							
Phenix Brand	56	38.9%	8.6%	51	41.5%	8.5%	9.8%
Kappa Brand	88	61.1%	13.5%	72	58.5%	12.1%	22.2%
JAPAN SEGMENT TOTAL	144	100.0%	22.1%	123	100.0%	20.6%	17.1%
THE GROUP TOTAL	650		100%	597		100.0%	8.9%

MANAGEMENT DISCUSSION AND ANALYSIS

China Segment

Total sales of the Kappa brand business, the core business of the Group, in the first half of 2016 remained the same as that in the first half of 2015 at RMB464 million. The newly established kids business unit in the current year realised sales of RMB33 million in the first half of 2016.

In the reporting period, the Group continued to make dedicated efforts in consolidating the business models of “brand + product” and “brand + retail” in a bid to, on the one hand, further enhance our brand value and consolidate our brand influence by continuous refining of our products with a brand-oriented principle, and, on the other hand, continue to optimize and improve the new operation model in control and management, expanding the e-commerce operations so that demands from end customers are better accommodated and satisfied. In addition, the Group has continued to conduct adjustments and restorations to its retail stores. We had a net increase of 15 Kappa retail stores, representing 1,282 Kappa retail stores in total as compared to 1,267 stores at the end of 2015. Also, there were 216 retail stores in total for Kappa kids stores in the first half of 2016.

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

	Six months ended 30 June				
	2016		2015		Change
	Sales RMB million	% of sales of Kappa brand	Sales RMB million	% of sales of Kappa brand	
Wholesale	245	52.8%	273	58.8%	-10.3%
Retail	219	47.2%	191	41.2%	14.7%
Total of Kappa brand	464	100.0%	464	100.0%	0.0%

Note: Excluding Kappa Kids business

Sales of Kappa brand products via wholesale channel in China segment decreased by RMB28 million to RMB245 million in the first half of 2016 from RMB273 million in the first half of 2015, representing 52.8% of the total sales of Kappa brand in China segment in the first half of 2016 as compared to 58.8% in the first half of 2015.

As at 30 June 2016, the number of self-owned retail stores under Kappa brand operated by our subsidiaries in China reached 419. Sales via retail channel increased by RMB28 million to RMB219 million in the first half of 2016 from RMB191 million in the first half of 2015, representing 47.2% of the total sales of Kappa brand in China segment in the first half of 2016 (1H 2015: 41.2%).

MANAGEMENT DISCUSSION AND ANALYSIS

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

	Six months ended 30 June					
	2016		2015		Change	
	ASP RMB	Total units sold In '000	ASP RMB	Total units sold In '000	ASP	Total units sold
Apparel	170	1,969	172	1,856	-1.2%	6.1%
Footwear	192	654	200	637	-4.0%	2.7%

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.
3. Excluding Kappa Kids business.

In the first half of 2016 and 2015, average selling prices per unit for apparel products were RMB170 and RMB172 respectively, and average selling prices per unit for footwear products were RMB192 and RMB200 respectively. In the first half of 2016, average selling prices of apparel products and footwear products recorded a slight decrease, while total units sold for apparel products and footwear products slightly rose by 6.1% and 2.7%, respectively as compared to that of the corresponding period of last year, mainly due to the increase in the proportion of e-commerce operations.

Japan Segment

Sales from Japan segment in the first half of 2016 increased by RMB21 million to RMB144 million from RMB123 million in the first half of 2015. The increase in sales of Japan segment was mainly due to appreciation in Japanese Yen.

Cost of Goods Sold and Gross Profit

Cost of goods sold of the Group has risen by RMB25 million to RMB278 million in the first half of 2016 (1H 2015: RMB253 million).

In the first half of 2016, our gross profit before provision for inventories has risen by RMB28 million to RMB372 million (1H 2015: RMB344 million). Our overall gross profit margin before provision for inventories in the first half of 2016 dropped by 0.4 percentage points to 57.2% from 57.6% in the first half of 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

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

	Six months ended 30 June		
	2016	2015	Change
	Gross profit margin	Gross profit margin	% pts
China segment	63.8%	64.1%	-0.3
Kappa Brand:			
Apparel	70.5%	69.1%	1.4
Footwear	56.5%	59.2%	-2.7
Accessories	66.1%	67.1%	-1.0
Kappa Brand overall	66.6%	66.3%	0.3
Kappa Kids business	55.6%	N/A	N/A
Japan segment	34.0%	31.7%	2.3
Group overall	57.2%	57.6%	-0.4

* Before provision for inventories

Gross profit margin of Kappa Brand in China segment in the first half of 2016 increased slightly by 0.3 percentage point to 66.6% from 66.3% in the corresponding period in 2015.

Gross profit margin of Japan segment increased by 2.3 percentage points to 34.0% in the first half of 2016 from 31.7% in the first half of 2015. Such rise was mainly due to appreciation of Japanese Yen.

Other Gains, Net

Other gains net in the first half of 2016 was RMB485 million (1H 2015: RMB313 million).

Investment segment

Revenue from investment segment of the Group in the first half of 2016 was RMB479 million (1H 2015: RMB309 million). In particular, gains on disposal of financial assets amounted to RMB446 million and investment income from financial assets to approximately RMB125 million, as well as losses from changes in fair value of a portion of financial assets of RMB92 million.

MANAGEMENT DISCUSSION AND ANALYSIS

Distribution Expenses and Administrative Expenses

Distribution expenses and administrative expenses mainly comprised employee salaries and benefit expenses, advertising and selling expenses, logistic fees and design and product development expenses. Total distribution expenses and administrative expenses in the first half of 2016 was RMB287 million (1H 2015: RMB245 million), constituting 44.2% of the Group's total sales, increase of 3.2 percentage points as compared with that in the first half of 2015. 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 but overall staff costs have significantly reduced as compared to the first half of 2015. Our overall staff costs decreased by RMB7 million to RMB64 million in the first half of 2016 from RMB71 million in the first half of 2015;

In the first half of 2016, advertising and selling expenses increased by RMB26 million to RMB127 million from RMB101 million in the same period last year. The increase was attributable to the increase in Kappa brand promotion expenses during the period to further consolidate the brand influence;

In the first half of 2016, logistics and transportation fee increased by RMB7 million to RMB33 million as compared to RMB26 million in the first half of 2015, mainly due to the commencement of kids business and the increase in the proportion of e-commerce business during the period;

In the first half of 2016, the Group continued to take a more cautious but effective approach in investment in product development. Our design and product development expenses was RMB19 million (1H 2015: RMB18 million), the amounts in both period were substantially flat.

Operating Profit

In the first half of 2016, operating profit of the Group was RMB552 million (1H 2015: RMB387 million). The operating profit margin was 84.9% in the first half of 2016 (1H 2015: 64.8%).

Finance Revenue, Net

In the first half of 2016, net finance revenue of the Group amounted to RMB9 million (1H 2015: net finance cost of RMB1 million), which consisted of interest income from bank deposit of RMB5 million (1H 2015: RMB8 million), interest expenses for new bank loans in the current year RMB8 million (1H 2015: nil) and foreign exchange gains of RMB15 million (1H 2015: foreign exchange losses of RMB6 million) in the reporting period.

Taxation

In the first half of 2016, income tax expense of the Group amounted to RMB87 million (1H 2015: RMB99 million). The effective tax rate was 15.5% (1H 2015: 25.8%).

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

Profit attributable to equity holders of the Company in the first half of 2016 was RMB479 million (1H 2015: RMB290 million), and net profit margin of the Group was 73.7% (1H 2015: 48.6%).

MANAGEMENT DISCUSSION AND ANALYSIS

Earnings Per Share

The basic and diluted earnings per share were both RMB8.68 cents in the first half of 2016, increased by 65.0% against the basic and diluted earnings per share of RMB5.26 cents in the first half of 2015.

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.

Interim Dividend and Interim Special Dividend

The board of directors of the Company has resolved to declare an interim dividend and interim special dividend of RMB2.59 cents and RMB2.59 cents respectively per ordinary share (totaling RMB5.18 cents per ordinary share) for the first half of 2016, amounting to approximately RMB143 million and approximately RMB143 million (totaling approximately RMB287 million) respectively.

The interim dividend and interim special dividend will be paid in HK Dollars based on the rate of HKD1.00 = RMB0.85485 being the official exchange rate of HK Dollars against Renminbi as quoted by the People's Bank of China at 16 August 2016. The dividends will be paid on or around 12 September 2016 to shareholders whose names appear on the register of members of the Company on 5 September 2016.

FINANCIAL POSITION

Working capital efficiency ratios

China Segment

Average trade receivable turnover days in the first half of 2016 and the first half of 2015 were 59 days and 70 days. Decrease in number of average trade receivable turnover days was mainly due to a decrease in average balance of trade receivable and an increase in sales.

Average trade payable turnover days in the first half of 2016 and the first half of 2015 were 80 days and 84 days, respectively.

Average inventory turnover days in the first half of 2016 and the first half of 2015 were 137 days and 131 days respectively, and the average inventory turnover days in the two periods were substantially flat.

Japan Segment

Average trade receivable turnover days and average trade payable turnover days were 129 days and 117 days, respectively in the first half of 2016 as compared to 168 days and 178 days, respectively in the first half of 2015. Average inventory turnover days were 170 days in the first half of 2016 as compared to 170 days in the first half of 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and financial resources

As at 30 June 2016, cash and bank balances (including long-term bank deposits) of the Group amounted to RMB1,686 million, an increase of RMB477 million as compared to a balance of RMB1,209 million as at 31 December 2015. This decrease was mainly due to:

- 1) payment of 2015 final dividend and final special dividend for an aggregate amount of equivalent to approximately RMB282 million;
- 2) net cash outflows from operating activities of approximately RMB85 million;
- 3) increase in bank borrowings of an amount of equivalent to RMB449 million;
- 4) investment in available-for-sale financial assets of approximately RMB1,301 million; cash inflow from disposal of partial available-for-sale financial assets of approximately RMB718 million; and cash distribution received from gains on available-for-sale financial assets of approximately RMB35 million;
- 5) investment in other financial assets of approximately RMB596 million; cash inflow from disposal and redemption of other financial assets of approximately RMB1,432 million; and cash distribution received from gains on other financial assets of approximately RMB95 million;
- 6) Others of an aggregate inflows amount of RMB12 million.

As at 30 June 2016, net assets attributable to our equity holders was RMB9,439 million (31 December 2015: RMB9,531 million). The Group's current assets exceeded current liabilities by RMB4,321 million (31 December 2015: RMB4,906 million). The Group also had a very strong liquidity position. The current ratio as of 30 June 2016 was 4.8 times (31 December 2015: 6.0 times).

Investments in available-for-sale financial assets

As at 30 June 2016, our balance of investments in available-for-sale financial assets was approximately RMB4,687 million, representing an increase of RMB776 million as compared with the balance of RMB3,911 million as at 31 December 2015. Such increase was mainly due to additional investments.

Pledge of assets

As at 30 June 2016, the Group had approximately RMB389 million (31 December 2015: RMB68 million) in banks as guarantee deposit for the issue of letters of credit and loans.

As at 30 June 2016, the Group had 2 million shares in Alibaba Group Holding Limited (NYSE: BABA) as collateral for securing bank borrowings of USD70 million.

MANAGEMENT DISCUSSION AND ANALYSIS

Capital commitments and contingencies

In May 2015, the Group entered into a limited partnership agreement with Yunfeng Fund US\$ LP II, pursuant to which the Group subscribed a capital contribution of USD30 million. As at 30 June 2016, the Group paid a capital contribution of USD20 million with remaining balance of USD10 million (equivalent to approximately RMB66 million) as capital commitments.

In March 2016, the Group entered into a limited partnership agreement with Yunfeng Fund LP RMB II, pursuant to which the Group subscribed a capital contribution of RMB100 million. As at 30 June 2016, the Group paid a capital contribution of RMB33 million with remaining balance of RMB67 million as capital commitments.

In September 2015, the Group entered into a limited partnership agreement with Hongtai Fund, with a total capital commitment of RMB100 million. As at 30 June 2016, the Group paid a capital contribution of RMB30 million with remaining balance of RMB70 million as capital commitments.

In May 2015, the Group entered into a limited partnership agreement with China Momentum Fund, with a total capital commitment of USD10 million. As at 30 June 2016, the Group paid a capital contribution of USD6 million with remaining balance of USD4 million (equivalent to approximately RMB26 million) as capital commitments.

In April 2015, the Group entered into a limited partnership agreement with 7 Seas Venture Capital L.P., with a total capital commitment of USD5 million. As at 30 June 2016, the Group paid a capital contribution of USD2 million with remaining balance of USD3 million (equivalent to approximately RMB20 million) as capital commitments.

Foreign Exchange Risk

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

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

Significant investments and acquisitions

The Group has made no significant investment or any material acquisition or disposal of subsidiaries for the six months ended 30 June 2016.

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.

OTHER INFORMATION

For the six months ended 30 June 2016, 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 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.

OTHER INFORMATION

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 2016, 537,000 Restricted Shares were granted to an eligible participant pursuant to the Restricted Share Award Scheme of which 405,929 Restricted Shares were vested during the period. As at 30 June 2016, the number of Restricted Shares granted under the scheme amounted to 7,081,000 Shares, representing approximately 0.125% 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 2016 are as follows:

Date of grant	Number of Restricted Shares ⁽¹⁾		
	granted during the period	vested during the period	lapsed during the period
3/6/2016	537,000	405,929	131,071
	537,000	405,929	131,071

Note:

(1) As at 1/1/2016, the number of restricted shares are 23,456,000 shares. As at 30/6/2016, the number of restricted shares are 23,050,071 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 2016, 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:

OTHER INFORMATION

Interests in shares, underlying shares and debentures of the Company:

Name of Directors	Nature of interest	Number and class of securities		Approximate percentage of total issued Shares
		Long position	Short position	
Mr. Chen Yihong	Interest of a controlled corporation ⁽¹⁾	2,249,387,000 shares	—	40.63%
Ms. Chen Chen	Interest of a controlled corporation ⁽²⁾	116,944,100 shares	—	2.112%

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) Bountiful Talent Ltd is wholly-owned and controlled by Ms. Chen Chen and Ms. Chen Chen is therefore deemed to be interested in the Shares held by Bountiful Talent Ltd.

Save as disclosed above, as at 30 June 2016, 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 2016, 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 of Shares		Approximate percentage of shareholding
		Long position	Short position	
Poseidon Sports Limited	Corporate interest	2,249,387,000	—	40.63%
Talent Rainbow Far East Limited ⁽¹⁾	Interest in a controlled corporation	2,249,387,000	—	40.63%
Harvest Luck Development Limited ⁽¹⁾	Interest in a controlled corporation	2,249,387,000	—	40.63%
Prime Capital Management Company Limited ⁽²⁾	Investment manager	279,190,706	—	5.04%

OTHER INFORMATION

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.
- (2) As stated in the form of disclosure of shareholder's interests submitted by Prime Capital Management Company Limited on 15 December 2014 (the date of the relevant event set out in the form was 10 December 2014), these Shares were held by Prime Capital Management Company Limited and/or its affiliates.

Save as disclosed above, as at 30 June 2016, 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 for the following deviations:

- (i) Provision A.2.1 of the CG Code provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Our Company deviates from this provision because Mr. Chen Yihong performs both the roles of chairman and chief executive officer since 20 October 2011. Mr. Chen is the founder of our Group and has extensive experience in sporting goods industry in China. The Board believes that vesting the two roles in the same person provides our Company with strong and consistent leadership and facilitates the implementation and execution of our Group's business strategies. We shall nevertheless review the structure from time to time in light of the prevailing circumstances.
- (ii) Provision E.1.2 of the CG Code provides that the chairman of the board should attend the annual general meeting. Provision A.6.7 of the CG Code also provides that independent non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Chen Yihong (chairman and chief executive officer) and Dr. Xiang Bing (independent non-executive director) could not attend the annual general meeting of the Company held on 18 May 2016 due to important business appointments. However, the other executive director and independent non-executive directors, attended the annual general meeting to ensure effective communication with the shareholders of the Company.

Details of the Company's corporate governance practices can be found in the Corporate Governance Report set out in the Company's annual report for the year ended 31 December 2015.

OTHER INFORMATION

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 2016.

The unaudited condensed consolidated interim financial information for the six months ended 30 June 2016 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 2016, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



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 30 to 64, which comprises the interim condensed consolidated balance sheet of China Dongxiang (Group) Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2016 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, 17 August 2016

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

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2016

	Note	Unaudited Six months ended 30 June	
		2016 RMB'000	2015 RMB'000
Revenue	6	650,331	596,659
Cost of sales	8	(277,886)	(252,953)
Provision for impairment of inventories	8	(18,742)	(24,017)
Gross profit		353,703	319,689
Other gains	7	485,427	312,700
Distribution costs	8	(240,546)	(197,649)
Administrative expenses	8	(46,608)	(47,772)
Operating profit		551,976	386,968
Finance income	9	19,587	8,107
Finance costs	9	(10,545)	(8,764)
Share of profit/(loss) of investments accounted for using the equity method	16	1,993	(648)
Profit before income tax		563,011	385,663
Income tax expense	10	(86,714)	(99,383)
Profit for the period		476,297	286,280
Profit attributable to:			
— Owners of the Company		478,763	290,057
— Non-controlling interests		(2,466)	(3,777)
		476,297	286,280
Earnings per share for profit attributable to owners of the Company (expressed in RMB cents per share)			
— Basic and diluted earnings per share	11	8.68	5.26
Dividends	12	286,786	203,186

The notes on pages 36 to 64 form an integral part of this condensed consolidated interim financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2016

	Note	Unaudited Six months ended 30 June	
		2016 RMB'000	2015 RMB'000
Profit for the period		476,297	286,280
Other comprehensive income/(loss):			
Items that may be reclassified to profit or loss			
— Fair value change on available-for-sale financial assets, net of tax	23	(386,403)	(683,851)
— Foreign currency translation differences	23	95,424	(9,094)
Total items that may be reclassified subsequently to profit or loss		(290,979)	(692,945)
Other comprehensive loss, net of tax		(290,979)	(692,945)
Total comprehensive income/(loss) for the period		185,318	(406,665)
Total comprehensive income/(loss) for the period attributable to:			
— Owners of the Company		187,784	(402,888)
— Non-controlling interests		(2,466)	(3,777)
For the six months ended 30 June 2016		185,318	(406,665)

The notes on pages 36 to 64 form an integral part of this condensed consolidated interim financial information.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2016

	Note	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	13	73,067	75,402
Lease prepayments	14	11,294	11,437
Intangible assets	15	235,912	238,807
Investments accounted for using the equity method	16	135,364	144,617
Available-for-sale financial assets	17	4,687,028	3,911,487
Financial assets at fair value through profit or loss — non-current portion	18	68,336	219,252
Deferred income tax assets		77,622	73,423
Prepayments, deposits and other receivables — non-current portion	20	82,556	25,921
Total non-current assets		5,371,179	4,700,346
Current assets			
Inventories		259,537	225,809
Trade receivables	19	236,099	294,189
Prepayments, deposits and other receivables	20	2,946,813	3,893,494
Financial assets at fair value through profit or loss	18	320,540	257,897
Restricted cash	21	388,517	67,648
Cash and bank balances	21	1,297,866	1,141,562
Total current assets		5,449,372	5,880,599
Total assets		10,820,551	10,580,945
EQUITY			
Equity attributable to owners of the Company			
Share capital	22	53,589	53,589
Share premium account	22	659,018	940,705
Reserves	23	8,726,234	8,536,812
		9,438,841	9,531,106
Non-controlling interests		15,118	17,584
Total equity		9,453,959	9,548,690

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2016

	Note	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowing — non-current portion	24	153,857	—
Deferred income tax liabilities		84,532	58,041
		238,389	58,041
Current liabilities			
Borrowing	24	749,326	454,552
Trade payables		132,324	157,966
Accruals and other payables		193,087	196,705
Provisions		17,515	24,858
Current income tax liabilities		35,951	140,133
		1,128,203	974,214
Total liabilities		1,366,592	1,032,255
Total equity and liabilities		10,820,551	10,580,945

The notes on pages 36 to 64 form an integral part of this condensed consolidated interim financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	Note	Unaudited						Total equity RMB'000
		Attributable to owners of the Company					Non-controlling interests RMB'000	
		Share capital RMB'000	Share premium account RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000		
Balance at 1 January 2016		53,589	940,705	1,603,318	6,933,494	9,531,106	17,584	9,548,690
Comprehensive income								
Profit for the period		—	—	—	478,763	478,763	(2,466)	476,297
Other comprehensive income								
Fair value change on available-for-sale financial assets	23	—	—	(386,403)	—	(386,403)	—	(386,403)
Currency translation differences	23	—	—	95,424	—	95,424	—	95,424
Total other comprehensive income, net of tax		—	—	(290,979)	—	(290,979)	—	(290,979)
Total comprehensive income		—	—	(290,979)	478,763	187,784	(2,466)	185,318
Transactions with owners								
Dividends relating to 2015, declared and paid		—	(281,687)	1,191	—	(280,496)	—	(280,496)
Shares vested under Restricted Share Award Scheme		—	—	447	—	447	—	447
Total contributions and distributions to owners of the Company		—	(281,687)	1,638	—	(280,049)	—	(280,049)
Balance at 30 June 2016		53,589	659,018	1,313,977	7,412,257	9,438,841	15,118	9,453,959
Balance at 1 January 2015		53,589	1,714,319	2,435,630	6,136,530	10,340,068	18,868	10,358,936
Comprehensive income								
Profit for the period		—	—	—	290,057	290,057	(3,777)	286,280
Other comprehensive income								
Fair value change on available-for-sale financial assets	23	—	—	(683,851)	—	(683,851)	—	(683,851)
Currency translation differences	23	—	—	(9,094)	—	(9,094)	—	(9,094)
Total other comprehensive income, net of tax		—	—	(692,945)	—	(692,945)	—	(692,945)
Total comprehensive income		—	—	(692,945)	290,057	(402,888)	(3,777)	(406,665)
Transactions with owners								
Dividends relating to 2014, declared and paid		—	(571,226)	2,471	—	(568,755)	—	(568,755)
Shares vested under Restricted Share Award Scheme		—	—	1,576	—	1,576	—	1,576
Total contributions and distributions to owners of the Company		—	(571,226)	4,047	—	(567,179)	—	(567,179)
Appropriation of statutory reserves		—	—	184	(184)	—	—	—
Total Transaction with owners		—	(571,226)	4,231	(184)	(567,179)	—	(567,179)
Balance at 30 June 2015		53,589	1,143,093	1,746,916	6,426,403	9,370,001	15,091	9,385,092

The notes on pages 36 to 64 form an integral part of this condensed consolidated interim financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

		Unaudited	
		Six months ended 30 June	
	Note	2016	2015
		RMB'000	RMB'000
Cash flows from operating activities			
Cash generated from operations		81,668	119,509
Interest received		1,751	3,555
Income tax paid		(168,604)	(31,682)
Cash (outflows)/inflows from operating activities		(85,185)	91,382
Cash flows from investing activities			
Investments in an associate		—	(62,082)
Purchase of property, plant and equipment	13	(2,457)	(3,399)
Purchase of intangible assets	15	(874)	(515)
Decrease in term deposits with initial terms over three months	21	130,841	463,301
Proceeds from disposal property, plant and equipment and intangible assets	8, 13	271	76
Increase in investments in available-for-sale financial assets	17, 20	(1,301,002)	(173,054)
Increase in other financial assets		(595,864)	(2,547,740)
Disposal of other financial assets		1,432,260	2,008,297
Deposit received for purchase of other financial assets		—	458,520
Interest received from other financial assets		95,182	100,253
Dividends/interest received from available-for-sale financial assets		34,875	44,036
Proceeds from disposal of available-for-sale financial assets		718,181	120,556
Settlement of other financial liabilities		—	(609,020)
Cash inflows/(outflows) from investing activities		511,413	(200,771)
Cash flows from financing activities			
Dividends paid		(281,687)	(571,226)
Proceeds from bank borrowings	24	448,631	427,952
Increase in restricted cash pledged for bank loans	21	(320,869)	—
Cash outflows from financing activities		(153,925)	(143,274)
Net increase/(decrease) in cash		272,303	(252,663)
Cash at the beginning of the period	21	909,865	1,726,567
Exchange gain/(losses) on cash and cash equivalents		14,842	(545)
Cash at the end of the period		1,197,010	1,473,359

The notes on pages 36 to 64 form an integral part of this condensed consolidated interim financial information.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2016

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 as well as investment activities in Mainland of the PRC and abroad.

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 has not been audited.

2 BASIC OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2016 has been prepared in accordance with IAS 34, ‘Interim financial reporting’. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2015, 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 2015, as described in those annual financial statements except for the adoption of amendments to International Financial Reporting Standards (IFRSs) effective for the financial year ending 31 December 2016.

- (a) Amendments to IFRSs effective for the financial year ending 31 December 2016 do not have a material impact on the Group.

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

- (b) Impact of standards issued but not yet applied by the entity

(i) *IFRS 9 ‘Financial instruments’*

IFRS 9 ‘Financial Instruments’ addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The standard does not need to be applied until 1 January 2018 but is available for early adoption. The Group is currently assessing whether it should adopt IFRS 9 before its mandatory date.

While the Group has yet to undertake a detailed assessment of the classification and measurement of financial assets, the Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets. Further, there will be no significant impact on the Group’s accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have such material liabilities. The derecognition rules have been transferred from IAS 39 ‘Financial Instruments: Recognition and Measurement’ and have not been changed.

3 ACCOUNTING POLICIES (CONTINUED)

(b) Impact of standards issued but not yet applied by the entity (Continued)

(i) IFRS 9 'Financial instruments' (Continued)

The new hedge accounting rules will not have any impact on the Group's condensed consolidated interim financial information as the Group does not have any hedging instruments.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 'Revenue from Contracts with Customers', lease receivables, loan commitments and certain financial guarantee contracts. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

(ii) IFRS 15 'Revenue from contracts with customers'

The International Accounting Standards Board (IASB) has issued a new standard for the recognition of revenue. This will replace International Accounting Standards (IAS) 18 which covers revenue arising from the sale of goods and the rendering of services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. The new standard is effective for first interim periods within annual reporting periods beginning on or after 1 January 2018, and will allow early adoption.

Management is currently assessing the effects of applying the new standard on the Group's financial statements. At this stage, the Group is not able to estimate the effect of the new rules on the Group's financial statements. The Group will make more detailed assessments of the effect over the next twelve months. The Group does not expect to adopt the new standard before 1 January 2018.

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 2015, with the exception of changes in estimates that are required in determining the provision for income taxes and disclosure of exceptional items.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2016

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 information 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 2015.

There have been no changes in the risk management policies 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).

The following table presents the Group's financial assets that are measured at fair value at 30 June 2016 and 31 December 2015.

	Unaudited			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
At 30 June 2016				
Assets				
Available-for-sale financial assets (Note 17)	2,489,189	—	2,197,839	4,687,028
Financial asset at fair value through profit or loss (Note 18)	163,976	—	224,900	388,876
	2,653,165	—	2,422,739	5,075,904

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2016

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Fair value estimation (Continued)

At 31 December 2015	Audited			Total RMB'000
	Level 1 RMB'000	Level 2 RMB'000 (Note)	Level 3 RMB'000	
Assets				
Available-for-sale financial assets (Note 17)	2,531,817	—	1,379,670	3,911,487
Financial asset at fair value through profit or loss (Note 18)	157,887	—	319,262	477,149
	2,689,704	—	1,698,932	4,388,636

Note:

There were no changes in valuation techniques during the period.

The Group reclassified available-for sale investments gain of RMB445,987,000 (2015: RMB133,991,000) from other comprehensive income into the interim condensed consolidated income statement due to disposal of available-for sale investments.

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

	Unaudited Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
Opening balance at 1 January	1,698,932	1,497,947
Exchange difference	8,155	(110)
Additions	792,792	304,731
Change in fair value	(77,140)	112,760
Disposal	—	(31,832)
Closing balance at 30 June	2,422,739	1,883,496
Total unrealised (losses)/gains for the period included in profit or loss for assets held at the end of the reporting period	(97,910)	7,735

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

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

Of the total losses (2015: gains) recognised in profit or loss in this period, all amounts are attributable to the change in unrealised losses (2015: gains) relating to those assets or liabilities held at the end of the reporting period.

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 investment controller. 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 interests in investment funds. 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.

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
- Cash and bank balances
- Trade and other payables
- Borrowings
- Other financial assets — loans and receivables, treasury products issued by commercial banks

6 SEGMENT INFORMATION

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

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 of the investment activities and sportswear business separately, and sportswear business was assessed from a geographic perspective, including China (including PRC and Macau) and Japan segments as follows:

- China — includes distribution and retail of sport apparel under Kappa brand and other brands and international business which includes the sale of Kappa brand products to other Kappa licensees in other countries.
- Japan — includes distribution and retail of sport apparel under Kappa brand, Phenix brand and other brands.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2016

6 SEGMENT INFORMATION (CONTINUED)

- Investment — includes investment in kinds of: (i) available-for-sale financial assets; (ii) financial assets at fair value through profit or loss; and (iii) investments accounted for using the equity method; (iv) treasury product issued by commercial banks and loans to other parties.

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

The segment results and other income statement items provided to the chief operating decision maker for the reportable segments for the six months ended 30 June 2016 and 2015, respectively are as follows:

	Unaudited				Total RMB'000
	China- Apparel RMB'000	Japan- Apparel RMB'000	Investment RMB'000	Unallocated RMB'000	
Six months ended 30 June 2016					
Total revenue before inter-segment elimination	513,152	148,468	—	—	661,620
Inter-segment revenue	(6,652)	(4,637)	—	—	(11,289)
Revenue from external customers	506,500	143,831	—	—	650,331
Cost of goods sold	(183,380)	(94,506)	—	—	(277,886)
Provision for impairment losses of inventories	(8,044)	(10,698)	—	—	(18,742)
Segment gross profit	315,076	38,627	—	—	353,703
Other gains, net	5,262	1,476	478,689	—	485,427
Segment operating profit/(loss)	125,756	(27,559)	473,193	(19,414)	551,976
Finance income	9,736	7,871	—	1,980	19,587
Finance cost	(1,114)	(1,138)	(7,460)	(833)	(10,545)
Share of gain/(loss) of joint ventures and associates	2,913	(764)	(156)	—	1,993
Profit/(loss) before income tax	137,291	(21,590)	465,577	(18,267)	563,011
Income tax expense	(58,019)	(344)	(28,351)	—	(86,714)
Profit/(loss) for the period	79,272	(21,934)	437,226	(18,267)	476,297
Material items of income and expense					
Depreciation and amortisation	9,507	2,005	—	—	11,512
Reversal of impairment losses of trade and other receivables	(14,243)	(3,217)	—	—	(17,460)
Advertising and selling expenses	109,480	17,910	—	—	127,390

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2016

6 SEGMENT INFORMATION (CONTINUED)

	China- Apparel RMB'000	Japan- Apparel RMB'000	Unaudited		Total RMB'000
			Investment RMB'000	Unallocated RMB'000	
Six months ended 30 June 2015					
Total revenue before inter-segment elimination	474,321	122,913	—	—	597,234
Inter-segment revenue	—	(575)	—	—	(575)
Revenue from external customers	474,321	122,338	—	—	596,659
Cost of goods sold	(169,873)	(83,080)	—	—	(252,953)
Provision for impairment losses of inventories	(13,477)	(10,540)	—	—	(24,017)
Segment gross profit	290,971	28,718	—	—	319,689
Other gains, net	1,248	2,944	308,508	—	312,700
Segment operating profit/(loss)	128,501	(31,818)	308,508	(18,223)	386,968
Finance income	5,785	4	—	2,318	8,107
Finance cost	(2,098)	(6,306)	—	(360)	(8,764)
Share of profits of a joint venture	—	(648)	—	—	(648)
Profit/(loss) before income tax	132,188	(38,768)	308,508	(16,265)	385,663
Income tax expense	(56,543)	(320)	(42,520)	—	(99,383)
Profit/(loss) for the period	75,645	(39,088)	265,988	(16,265)	286,280
Material items of income and expense					
Depreciation and amortization	9,799	2,204	—	—	12,003
Reversal of impairment losses of trade and other receivables	(20,861)	(1,618)	—	—	(22,479)
Advertising and selling expenses	84,490	16,875	—	—	101,365

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2016

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	
	2016	2015
	RMB'000	RMB'000
China		
— Distribution of Kappa Brand products	245,071	272,547
— Retail of Kappa Brand products	219,240	191,081
— Kappa Kids Brand products	33,071	—
— International business and others	9,118	10,693
	506,500	474,321
Japan		
— Distribution and retailing of Kappa Brand products	87,639	71,965
— Distribution and retailing of Phenix Brand products	56,192	50,373
	143,831	122,338
	650,331	596,659

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2016

6 SEGMENT INFORMATION (CONTINUED)

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

	Unaudited				Total RMB'000
	China- Apparel RMB'000	Japan- Apparel RMB'000	Investment RMB'000	Unallocated RMB'000	
As at 30 June 2016					
Interests in investments accounted for using the equity method	57,499	14,869	62,996	—	135,364
Available-for-sale financial assets	—	—	4,687,028	—	4,687,028
Deferred income tax assets	77,622	—	—	—	77,622
Other assets	2,386,990	332,386	3,253,814	113,542	6,086,732
Total assets before inter-segment elimination	2,522,111	347,255	8,003,838	113,542	10,986,746
Inter-segment elimination	(54,475)	(5,830)	—	(105,890)	(166,195)
Segment assets	2,467,636	341,425	8,003,838	7,652	10,820,551
Deferred income tax liabilities	72,315	3,584	8,633	—	84,532
Current income tax liabilities	35,314	637	—	—	35,951
Other liabilities	532,438	157,410	618,041	50,063	1,357,952
Total liabilities before inter-segment elimination	640,067	161,631	626,674	50,063	1,478,435
Inter-segment elimination	(5,873)	(55,907)	—	(50,063)	(111,843)
Segment liabilities	634,194	105,724	626,674	—	1,366,592

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2016

6 SEGMENT INFORMATION (CONTINUED)

	Audited				Total RMB'000
	China- Apparel RMB'000	Japan- Apparel RMB'000	Investment RMB'000	Unallocated RMB'000	
As at 31 December 2015					
Interests in investments accounted					
for using the equity method	66,908	15,627	62,082	—	144,617
Available-for-sale financial assets	—	—	3,911,487	—	3,911,487
Deferred income tax assets	73,423	—	—	—	73,423
Other assets	2,020,196	361,609	4,110,443	117,946	6,610,194
<hr/>					
Total assets before inter-segment					
elimination	2,160,527	377,236	8,084,012	117,946	10,739,721
Inter-segment elimination	(54,668)	(5,888)	—	(98,220)	(158,776)
<hr/>					
Segment assets	2,105,859	371,348	8,084,012	19,726	10,580,945
<hr/>					
Deferred income tax liabilities	—	3,586	54,455	—	58,041
Current income tax liabilities	139,130	1,003	—	—	140,133
Other liabilities	251,161	189,060	454,552	42,394	937,167
<hr/>					
Total liabilities before inter-segment					
elimination	390,291	193,649	509,007	42,394	1,135,341
Inter-segment elimination	(5,931)	(54,761)	—	(42,394)	(103,086)
<hr/>					
Segment liabilities	384,360	138,888	509,007	—	1,032,255

7 OTHER GAINS

	Unaudited	
	Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
Gain on disposal of available-for-sale financial assets	445,987	102,733
Investment income from financial assets	124,512	201,553
Fair value change on financial assets at fair value through profit or loss	(91,809)	4,222
Royalty income	1,229	1,724
Government subsidy income	4,114	346
Others	1,394	2,122
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	485,427	312,700

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2016

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	
	2016	2015
	RMB'000	RMB'000
Cost of inventories recognised as cost of goods sold	277,886	252,953
Advertising and selling expenses	127,390	101,365
Employee salary and benefit expenses	63,879	70,984
Logistic fees	33,024	25,891
Design and product development expenses	19,415	18,222
Provision for inventories	18,742	24,017
Depreciation/amortisation of property, plant and equipment, lease prepayments and intangible assets (Note 13, 14 and 15)	11,512	12,003
Operating lease payments	12,191	9,866
Legal and consulting expenses	2,256	3,274
Travelling expenses	8,505	6,439
Auditor's remuneration	1,250	1,000
Loss on disposal of property, plant and equipment	510	312
Reversal of impairment losses of trade and other receivables	(17,460)	(22,479)
Others	24,682	18,544
Total cost of goods sold, provision for impairment of inventories, distribution costs and administrative expenses	583,782	522,391

9 FINANCE COST

	Unaudited	
	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Finance income:		
— Foreign exchange gain, net	14,842	—
— Interest income	4,745	8,107
	19,587	8,107
Finance cost:		
— Interest expense	(7,894)	—
— Foreign exchange losses, net	—	(5,652)
— Others	(2,651)	(3,112)
	(10,545)	(8,764)
	9,042	(657)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2016

10 INCOME TAX EXPENSE

	Unaudited Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
Current income tax		
— PRC corporate income tax ("CIT")	69,333	29,254
— Taxation in Japan	345	570
Deferred income tax	17,036	69,559
	86,714	99,383

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total interim 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 2016 (the first half of 2015: 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. The Group provided deferred withholding tax liability amounting to RMB21,221,000 in relation to the undistributed profit for six months ended 30 June 2016 of its PRC subsidiaries.

The Group's subsidiary incorporated in Japan is subject to corporate income tax and local inhabitant tax. The corporate income tax rate for the six months ended 30 June 2016 applicable to the Group's subsidiary is 15% or 23.9% (2015: 15% or 25.5%) based on the amount of assessable profit. The inhabitant tax is determined based on rates on the income tax payable and the taxpayer's share capital and number of employees. As there was no assessable profit derived during the six months ended 30 June 2016 (the first half of 2015: nil), the Group's subsidiary was subject to the minimum inhabitant tax payments.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2016

11 EARNINGS PER SHARE**(a) Basic**

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

	Unaudited	
	Six months ended 30 June	
	2016	2015
Profit attributable to owners of the Company (RMB'000)	478,763	290,057
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme (thousands)	5,513,007	5,512,202
Basic earnings per share (RMB cents per share)	8.68	5.26

(b) Diluted

No diluted earnings per share have been presented since there was no potential diluted ordinary share as at 30 June 2016.

12 DIVIDENDS

	Unaudited	
	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Interim dividend of RMB2.59 cents per share (2015: RMB1.57 cents per share)	143,393	86,921
Interim special dividend of RMB2.59 cents per share (2015: RMB2.10 cents per share)	143,393	116,265
	286,786	203,186

Pursuant to a resolution passed on 17 August 2016, the board of directors declared an interim dividend and an interim special dividend of RMB2.59 cents and RMB2.59 cents per share, respectively (2015: RMB1.57 cents and RMB2.10 cents per share), totalling RMB5.18 cents, to be distributed from the retained earnings of the Company. The interim dividend and interim special dividend, amounting to RMB286,786,000 (2015: RMB203,186,000) have not been reflected as dividends payable in the condensed consolidated interim financial information. They will be recognised in shareholders' equity in the year ended 31 December 2016.

During the six months ended 30 June 2016, the 2015 final dividends of RMB281,687,000 (2015: RMB571,226,000) was paid, including the dividends of RMB1,191,000 (2015: RMB2,471,000) to the Shares held for Restricted Share Award Scheme (Note 23).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2016

13 PROPERTY, PLANT AND EQUIPMENT

Six months ended 30 June 2016	Unaudited RMB'000
Opening amount as at 1 January 2016	75,402
Additions	2,457
Disposals	(781)
Depreciation (Note 8)	(4,705)
Exchange difference	694
Closing amount as at 30 June 2016	73,067
<hr/>	
Six months ended 30 June 2015	Unaudited RMB'000
Opening amount as at 1 January 2015	71,595
Additions	3,399
Disposals	(389)
Depreciation (Note 8)	(5,738)
Exchange difference	(309)
Closing amount as at 30 June 2015	68,558

14 LEASE PREPAYMENTS

Six months ended 30 June 2016	Unaudited RMB'000
Opening amount as at 1 January 2016	11,437
Amortisation (Note 8)	(143)
Closing amount as at 30 June 2016	11,294
<hr/>	
Six months ended 30 June 2015	Unaudited RMB'000
Opening amount as at 1 January 2015	11,722
Amortisation (Note 8)	(142)
Closing amount as at 30 June 2015	11,580

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2016

15 INTANGIBLE ASSETS

	Unaudited			Total RMB'000
	Kappa brand RMB'000	Phenix and other brands RMB'000	Computer software RMB'000	
Six months ended 30 June 2016				
Opening amount as at 1 January 2016	224,152	7,387	7,268	238,807
Additions	—	—	874	874
Exchange difference	2,642	214	39	2,895
Amortisation (Note 8)	(3,779)	(323)	(2,562)	(6,664)
Closing amount as at 30 June 2016	223,015	7,278	5,619	235,912
Six months ended 30 June 2015				
Opening amount as at 1 January 2015	230,554	7,602	9,356	247,512
Additions	—	—	515	515
Exchange difference	(332)	—	(10)	(342)
Amortisation (Note 8)	(3,302)	(108)	(2,713)	(6,123)
Closing amount as at 30 June 2015	226,920	7,494	7,148	241,562

16 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The amounts recognised in the balance sheet are as follows:

	Unaudited	
	Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
Joint ventures (i)	72,368	14,974
Associates (ii)	62,996	62,082
	135,364	77,056

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2016

16 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(i) Investment in joint ventures

	Unaudited	
	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
At 1 January	81,465	15,621
Addition	—	—
Share of profit	2,149	(648)
Elimination of unrealised profit	(11,252)	—
Exchange difference	6	1
	72,368	14,974

The Group's share of the results in Mai Sheng Yue He Sporting Goods Co., Ltd. ("MSYH Beijing") and Shanxi Mai Sheng Yue He Sporting Goods Co., Ltd. Shenyang Mai Sheng Yue He Sporting Goods Co., Ltd. Tianjin Mai Sheng Yue He Sporting Goods Co., Ltd., Nanjing Mai Sheng Yue He Sporting Goods Co., Ltd. Zhejiang Mai Sheng Yue He Sporting Goods Co., Ltd. (collectively "Other five MSYH companies") and their aggregated assets and liabilities are shown as below:

	Other five MSYH		Total
	MSYH Beijing	companies	
	As at and for the six months ended		
	2016	2016	2016
	RMB'000	RMB'000	RMB'000
Assets	109,511	87,673	197,184
Liabilities	(56,255)	(53,734)	(109,989)
Revenues	100,522	74,025	174,547
Share of profit	3,500	(587)	2,913
Percentage held	32.64%	30%/each	

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2016

16 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)**(ii) Investment in associates**

	Unaudited	
	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
At 1 January	63,152	—
Addition	—	62,082
Share of profit	(156)	—
Exchange difference	—	—
	62,996	62,082

The Group's share of the results in Boundary Bay Investment LLC ("BBI LLC") and its aggregated assets and liabilities are shown as below:

	Unaudited
	Six months
	ended 30 June
	2016
	RMB'000
Assets	10,383
Liabilities	(175)
Revenues	—
Share of profit	—
Percentage held	35%

17 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Unaudited	
	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
At 1 January	3,911,487	4,580,211
Currency translation differences	53,820	(2,672)
Additions	1,381,002	173,054
Disposals — cost	(272,194)	(17,823)
Disposals — fair value change reclassified to income statement	(445,987)	(133,991)
Changes in fair value	58,900	(540,984)
	4,687,028	4,057,795

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2016

17 AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

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

	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000
Market value of listed securities		
— Alibaba Group Holding Limited ("Alibaba") (Note (a))	2,489,188	2,531,817
Unlisted equity securities		
— CITIC Mezzanine Fund I (Note (b))	263,308	242,222
— Hangzhou Yuanxin Dongchao Equity Investment LLP. (Note (c))	227,983	227,983
— Shanghai Panxin Investment Management LLP. (Note (d))	200,611	200,671
— Herun Piloting Jiashi Investment Preferred Cornerstone Investment Fund (Note (e))	200,000	—
— Yunfeng Fund USD II (Note (f))	176,831	160,003
— Wing Lung Growth Fund SPC Limited (Note (g))	176,345	—
— Tebon innovation Capital Special Asset Management Plan (Note (h))	155,545	155,568
— Yunfeng Fund RMB II (Note (i))	151,106	150,000
— Jiashi Investment Management Co., Ltd. (Note (j))	100,000	—
— Xiaocun Industry Development Private Placement Investment No. 8 Fund (Note (k))	69,558	—
— Vision Knight Capital (China) Fund (Note (l))	60,000	30,000
— Beijing Sequoia Investment Management Center (Note (m))	50,356	50,356
— Jiaxing Daotong Capital (Note (n))	50,000	50,000
— Others (Note (o))	316,197	112,867
	2,197,840	1,379,670
	4,687,028	3,911,487

Notes:

- (a) In September 2011, the Group subscribed for limited partnership agreements with 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. Yunfeng E-Commerce Funds are established for the purpose of making investments in Alibaba Group Holding Limited, a leading group focused on the Chinese E-commerce industry. In September 2014, Alibaba was listed on NYSE. Pursuant to Alibaba's Initial Public Offerings ("IPO"), Yunfeng E-Commerce Funds distributed the shares of Alibaba to its limited partners. Since the Group planned to hold the share of Alibaba for a long term strategy, management designated these financial assets as available-for-sale financial assets.
- (b) In September 2011, the Group entered into subscription agreements and limited partnership agreements, pursuant to which the Group subscribed for limited partnership interests in CITIC Mezzanine Fund I, which is a limited partnership established for the purpose of making equity and debt investments in enterprises mainly doing business in the PRC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2016

17 AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

Notes: (Continued)

- (c) In September 2014, the Group entered into subscription agreements and limited partnership agreements, pursuant to which the Group subscribed for limited partnership interests in Hangzhou Yuanxin Dongchao Equity Investment Limited Partnership, which mainly made investments in manufacturing industry.
- (d) In November 2014, the Group entered into subscription agreements and limited partnership agreements, pursuant to which the Group subscribed for limited partnership in Shanghai Panxin Investment Management Limited Partnership, which was established for the purpose of making debt investments in the PRC.
- (e) In February 2016, the Group subscribed for fund units of Herun Piloting Jiashi Investment Preferred Cornerstone Investment Fund, which invested in financial services sector and high-tech industries.
- (f) In May 2013, the Group entered into subscription agreements and limited partnership agreements, pursuant to which the Group subscribed for limited partnership in Yunfeng Fund USD II, which invests in listed and unlisted companies, including high-tech industry, finance service industry and manufacturing industry.
- (g) In January 2016, the Group entered into subscription agreements with Wing Lung Growth Fund SPC Limited, which loaned to a real estate development company in Sichuan in the PRC. Pursuant to the aforementioned subscription agreements, the Group does not have any voting rights in Wing Lung Growth Fund SPC Limited.
- (h) In August 2014, the Group participated in an asset management plan of Tebon Innovation Capital, and finally the Group's investment was invested to a company which is established for urban complex investment.
- (i) In August 2014, the Group entered into subscription agreements and limited partnership agreements, pursuant to which the Group subscribed for limited partnership interests in Yunfeng Fund RMB II, with investments in healthcare industry and emerging technologies industry.
- (j) In January 2016, the Group entered into investment agreements with Jiashi Investment Co., Ltd., which mainly engaged in operation and management of private equity funds. The proportion of the Group's shareholding in Jiashi Investment Co., Ltd. is 2%.
- (k) In April 2016, the Group subscribed for fund units of Xiaocun Industry Development Private Placement Investment No. 8 Fund, which invested in a listed company of glass manufacturing business, in PRC.
- (l) In August 2015, the Group entered into subscription and limited partnership agreements, pursuant to which the Group subscribed limited partnership interests in Vision Knight Capital (China) Fund, which is mainly focusing on investments in internet industry, E-commerce industry, consumer retailing empowered by internet and E-commerce, and B2B services empowered by information technologies and internet technologies sectors in China.
- (m) In December 2014, the Group entered into subscription and limited partnership agreements, pursuant to which the Group subscribed limited partnership interests in Beijing Sequoia Investment Management Center, which is mainly investing in energy industry.
- (n) In November 2014, the Group entered into subscription and limited partnership agreements, pursuant to which the Group subscribed limited partnership interests in Jiaxing Daotong Capital, which has been established and mainly invested in high-tech industry.
- (o) Other equity investments are stated at fair value as at 30 June 2016 and mainly include investments in unlisted investment funds, whose investments are high-tech industry, finance service industry and manufacturing industry.

The valuation techniques of other equity investments mainly include latest traded price, net assets value and other techniques. The unobservable inputs mainly include liquidity discount and others.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2016

18 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000
Non-current portion (Note (a))	68,336	219,252
Current portion (Note (b))	320,540	257,897

Notes:

- (a) The non-current portion of financial assets at fair value through profit or loss includes the Group's investment in preferred shares of a company listed on the mainboard of Hong Kong Stock Exchange.
- (b) The current portion of financial assets at fair value through profit or loss mainly includes investment in equity interests of a company whose shares are traded in NASDAQ in the US and common stocks of companies listed on the mainboard of Hong Kong Stock Exchange.

19 TRADE RECEIVABLES

	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000
Trade receivables		
— Third parties	230,004	325,522
— Related parties (Note 26)	123,977	94,915
	353,981	420,437
Less: provision for impairment	(117,882)	(126,248)
Trade receivables, net	236,099	294,189

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2016

19 TRADE RECEIVABLES (CONTINUED)

The Group's sales are mainly made on credit terms ranging from 30 to 60 days. The ageing analysis of trade receivables as at 30 June 2016 and 31 December 2015 was as follows:

	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000
Within credit terms	124,356	239,027
After credit terms but within 30 days' over due	70,110	88,323
After credit terms but within 31 to 120 days' over due	74,997	53,546
After credit terms and over due more than 120 days	84,518	39,541
	353,981	420,437

20 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000
Current portion:		
Treasury products issued by commercial banks (Note (a))	2,468,920	3,088,149
Loans receivable (Note (b))	351,019	613,765
Amounts due from related parties (Note 26(b))	36,128	58,651
Deposits for operating leases	10,477	11,438
Advance payments to suppliers	8,857	12,719
Interest receivables	5,664	2,670
Deposits for investments	—	80,000
Other receivables	73,263	26,102
Less: provision for impairment	(7,515)	—
	2,946,813	3,893,494
Non-current portion:		
Loans receivable (Note b(iv))	45,000	—
Deposits for operating leases	37,556	25,498
Amounts due from related parties (Note 26(b))	—	15,938
Less: provision for impairment	—	(15,515)
	82,556	25,921

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2016

20 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (CONTINUED)

Note:

- (a) The treasury products are unlisted, issued by listed commercial banks in the PRC. The investments are interest bearing at expected rates ranging from 1.6% to 4.7% per annum, denominated in RMB.
- (b) As at 30 June 2016, the current loans receivable held by the Group mainly include:
- (i) a balance of USD30,000,000 (equivalent to RMB198,936,000) receivable from China Yu Fu Payment Group Company Limited, an independent third party, and such balance bears interest at 6.5% per annum.
 - (ii) a balance of USD10,000,000 (equivalent to RMB66,312,000) receivable from HomeValue Holding Co., Ltd., an independent third party, and such balance bears interest at 12% per annum.
 - (iii) a balance of RMB50,000,000 receivable from Shanxi New Taohuayuan Culture Tourism Co., Ltd., an independent third party, and such balance bears interest at 12% per annum.
 - (iv) a balance of RMB45,000,000 receivable from Mr. Xia Du, an independent third party, and such balance bears interest at 8.5% per annum.
 - (v) a balance of RMB30,000,000 receivable from Yu Fu Holding (Group) Co., Ltd., an independent third party, and such balance bears interest at 12% per annum.
 - (vi) a balance of RMB2,000,000 receivable from Feilisi International Investment Management (Beijing) Co., Ltd., an independent third party, and such balance bears interest at 15% per annum.

The prepayments, deposits and other receivables were mainly denominated in RMB and JPY. Their carrying amounts approximated their fair values as at the balance sheet dates. The amount of the provision for other receivables was RMB7,515,000 as at 30 June 2016 (31 December 2015: RMB15,515,000).

21 CASH AND BANK BALANCES

	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000
Restricted bank deposits	388,517	67,648
Term deposits with initial terms over three months and within one year	100,856	231,697
Cash and cash equivalents	1,197,010	909,865
	1,686,383	1,209,210

The restricted bank deposits as at 30 June 2016 comprised deposits held in bank accounts for issue of letters of credit and loan for certain subsidiaries of the Group. As at 30 June 2016, the average interest rate on the restricted bank deposits was 2.15% (2015: 1.51%) per annum.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2016

21 CASH AND BANK BALANCES (CONTINUED)

The cash and cash equivalents represent cash deposits held at call with banks and in hand. As at 30 June 2016 and 31 December 2015, cash and bank balances were denominated in the following currencies:

	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000
RMB	999,143	369,015
USD	520,701	595,726
HKD	97,996	193,448
JPY	67,673	49,920
Other	870	1,101
	1,686,383	1,209,210

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.

22 SHARE CAPITAL AND SHARE PREMIUM ACCOUNT

	Issued and fully paid				
	Number of ordinary shares of par value HKD\$0.01	Nominal value of issued ordinary shares HK\$'000	Equivalent nominal value of ordinary shares RMB'000	Share premium account RMB'000	Total RMB'000
At 1 January 2016	5,536,401,000	55,365	53,589	940,705	994,294
Dividends relating to 2015, declared and paid	—	—	—	(281,687)	(281,687)
At 30 June 2016	5,536,401,000	55,365	53,589	659,018	712,607
At 1 January 2015	5,536,401,000	55,365	53,589	1,714,319	1,767,908
Dividends relating to 2014, declared and paid	—	—	—	(571,226)	(571,226)
At 30 June 2015	5,536,401,000	55,365	53,589	1,143,093	1,196,682

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2016

23 RESERVES

	Other Reserves							
	Capital reserve	Share-based compensation reserve	Statutory reserve	Exchange reserve	Fair value reserve	Shares held for Restricted		Total
						Share Award Scheme	Retained earnings	
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2016	284,701	8,574	30,086	(430,491)	1,778,578	(68,130)	6,933,494	8,536,812
Profit for the period	—	—	—	—	—	—	478,763	478,763
Change in fair value of available-for-sale financial assets	—	—	—	—	(386,403)	—	—	(386,403)
Foreign currency translation reserve	—	—	—	95,424	—	—	—	95,424
Dividends relating to the shares held for Restricted Share Award Scheme	1,191	—	—	—	—	—	—	1,191
Shares vested under Restricted Share Award Scheme	(1,179)	447	—	—	—	1,179	—	447
At 30 June 2016	284,713	9,021	30,086	(335,067)	1,392,175	(66,951)	7,412,257	8,726,234

	Other Reserves							
	Capital reserve	Share-based compensation reserve	Statutory reserve	Exchange reserve	Fair value reserve	Shares held for Restricted		Total
						Share Award Scheme	Retained earnings	
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2015	284,660	6,998	24,149	(629,163)	2,820,404	(71,418)	6,136,530	8,572,160
Profit for the period	—	—	—	—	—	—	290,057	290,057
Change in fair value of available-for-sale financial assets	—	—	—	—	(683,851)	—	—	(683,851)
Foreign currency translation reserve	—	—	—	(9,094)	—	—	—	(9,094)
Dividends relating to the shares held for Restricted Share Award Scheme	2,471	—	—	—	—	—	—	2,471
Appropriation of statutory reserves	—	—	184	—	—	—	(184)	—
Shares vested under Restricted Share Award Scheme	(3,288)	1,576	—	—	—	3,288	—	1,576
At 30 June 2015	283,843	8,574	24,333	(638,257)	2,136,553	(68,130)	6,426,403	8,173,319

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 ("the 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 2016, 405,929 shares with the fair value of RMB447,000 (2015: 1,132,000 shares with the fair value of RMB1,576,000) were granted to a member (2015: two members) of senior management under Restricted Share Award Scheme. As at 30 June 2016, there were 23,050,071 restricted Shares ungranted in total.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

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24 BORROWING

	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000
Current (i)	749,326	454,552
Non-current (ii)	153,857	—
	903,183	454,552

(i) Current

In June 2015, the Group borrowed an amount of USD70,000,000 (equivalent to RMB464,184,000) from Morgan Stanley Bank, N.A. at an interest rate of 3 months Libor +1.9% per annum with maturity of 6 months. The borrowing is secured by 2,000,000 shares of Alibaba Group Holdings Ltd. as owned by the Group (Note 17). In June 2016 the borrowing is extended and divided into two separate borrowings. One is a borrowing of USD35,000,000 (equivalent to RMB232,092,000) at an interest rate of 3 months Libor +1.9% per annum with maturity of 6 months from June 2016. And the other one is a borrowing of USD35,000,000 (equivalent to RMB232,092,000) at an interest rate of 3 months Libor +1.9% per annum with maturity of 12 months from June 2016.

In May 2016, the Group borrowed an amount of USD43,000,000 (equivalent to RMB285,141,600) from China CITIC Bank International Limited at an interest rate of month Libor+1.2% per annum with maturity of 12 months. The borrowing is secured by the Group's bank deposits of RMB320,000,000 in China CITIC Bank Corporation Limited (Note 21).

(ii) Non-current

In January 2016, the Group borrowed an amount of HKD180,000,000 (equivalent to RMB153,857,102) from Wing Lung Bank Limited at an interest rate of 6 months Hibor +1.7% per annum with maturity of 42 months. The borrowing is secured by the Group's equity investment in Wing Lung Growth Fund SPC Limited (Note 17).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2016

25 COMMITMENTS

The Group had the following commitments as at 30 June 2016:

(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 are as follows:

	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000
No later than 1 year	31,852	28,707
Later than 1 year and no later than 5 years	24,828	31,102
Over 5 years	85	54
	56,765	59,863

(b) Capital commitments

	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000
Contracted but not provided for		
— investment in Hongtai Fund	70,000	70,000
— investment in Yunfeng Fund RMB III	67,000	—
— investment in Yunfeng Fund USD II	66,494	78,600
— investment in China Momentum Fund	26,375	26,824
— investment in 7 Seas Venture Capital L.P.	19,894	25,974
— investment in Archina Capital Fund	—	6,494
— investment in Vision Knight Capital (China) Fund	—	30,000
	249,763	237,892

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2016

25 COMMITMENTS (CONTINUED)**(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 2016 RMB'000	Audited 31 December 2015 RMB'000
No later than 1 year	14,947	7,749
Later than 1 year and no later than 5 years	21,882	6,157
	36,829	13,906

26 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.

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 ended 30 June 2016 and 2015 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 2016 RMB'000	2015 RMB'000
Sales of goods to		
— Mai Sheng Yue He Sporting Goods Co., Limited	64,173	200,030
— Nanjing Mai Sheng Yue He Sporting Goods Co., Limited	12,915	—
— Tianjin Mai Sheng Yue He Sporting Goods Co., Limited	10,636	—
— Shanxi Mai Sheng Yue He Sporting Goods Co., Limited	24,678	—
— Shenyang Mai Sheng Yue He Sporting Goods Co., Limited	19,511	—
— Zhejiang Mai Sheng Yue He Sporting Goods Co., Limited	3,941	—
	135,854	200,030
Purchase of goods from		
— Shanghai Phenix Apparel Co., Limited	5,023	4,268

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2016

26 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Balances with related parties

	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000
Trade receivables (Note 19)		
— Mai Sheng Yue He Sporting Goods Co., Limited	49,656	26,896
— Nanjing Mai Sheng Yue He Sporting Goods Co., Limited	26,616	25,675
— Zhejiang Mai Sheng Yue He Sporting Goods Co., Limited	15,257	2,897
— Shanxi Mai Sheng Yue He Sporting Goods Co., Limited	13,307	24,388
— Shenyang Mai Sheng Yue He Sporting Goods Co., Limited	10,882	8,083
— Tianjin Mai Sheng Yue He Sporting Goods Co., Limited	8,259	6,976
	123,977	94,915
Trade payables		
— Shanghai Phenix Apparel Co., Limited	1,765	309
	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000
Other receivable		
Current portion		
— Beijing Tian He Lian Guan Investment Co., Limited (a)	22,000	—
— Shanxi Mai Sheng Yue He Sporting Goods Co., Limited	9,010	—
— Zhejiang Mai Sheng Yue He Sporting Goods Co., Limited	5,118	—
— Mai Sheng Yue He Sporting Goods Co., Limited	—	58,651
	36,128	58,651
Non-current portion		
— Shanxi Mai Sheng Yue He Sporting Goods Co., Limited	—	15,938
	—	15,938

The above balances with related parties were unsecured, non-interest bearing but collectible per demand.

(a) The receivable from Beijing Tian He Lian Guan Investment Co., Limited has been collected subsequently.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2016

26 RELATED PARTY TRANSACTIONS (CONTINUED)**(c) Key management compensation**

	Unaudited	
	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Salaries, bonus and other welfares	5,248	5,384
Pension — defined contribution plans	114	125
	5,362	5,509

27 EVENTS AFTER THE BALANCE SHEET DATE

Pursuant to a resolution passed on 17 August 2016, the board of directors of the Company declared an interim dividend and interim special dividend of RMB2.59 cents and RMB2.59 cents per ordinary share of the Company, amounting to RMB143,393,000 and RMB143,393,000 for the period ended 30 June 2016 from the Company's retained earnings, respectively.



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

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