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

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 3818)**

## INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2010

**Results Highlights**

| For the six months ended 30 June | **1H 2010** | 1H 2009 | **Change** |
|---|---|---|---|
| | *(RMB million)* | *(RMB million)* | |
| Sales | **2,145.3** | 1,868.4 | +14.8% |
| Gross profit | **1,343.0** | 1,162.7 | +15.5% |
| Gross profit margin | **62.6%** | 62.2% | +0.4% pt |
| Operating profit | **947.1** | 849.7 | +11.5% |
| Profit for the period attributable to equity holders | **786.0** | 722.0 | +8.9% |
| | *(RMB cents)* | *(RMB cents)* | |
| Basic earnings per share | **13.87** | 12.74 | +8.9% |
| Interim dividend and interim special dividend per share | **8.32** | 5.09 | +63.5% |
| — Total dividend payout ratio | **60.0%** | 40.0% | +20.0% pts |

**Operational Highlights**

| | |
|---|---|
| **Healthy financial performance** | • Sales and profit for the period attributable to equity holders increased by 14.8% and 8.9% respectively, propelled by our sound operating and financial strategies, despite changing market environment |
| **Stable gross margin** | • Gross profit margin remained stable and slightly increased to 62.6% due to persistent effects of our consistent pricing and discount policy to distributors as well as effective cost control measures |
| **Expanding retail network** | • The number of Kappa brand retail outlets in China segment directly and indirectly operated by the Group's distributors increased by 309 to 3,820 |
| **International product design and R&D teams** | • The design and R&D teams have 215 staff members in China and Japan |
| **Efficient working capital management** | • Inventory turnover days and trade receivables turnover days of the China segment maintained at healthy level of 33 days and 26 days |

## CHAIRMAN'S STATEMENT

Dear Shareholders,

After experiencing a major slowdown, the global economy entered a phase of adjustment in 2010. The phase is marked mainly by volatility in capital, consumer and retail markets alike. To investors, volatility can mean huge opportunities with risks; to managers, volatility is a litmus test that gauges the ability of a company to resist risks and remain resilient.

### Honing our Edge to Embrace Growth

China Dongxiang (Group) Co., Ltd. (the "Company") and its subsidiaries (collectively the "Group") has adopted a flexible strategy by adjusting its pace of development and at the same time reacting promptly to rapid market changes. During the volatile market conditions that prevailed over the period under review, our focus was squarely placed on strengthening our core competence by enhancing management capabilities and stepping up of brand building efforts, which we believe will put us in a perfect position to capture future growth opportunities as they arise.

I am pleased to report to our shareholders that for the six months ended 30 June 2010, sales of the Group rose by 14.8% year-on-year to RMB2,145.3 million. Profit for the period attributable to shareholders increased by 8.9% to RMB786.0 million. Basic earnings per share grew by 8.9% to RMB13.87 cents.

Given the solid performance of the Group during the period under review and in appreciation of our shareholders' confidence and support, the Board of Directors of the Company (the "Board") declared the payment of 30.0% and 30.0% of the profit for the period attributable to shareholders as the interim dividend and interim special dividend, which amounted to RMB4.16 cents and RMB4.16 cents per share.

### Leader in China with an Expanded Stronghold in Japan

The Group regards China as its major market and attaches great importance to developing it. During the period under review, sales generated from the China segment increased by 16.6% year-on-year to RMB1,956.6 million, accounting for 91.2% of the total sales of the Group. The gross profit margin of the China segment rose by 0.3% pt. to 64.3%. Despite the adjustment pressure facing the Chinese apparel sector, apparel sales of the Kappa brand in the China segment reached RMB1,467.1 million, representing a year-on-year increase of 19.4%. This growth was achieved against a 1.1% year-on-year decrease of the consumer price index for the domestic apparel sector in the first half of 2010, according to statistics released by the National Statistics Bureau of China. Apparel sales as a percentage of sales of Kappa products in the China segment also increased from 73.4% to 75.2%. These clearly demonstrated the high premium commanded by the Group's core brands, our product design with strong differentiation and innovation with respect to our product development capabilities.

Thanks to the prudent management strategy we have adopted, the China segment of the Group maintained a high working capital turnover rate with its trade receivables turnover and inventory turnover standing at 26 days and 33 days respectively.

The Group also achieved its major development goals in the Japan segment and recorded sales of RMB188.7 million. The gross profit margin maintained at 45.2%. Given the sluggish if not worsening economic situation in Japan, these achievements did not come easily. Our stable performance is the results of the close cooperation and effective management of our staff in the Japan segment.

### A Strengthened Foundation to Unleash Brand Charisma

The sportswear industry in China offers tremendous potential with its low sportswear expenditure per capita and an under-penetrated market, compared with Western countries as well as other developed countries in Asia. Chinese consumers' preferences have been changing rapidly in recent years. There has been rising awareness of fashion trends and brand value for sportswear products in addition to their functionality and quality. By successfully integrating sports and fashion, the Group has defined a brand new direction for the Chinese sportswear industry.

A new brand slogan "we are One" for the Kappa brand was launched in 2009. We have adopted "Integration" as the new core value of the brand's slogan to demonstrate our unique understanding of the combination of both sport and fashion. Based on this branding philosophy, the Group continued to implement various innovative and effective promotional activities during the period under review. Apart from consolidating its leading position in entertainment marketing, the Group also demonstrated the core value of the Kappa brand through a host of marketing campaigns and various sporting event sponsorships such as soccer, tennis, golf and others. The first Kappa brand television commercial, which had its premiere on CCTV National Sports Channel right before the opening of the World Cup 2010, received highly positive response from consumers, thereby setting a strong cornerstone for the development of the Kappa brand image.

**Growth Fuelled by Trio Engines: Brand Building, Network Expansion & R&D**

Our Kappa brand continued to expand its sales network and penetrated new markets during the period under review. With a net increase of 309 retail outlets, the total number of retail outlets of the Kappa brand reached 3,820 as at 30 June 2010. During the first half of 2010, the Group endeavoured to build even closer cooperation with our distributors. Working together as a team in unity to mitigate part of the headwinds the retail industry faces, we have been able to steadily expand our marketing and distribution channels across the China market.

Another important brand under the Kappa umbrella, Robe Di Kappa, had it successful launch in the first half of 2010. Located in Beijing and other cities, the retail outlets of Robe Di Kappa have achieved satisfactory sales performance.

In the second half of 2010, the Group will continue to focus on enhancing brand equity, strengthening brand building and stepping up its advertising campaign. Efforts will also be made to maintain the Group's competitive edge in product innovation as well as its strong design and development capability. The Group is dedicated to allocating resources that will enable it to build a forward-looking and pragmatic human resources system. This will allow us to explore new business opportunities and consolidated long-term development.

**Five-year Strategic Plan in Full Gear**

2010 also marks the beginning of our new five-year strategic plan. Standing on the starting line to embark on this new plan, we are implementing revolutionary reforms in accordance with the strategies mapped out. We have recruited talented people with foresight from different regions and nurtured an embracing corporate culture that enables us to push forward various reforms. From an internal management perspective, we have successfully renovated the branding, marketing and supply chain systems of the Group and fine-tuned our multi-brand operational strategies. We have also deepened our cooperation with leading corporations in the global fashion sportswear industry. As a result, we are confident that the Group will accomplish its strategic goals by offering customers Sport Life products they desire. These initiatives will bring fruitful returns to the communities in which we operate, and our staff as well as shareholders.

Lastly, on behalf of the Board, I would like extend my heartfelt thanks to our shareholders and business partners for their continuous support and trust. I would also like to express my sincere gratitude to all our staff for their long-term efforts which have contributed to the success of the Group.

**Chen Yihong**
*Chairman*

Hong Kong, 25 August 2010

## CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

| | *Note* | **30 June 2010 Unaudited** *RMB'000* | 31 December 2009 Audited *RMB'000* |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **119,552** | 120,101 |
| Lease prepayments | | **20,719** | 33,615 |
| Intangible assets | | **301,925** | 304,465 |
| Investments in jointly controlled entities | | **19,167** | 19,442 |
| Investments in associated companies | | **135,621** | 158,839 |
| Deferred income tax assets | | **44,808** | 16,849 |
| Other financial assets — non-current portion | | **150,478** | — |
| Long term deposits | | **34,209** | 35,001 |
| Long term bank deposits | | **150,000** | 150,000 |
| **Total non-current assets** | | **976,479** | 838,312 |
| **Current assets** | | | |
| Inventories | | **207,864** | 223,281 |
| Trade receivables | 4 | **409,952** | 374,585 |
| Prepayments, deposits and other receivables | | **94,808** | 96,228 |
| Other financial assets | | **1,108,037** | 401,964 |
| Cash and bank balances | | **5,381,676** | 5,977,388 |
| **Total current assets** | | **7,202,337** | 7,073,446 |
| **Total assets** | | **8,178,816** | 7,911,758 |

| | Note | 30 June 2010 Unaudited RMB'000 | 31 December 2009 Audited RMB'000 |
|---|---|---|---|
| **EQUITY** | | | |
| **Equity attributable to equity holders of the Company** | | | |
| Share capital | | **54,810** | 54,810 |
| Share premium account | | **3,360,540** | 4,094,339 |
| Reserves | | **3,990,760** | 3,205,055 |
| **Total equity** | | **7,406,110** | 7,354,204 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Financial liability at fair value through profit or loss | | **1,292** | 1,292 |
| Deferred income tax liabilities | | **4,045** | 4,068 |
| **Total non-current liabilities** | | **5,337** | 5,360 |
| **Current liabilities** | | | |
| Trade payables | 5 | **312,752** | 312,264 |
| Accruals and other payables | | **184,094** | 146,105 |
| Provisions | | **37,613** | 37,561 |
| Current income tax liabilities | | **232,910** | 56,264 |
| **Total current liabilities** | | **767,369** | 552,194 |
| **Total liabilities** | | **772,706** | 557,554 |
| **Total equity and liabilities** | | **8,178,816** | 7,911,758 |
| **Net current assets** | | **6,434,968** | 6,521,252 |
| **Total assets less current liabilities** | | **7,411,447** | 7,359,564 |

## CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

| | *Note* | **Unaudited Six months ended 30 June 2010** *RMB'000* | 2009 *RMB'000* |
|---|---|---|---|
| **Sales** | 3 | **2,145,285** | 1,868,421 |
| Cost of goods sold | 7 | **(802,315)** | (705,735) |
| **Gross profit** | | **1,342,970** | 1,162,686 |
| Other gains, net | 6 | **45,397** | 24,424 |
| Distribution costs | 7 | **(342,098)** | (258,888) |
| Administrative expenses | 7 | **(99,164)** | (78,527) |
| **Operating profit** | | **947,105** | 849,695 |
| Finance income, net | 8 | **43,596** | 58,874 |
| Share of profits/(losses) of jointly controlled entities and associated companies | | **5,347** | (4,894) |
| **Profit before income tax** | | **996,048** | 903,675 |
| Income tax expense | 9 | **(210,048)** | (181,700) |
| **Profit for the period, attributable to equity holders of the Company** | | **786,000** | 721,975 |
| | | **cents per share** | cents per share |
| **Earnings per share for profit attributable to equity holders of the Company** | | | |
| — Basic | 10 | **13.87** | 12.74 |
| — Diluted | 10 | **13.87** | 12.74 |
| **Dividends** | 11 | **471,444** | 288,414 |

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

| | Unaudited Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | ***RMB'000*** | *RMB'000* |
| **Profit for the period** | **786,000** | 721,975 |
| **Other comprehensive income, net of tax** | | |
| — Foreign currency translation differences | **(295)** | (14,653) |
| **Total comprehensive income for the period, attributable to equity holders of the Company** | **785,705** | 707,322 |

## NOTES

### 1 General information

China Dongxiang (Group) Co., Ltd. (the "Company") and its subsidiaries (together the "Group") are principally engaged in brand development, design and sales of sport-related footwear, apparel and accessories in the Mainland of the People's Republic of China (the "PRC") and Macau. The Group commenced operations in Japan subsequent to the completion of the acquisition of a subsidiary in Japan on 30 April 2008.

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.

The condensed consolidated interim financial information are presented in Renminbi ("RMB"), unless otherwise stated. The condensed consolidated interim financial information was approved for issue by the Board of Directors on 25 August 2010.

The condensed consolidated interim financial information has not been audited.

### 2 Basis of preparation and accounting policies

The condensed consolidated interim financial information for the six months ended 30 June 2010 has been prepared in accordance with International Accounting Standard ("IAS") 34, 'Interim financial reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements of the Group for the year ended 31 December 2009, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") which include IAS.

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2009, as described in those annual financial statements.

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

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning on 1 January 2010, which are relevant for the Group.

- IFRS 3 (revised), 'Business combinations', and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates' and IAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

- IFRS 2 (amendments) 'Group cash-settled share-based payment transactions'. In addition to incorporating IFRIC — Int 8, 'Scope of IFRS 2', and IFRIC — Int 11, 'IFRS 2 — group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by the interpretation. The adoption of the new guidance does not have a material impact on the Group's financial statements.

## 3 Revenue and segment information

### (a) *Description of segments*

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

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

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

Japan — distribution and retailing of sport-related products under Kappa, Phenix and other brands.

Sales between segments are carried out on terms equivalent to those in arm's length transactions. The revenue from external customers reported to the chief operating decision maker is measured in a manner consistent with that in the condensed consolidated interim income statement.

### (b) *Segment information provided to the chief operating decision maker*

The segment information provided to the chief operating decision maker for the reportable segments for the six months ended 30 June 2010 is as follows:

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

| | Six months ended 30 June 2009 | | | |
|---|---|---|---|---|
| | China | Japan | Unallocated | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Total revenue before inter-segment elimination | 1,679,337 | 190,986 | — | 1,870,323 |
| Inter-segment revenue | (991) | (911) | — | (1,902) |
| Revenue from external customers | 1,678,346 | 190,075 | — | 1,868,421 |
| Cost of goods sold | (603,441) | (102,294) | — | (705,735) |
| Segment gross profit | 1,074,905 | 87,781 | — | 1,162,686 |
| **Segment operating profit** | 891,434 | (4,393) | (37,346) | 849,695 |
| Interest income | 28,140 | 17 | 29,197 | 57,354 |
| Interest expenses and others, net | 3,727 | 2,332 | (4,539) | 1,520 |
| Share of losses of jointly controlled entities and associated companies | (4,333) | (561) | — | (4,894) |
| **Profit before income tax** | 918,968 | (2,605) | (12,688) | 903,675 |
| Income tax expense | (181,127) | (573) | — | (181,700) |
| **Profit for the period, attributable to equity holders of the Company** | 737,841 | (3,178) | (12,688) | 721,975 |
| **Material items of income and expense** | | | | |
| Depreciation and amortization | 10,353 | 2,534 | | 12,887 |
| Provision for impairment losses of inventories | 330 | 6,155 | | 6,485 |
| Reversal of impairment losses of trade and other receivables | — | (14,545) | | (14,545) |

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

| | **Six months ended 30 June** | |
|---|---|---|
| | **2010** | 2009 |
| | ***RMB'000*** | *RMB'000* |
| China | | |
| — Distribution of Kappa brand products | **1,952,095** | 1,674,360 |
| — International business and others | **4,537** | 3,986 |
| | **1,956,632** | 1,678,346 |
| Japan | | |
| — Distribution and retailing of Kappa brand products | **116,391** | 114,660 |
| — Distribution and retailing of Phenix brand products | **72,223** | 74,236 |
| — Distribution and retailing of products of other brands | **39** | 1,179 |
| | **188,653** | 190,075 |
| | **2,145,285** | 1,868,421 |

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

| | **As at 30 June 2010** | | | |
|---|---|---|---|---|
| | **China** | **Japan** | **Unallocated** | **Total** |
| | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** |
| Total assets before inter-segment elimination | **5,974,264** | **387,190** | **1,927,884** | **8,289,338** |
| Inter-segment elimination | **(2,366)** | **(7,830)** | **(100,326)** | **(110,522)** |
| Total assets | **5,971,898** | **379,360** | **1,827,558** | **8,178,816** |
| Deferred income tax assets | **(44,573)** | **(235)** | **—** | **(44,808)** |
| Investments in jointly controlled entities | **—** | **(19,167)** | **—** | **(19,167)** |
| Investments in associated companies | **(135,621)** | **—** | **—** | **(135,621)** |
| **Segment assets** | **5,791,704** | **359,958** | **1,827,558** | **7,979,220** |
| Total liabilities before inter-segment elimination | **648,457** | **132,273** | **56,067** | **836,797** |
| Inter-segment elimination | **(7,749)** | **(275)** | **(56,067)** | **(64,091)** |
| Total liabilities | **640,708** | **131,998** | **—** | **772,706** |
| Deferred income tax liabilities | **—** | **(4,045)** | **—** | **(4,045)** |
| Current income tax liabilities | **(231,893)** | **(1,017)** | **—** | **(232,910)** |
| **Segment liabilities** | **408,815** | **126,936** | **—** | **535,751** |

| | As at 31 December 2009 | | | |
|---|---|---|---|---|
| | China | Japan | Unallocated | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Total assets before inter-segment elimination | 4,909,813 | 447,098 | 2,671,492 | 8,028,403 |
| Inter-segment elimination | (1,389) | — | (115,256) | (116,645) |
| Total assets | 4,908,424 | 447,098 | 2,556,236 | 7,911,758 |
| Deferred income tax assets | (16,849) | — | — | (16,849) |
| Investments in jointly controlled entities | — | (19,442) | — | (19,442) |
| Investments in associated companies | (158,839) | — | — | (158,839) |
| **Segment assets** | 4,732,736 | 427,656 | 2,556,236 | 7,716,628 |
| Total liabilities before inter-segment elimination | 383,951 | 173,603 | 106,918 | 664,472 |
| Inter-segment elimination | — | — | (106,918) | (106,918) |
| Total liabilities | 383,951 | 173,603 | — | 557,554 |
| Deferred income tax liabilities | — | (4,068) | — | (4,068) |
| Current income tax liabilities | (54,195) | (2,069) | — | (56,264) |
| **Segment liabilities** | 329,756 | 167,466 | — | 497,222 |

As at 30 June 2010, the total non-current assets other than deferred tax assets located in the PRC amounted to RMB566,401,000 (31 December 2009: RMB456,587,000) and the total of these non-current assets located in other countries and areas was RMB365,270,000 (31 December 2009: RMB364,876,000).

For the six months ended 30 June 2010, additions to total non-current assets other than deferred tax assets in China and Japan segments were RMB174,425,000 and RMB5,362,000 (2009: RMB319,963,000 and RMB14,117,000), respectively.

During the six months ended 30 June 2010, there was no customer the revenue from which amounted to 10% or more of the Group's revenue (2009: nil).

## 4 Trade receivables

| | 30 June 2010 RMB'000 | 31 December 2009 RMB'000 |
|---|---|---|
| Trade receivables | | |
| — Third parties | **316,741** | 313,757 |
| — Related parties | **102,251** | 76,550 |
| | **418,992** | 390,307 |
| Less: provision for impairment | **(9,040)** | (15,722) |
| Trade receivables, net | **409,952** | 374,585 |

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

| | 30 June 2010 RMB'000 | 31 December 2009 RMB'000 |
|---|---|---|
| Current | **343,881** | 284,554 |
| Within 30 days | **58,473** | 85,763 |
| 31 to 120 days | **15,661** | 19,063 |
| Over 120 days | **977** | 927 |
| | **418,992** | 390,307 |

## 5 Trade payables

The ageing analysis of trade payables is as follows:

| | 30 June 2010 RMB'000 | 31 December 2009 RMB'000 |
|---|---|---|
| Current | **308,573** | 309,762 |
| Within 30 days | **1,241** | 863 |
| 31 to 120 days | **2,060** | 722 |
| Over 120 days | **878** | 917 |
| | **312,752** | 312,264 |

## 6 Other gains, net

| | Six months ended 30 June | |
|---|---|---|
| | 2010 RMB'000 | 2009 RMB'000 |
| Government subsidy income | **41,787** | 22,011 |
| Others | **3,610** | 2,413 |
| | **45,397** | 24,424 |

## 7 Expenses by nature

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

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | ***RMB'000*** | *RMB'000* |
| Cost of inventories recognised as cost of goods sold and distribution costs | **776,324** | 684,348 |
| Depreciation/amortization of property, plant and equipment, lease prepayments and intangible assets | **14,790** | 12,887 |
| Loss on disposal of property, plant and equipment | **522** | 2,138 |
| Advertising and marketing expenses | **158,096** | 108,841 |
| Employee salary and benefit expenses | **89,822** | 84,956 |
| Withholding business tax on licence fees payable to an overseas subsidiary | **7,395** | 6,237 |
| Design and product development expenses | **60,042** | 37,346 |
| Legal and consulting expenses | **3,964** | 10,597 |
| Operating lease in respect of buildings | **24,278** | 18,047 |
| Logistic fees | **38,947** | 27,680 |
| Provision for impairment losses of inventories | **9,560** | 6,485 |
| Reversal of impairment losses of trade and other receivables | **(6,280)** | (14,545) |
| Travelling expenses | **14,395** | 10,450 |
| Auditors' remuneration | **1,120** | 1,120 |
| Others | **50,602** | 46,563 |
| Total of cost of goods sold, distribution costs and administrative expenses | **1,243,577** | 1,043,150 |

## 8 Finance income, net

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | ***RMB'000*** | *RMB'000* |
| Interest income from bank deposits | **43,893** | 57,354 |
| Foreign exchange (losses)/gains, net | **(5,485)** | 2,101 |
| Others | **5,188** | (581) |
| | **43,596** | 58,874 |

## 9 Income tax expense

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | ***RMB'000*** | *RMB'000* |
| Current income tax | | |
| — PRC enterprise income tax ("EIT") | **238,402** | 200,022 |
| — Taxation in Japan | **(372)** | 646 |
| Deferred income tax | **(27,982)** | (18,968) |
| | **210,048** | 181,700 |

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

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

Hong Kong and Singapore profits tax have not been provided as there are no estimated assessable profits arising in or derived from Hong Kong and Singapore during the six months ended 30 June 2010 (2009: nil).

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

According to the New EIT Law, the profits of the PRC subsidiaries of the Group earned since 1 January 2008 are subject to withholding tax at a rate of 5% upon distribution of such profits to foreign investors incorporated in Hong Kong and Singapore, or at a rate of 10% for distribution to other foreign investors. The Group determined that no deferred withholding tax liabilities shall be recognised in respect of the retained earnings of the PRC subsidiaries as of 30 June 2010 (2009: Nil) since the Group has no plan to distribute such profits in the foreseeable future.

The subsidiary incorporated in Japan is subject to income tax and local inhabitant tax. The corporate income tax rate for the six month ended 30 June 2010 applicable to the subsidiary is 30% based on the assessable profit. The inhabitant tax is determined based on rates (determined by the prefecture and city where the company maintains its operations) on the income tax payable, subject to a certain minimum payment. As there was no assessable profit derived during the six month ended 30 June 2010, the subsidiary was subject to the minimum inhabitant tax payments.

**10 Earnings per share**

*(a) Basic*

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.

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| Profit attributable to equity holders of the Company *(RMB'000)* | **786,000** | 721,975 |
| Weighted average number of ordinary shares in issue *(thousands)* | **5,666,401** | 5,665,835 |
| Basic earnings per share *(RMB cents per share)* | **13.87** | 12.74 |

*(b) Diluted*

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company did not have outstanding pre-IPO share options since 31 December 2009 (outstanding options for the subscription of 115,000 shares which were the potential dilutive ordinary shares as at 30 June 2009).

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| Profit attributable to equity holders of the Company *(RMB'000)* | **786,000** | 721,975 |
| Weighted average number of ordinary shares in issue *(thousands)* | **5,666,401** | 5,665,835 |
| Adjustment for pre-IPO share options *(thousands)* | **—** | 115 |
| Weighted average number of ordinary shares in issue for diluted earnings per share *(thousands)* | **5,666,401** | 5,665,950 |
| Diluted earnings per share *(RMB cents per share)* | **13.87** | 12.74 |

## 11 Dividends

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | ***RMB'000*** | *RMB'000* |
| Interim dividend of RMB4.16 cents per share (2009: 3.82 cents per share) | **235,722** | 216,452 |
| Interim special dividend of RMB4.16 cents per share (2009: 1.27 cents per share) | **235,722** | 71,962 |
| | **471,444** | 288,414 |

Pursuant to a resolution passed on 25 August 2010, the board of directors declared an interim dividend and an interim special dividend of RMB4.16 cents and RMB4.16 cents per share (2009: 3.82 cents and 1.27 cents per share), totalling RMB8.32 cents per share, to be distributed from the share premium account of the Company. The interim dividend and interim special dividend, amounting to RMB471,444,000 (2009: RMB288,414,000) have not been reflected as dividends payable in the condensed consolidated interim financial information. They will be recognised in shareholders' equity in the year ending 31 December 2010.

During the six months ended 30 June 2010, dividends that relates to the year ended 31 December 2009 amounting to RMB733,799,000 was paid in May 2010 (2009: RMB529,752,000 paid in May 2009).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Macro-economic and Industry Review

*Macro-economic review*

The world saw mild economic growth during the first half of 2010 as governments reduce their spending and economies generally stabilized in the wake of the implementation of economic stimulus packages by various nations, while economic data released by European and American nations gradually turned positive. China's economic growth slowed down under the impact of external factors, while at home the nation faced the grave challenge of natural calamities in repeated occurrences. Nevertheless, the Chinese economy generally sustained a positive trend of high growth, high employment rate and low inflation. Although the Chinese economy remained subject to structural changes, year-on-year growth was reported for total retail sales of consumer goods as well as the total value of import and export trade, both domestic demand and export demand were turning stronger as a driving force for economic growth. Government-led initiatives to implement a proactive fiscal policy and a moderately loose monetary policy will continue in the PRC, as the RMB4 trillion economic stimulus package, which has served the purpose of preserving economic growth, will also help to increase retail consumption while facilitating structural corrections in the Chinese economy for the benefit of its healthy development in the long run.

According to data announced in July 2010 by the National Statistics Bureau of China, the nation's GDP for the first six months of the year amounted to RMB17,300 billion, representing a year-on-year growth of 11.1% in terms of comparable prices, which was 3.7 percentage points higher compared to the growth rate for the same period of 2009. Meanwhile, faster growth in market sales was reported for the first half of the year, as strong sales for popular consumer goods were sustained. Total retail sales of consumer goods grew by 18.2% to RMB7,300 billion, while merchandise sales grew by 18.4% to RMB6,400 billion.

The interim period also saw mild year-on-year increase in the consumer price index ("CPI") and considerable growth in the ex-factory price for industrial products. CPI for the first half of the year rose by 2.6% over the same period last year, as urban and rural household income continued to pick up with a steady year-on-year growth of 10.2% (or real growth of 7.5% after deducting the price factor) in living expenses. The business environment for the retail sector started to improve as household spending powers continued to increase.

***Industry Review***

As the PRC retail market gradually picked up during the first half of 2010, the China sportswear industry also turned warmer with consumers' sentiments slowly improving. Although major retailers remained optimistic about the PRC market, an air of caution is still warranted as the lack of confidence remains in the market. Our leading competitors in the sportswear industry continued to assure stable business growth with a proactive and yet cautious approach. China sportswear industry still holds out immense potential to be tapped, as its sportswear expenditure per capita remains significantly lower than its counterparts in some developed countries in Europe, America and Asia.

*A flourishing market for sporting goods*

With rising living standards in China coupled with stronger sporting awareness among the public was wakened by the 2008 Beijing Olympics Games, the positioning of sporting goods as lifestyle items has become an increasingly dominant theme for the market, which generally enjoys rapid growth and presents abounding business opportunities. As of now, sportswear brands in the domestic market can be classified into three main categories: mass market, fashion and professional sportswear. Currently, the high-end segment remains monopolised by international brands, while medium to low-end brands are in risk of plunging into a vicious price competition as they face the prospect of increasing homogenisation. On the other hand, there has been a rising awareness of fashion trends and brand value for sportswear products among Chinese consumers as the consumer preferences evolved over the past few years. By introducing fashion elements into sportswear products, sporting brands have opened themselves to a brand new dimension in business development. Meanwhile, professional sportswear brands have also been enjoying robust growth with increasing consumer demand, resulting in a flourishing domestic market for sportswear brand.

*Expanded channels in the sportswear market*

Diversification of marketing channels is imperative for any sportswear brand building endeavours, especially in the case of medium to high-end brands. As market consolidation continues over recent years, key players have emerged and will continue to gain more market share. First-tier cities have been the major focus for both domestic and international sportswear brands, and is also a vital market for key players, resulting in the sportswear market in first tier cities at near saturation point. Meanwhile, sportswear brands are also gaining access into second and third-tier cities with sound economic growth and rising per capita income, where flagship stores would be opened as a typical move in brand building. With the rising of consumer disposal income as indicated economic data for the first half of the year, these lower tier cities which hold the key to genuine market growth going forward are becoming the essential battle grounds for sportswear brands. In the meantime, high-end sportswear brands are seeking to extend their presence in the lower ends of the market, while medium to low-end brands attempt to raise their profile by opening flagship stores or retail outlets in first-tier cities.

*The stimulus effect of sporting events in China*

Beginning with the 2008 Beijing Olympics Games, mega events and sporting games held elsewhere or at home have had an increasing impact on the Chinese life. The Winter Olympics and World Cup South Africa have had an enormous impact keeping consumers' interest in sports and therefore a continued attention in sporting goods. The sportswear industry of the PRC remains positive and holds out enormous potential for rapid development.

*Challenges for the sportswear industry*

The sportswear industry is still subject to the negative impact of excessive inventories as a result of the post-Olympic effect, evidenced primarily by eroded profit and cash flow of retail operators caused by higher retail discounts necessitated by the inventory status, which in turn undermine their confidence in the market, as well as their desire and ability to expand. The Group is of the view that it will still take some time before the post-Olympic effect runs its full course.

Moreover, retail sales of apparel and sporting goods have also been affected by the abnormal climate and the repeated occurrences of natural calamities during the first half of 2010, which have given rise to a mismatch between the product mix launched by brand owners and retailers for normal seasons and the actual needs of buyers under abnormal climatic conditions, resulting in hampered sales and rising inventories.

***Financial Review***

In the post financial crisis era, particularly in the first half of 2010, the world economy, including Chinese economy, has entered into a period of adjustments with various degrees of fluctuations, and the foundation for full economic recovery has to be further consolidated. Despite challenges presented to the consumer goods sector, including sportswear goods industry, the Group has achieved a 14.8% growth in total sales from RMB1,868.4 million for the six months ended 30 June 2009 to RMB2,145.3 million for the six months ended 30 June 2010. Profit for the period attributable to equity holders reached RMB786.0 million, representing a 8.9% growth compared to RMB722.0 million for the six months ended 30 June 2009.

*Key Financial Performance*

| | | **Group** *(Note 3)* Six months ended 30 June | | | **China Segment** *(Note 1)* Six months ended 30 June | | | **Japan Segment** *(Note 2)* Six months ended 30 June | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | **2010** | 2009 | **change** | **2010** | 2009 | **change** | **2010** | 2009 | **change** |
| | *Note* | ***RMB'000*** | *RMB'000* | | ***RMB'000*** | *RMB'000* | | ***RMB'000*** | *RMB'000* | |
| **Key items of condensed consolidated income statement** | | | | | | | | | | |
| Sales | | **2,145,285** | 1,868,421 | **14.8%** | **1,956,632** | 1,678,346 | **16.6%** | **188,653** | 190,075 | **-0.7%** |
| Gross profit | | **1,342,970** | 1,162,686 | **15.5%** | **1,257,676** | 1,074,905 | **17.0%** | **85,294** | 87,781 | **-2.8%** |
| Operating profit | 3 | **947,105** | 849,695 | **11.5%** | | | | | | |
| Profit for the period, attributable to equity holders of the Company | 3 | **786,000** | 721,975 | **8.9%** | | | | | | |
| | | ***RMB cents*** | *RMB cents* | | | | | | | |
| Basic earnings per share | | **13.87** | 12.74 | **8.9%** | | | | | | |
| Diluted earnings per share | | **13.87** | 12.74 | **8.9%** | | | | | | |
| **Profitability ratios** | | | | | | | | | | |
| Gross profit margin | | **62.6%** | 62.2% | **0.4% pt** | **64.3%** | 64.0% | **0.3% pt** | **45.2%** | 46.2% | **-1.0% pt** |
| Operating profit margin | | **44.1%** | 45.5% | **-1.4% pts** | | | | | | |
| Effective tax rate | | **21.1%** | 20.1% | **1.0% pt** | | | | | | |
| Net profit margin | | **36.6%** | 38.6% | **-2.0% pts** | | | | | | |
| **Key operating expenses ratios (as percentage of sales)** | | | | | | | | | | |
| Advertising and marketing expenses | | **7.4%** | 5.8% | **1.6% pts** | **7.2%** | 5.4% | **1.8% pts** | **9.2%** | 9.4% | **-0.2% pt** |
| Employee salary and benefit expenses | | **4.2%** | 4.5% | **-0.3% pt** | **3.1%** | 2.8% | **0.3% pt** | **15.9%** | 19.6% | **-3.7% pts** |
| Design and product development expenses | 3 | **2.8%** | 2.0% | **0.8% pt** | | | | | | |
| | | ***In days*** | *In days* | ***In days*** | *In days* | ***In days*** | *In days* | ***In days*** | *In days* | ***In days*** |
| **Working capital efficiency ratios** | | | | | | | | | | |
| Average trade receivable turnover days | 4 | **34** | 31 | **3** | **26** | 22 | **4** | **116** | 109 | **7** |
| Average trade payables turnover days | 5 | **71** | 74 | **-3** | **58** | 60 | **-2** | **154** | 154 | **0** |
| Average inventory turnover days | 6 | **58** | 66 | **-8** | **33** | 38 | **-5** | **227** | 231 | **-4** |
| **Asset ratios** | | | | | | | | | | |
| Current ratio | 7 | **9.4 times** | 12.4 times | | **8.0 times** | 8.8 times | | **2.1 times** | 1.9 times | |

*Notes:*

1. The China segment is principally engaged in wholesale of sport-related products under Kappa brand in PRC and Macau. It is also engaged in international business.

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

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

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

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

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

7. Current ratio equals to the closing current assets divided by the closing current liabilities.

## Sales

Sales analyzed by geographical segments, business segments and product categories

| | Six months ended 30 June | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2010** | | | 2009 | | | |
| | *RMB'000* | **% of product/ brand mix** | **% of Group sales** | *RMB'000* | % of product/ brand mix | % of Group sales | **Change** |
| **CHINA SEGMENT** | | | | | | | |
| **Kappa brand** | | | | | | | |
| Apparel | **1,467,051** | **75.2%** | **68.4%** | 1,228,374 | 73.4% | 65.7% | **19.4%** |
| Footwear | **416,176** | **21.3%** | **19.4%** | 367,434 | 21.9% | 19.7% | **13.3%** |
| Accessories | **68,868** | **3.5%** | **3.2%** | 78,552 | 4.7% | 4.2% | **-12.3%** |
| **Kappa brand total** | **1,952,095** | **100.0%** | **91.0%** | 1,674,360 | 100.0% | 89.6% | **16.6%** |
| International business and others | **4,537** | | **0.2%** | 3,986 | | 0.2% | **13.8%** |
| **CHINA SEGMENT TOTAL** | **1,956,632** | | **91.2%** | 1,678,346 | | 89.8% | **16.6%** |
| **JAPAN SEGMENT** | | | | | | | |
| Phenix brand | **72,223** | **38.3%** | **3.4%** | 74,236 | 39.1% | 4.0% | **-2.7%** |
| Kappa brand | **116,391** | **61.7%** | **5.4%** | 114,660 | 60.3% | 6.1% | **1.5%** |
| Others | **39** | **0.0%** | **0.0%** | 1,179 | 0.6% | 0.1% | **-96.7%** |
| **JAPAN SEGMENT TOTAL** | **188,653** | **100.0%** | **8.8%** | 190,075 | 100.0% | 10.2% | **-0.7%** |
| **THE GROUP TOTAL** | **2,145,285** | | **100.0%** | 1,868,421 | | 100.0% | **14.8%** |

## China Segment

*Kappa brand*

The Kappa brand business, the core business of the Group, accounted for 91.0% (2009: 89.6%) of the total Group's sales for the six months ended 30 June 2010. Although uncertainties remained in the course of economic recovery have imposed pressure on development of the PRC sportswear goods industry, the sales of Kappa brand products still experienced steady growth and increased by RMB277,735,000 (or 16.6%) compared to the six months ended 30 June 2009. Such growth was mainly attributable to our on-going efforts to position and market the brand. The Kappa brand has been successfully positioned at the forefront of sportswear fashion in China market. It conveys an active, fashionable and youthful image that appeals to a fast-growing customer base. The Kappa brand products have a widespread acceptance from the targeted customer group in China. Driven by strong demand, the number of Kappa brand retail outlets directly or indirectly operated by the Group's distributors increased from 3,511 as of 31 December 2009 to 3,820 as of 30 June 2010, a net increase of 309.

Apparel was the major product of Kappa brand in China and its sales represented 75.2% (2009: 73.4%) of the brand's total sales. The proportions of footwear and accessories were 21.3% (2009: 21.9%) and 3.5% (2009: 4.7%) respectively.

*International Business and Others*

Since the acquisition of Phenix Co., Ltd. ("Phenix"), the Group has decided to gradually terminate the international sourcing and Rukka distribution businesses due to similarities with the business of Phenix. Both businesses have been maintaining a minimal scale of operation since mid/late 2008 in order to clear the remaining inventories and orderings before their closure. As of 30 June 2010, the international sourcing and Rukka distribution business had been terminated completely.

During the period under review, the international business of the Group represented the sales of Kappa brand products designed, developed and manufactured by the Group to the Kappa licensees outside the PRC, Macau and Japan under the license granted by BasicNet S.p.A. ("BasicNet").

Robe Di Kappa products were launched in the first half of 2010. As of 30 June 2010, distributors of the Group opened 3 retail outlets in Beijing, Taiyuan and Dalian. At present, we are seeking other sales channels and markets for further development.

**Japan Segment**

On 1 May 2008, the Group completed the acquisition of 91% shareholdings of Phenix, a company primarily engaged in design, development, marketing and sales of its own branded products. These include two major brands: "Phenix" in ski and outdoor sportswear markets and "Kappa" in football, athletic and golf wear markets. Other small brands include "X-NIX" in snowboard sportswear market and "inhabitant" in casual wear market.

The sales in Japan segment for the six months ended 30 June 2010 was RMB188,653,000 which was substantially the same as the sales of RMB190,075,000 for the same period of 2009. Despite an overall slowdown of the Japanese economy, the sales in Japan segment remained stable as compared to the same period of last year with the combined effects of channels development, branding and sales promotion by Phenix. As a result, the market share has been secured.

**Unit average selling prices and total units sold of Kappa brand products in China Segment**

The unit average selling prices ("ASP") and total units sold of Kappa brand products in China segment are analysed as follows:

| | Six months ended 30 June | | | | | |
|---|---|---|---|---|---|---|
| | **2010** | | 2009 | | **Change** | |
| | **ASP** | **Total units sold** | ASP | Total units sold | **ASP** | **Total units sold** |
| | ***RMB*** | ***in '000*** | *RMB* | *in '000* | | |
| Apparel | **125** | **12,085** | 126 | 9,784 | **-0.8%** | **23.5%** |
| Footwear | **175** | **2,443** | 170 | 2,167 | **2.9%** | **12.7%** |

*Notes:*

1. ASP represent the sales for the period divided by the total units sold for the period.

2. Accessories have a wide range of products that vary significantly in terms of ASP. We believe that the ASP analysis of this product category is not meaningful.

It is the Group's policy to maintain a stable ASP for similar products in the initial phases of economic recovery after the global financial crisis. The ASP for apparel products remained fairly stable at RMB125 and RMB126 for the six months ended 30 June 2010 and 2009 respectively.

The increase in ASP of footwear products from RMB170 for the six months ended 30 June 2009 to RMB175 for the six months ended 30 June 2010 was largely owing to a shift in sales mix to higher-priced items.

Total apparel and footwear product units sold increased by 23.5% and 12.7% respectively for the six months ended 30 June 2010 compared with the six months ended 30 June 2009. In spite of the fact that the growth in sales volume of footwear products was lower than that of apparel products, the growth in sales volume of footwear in 2010 was significantly higher than 4.4% in 2009. Such growth was due to further increased customer trust in our footwear products by improving our production technology and materials quality.

**Cost of Goods Sold and Gross Profit**

For the six months ended 30 June 2010, the cost of goods sold by the Group amounted to RMB802,315,000 (2009: RMB705,735,000), which represented an increase of RMB96,580,000 (or 13.7%). The growth was lower than the 14.8% of overall increase in sales by 1.1 percentage points. The gross profit of the Group amounted to RMB1,342,970,000 (2009: RMB1,162,686,000), which represented an increase of RMB180,284,000 (or 15.5%). The overall gross profit margin of the Group for the six months ended 30 June 2010 was 62.6%, which represented an increase of 0.4 percentage point as compared to the overall gross profit margin of 62.2% for the six months ended 30 June 2009.

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

| | Six months ended 30 June | | |
|---|---|---|---|
| | **2010** | 2009 | |
| | **Gross profit margin** | Gross profit margin | Change |
| **China segment** | | | |
| Kappa brand | **64.3%** | 64.1% | 0.2% pt |
| International business and others | **38.6%** | 23.7% | 14.9% pts |
| **China segment overall** | **64.3%** | 64.0% | 0.3% pt |
| **Japan segment** | **45.2%** | 46.2% | -1.0% pt |
| **Group overall** | **62.6%** | 62.2% | 0.4% pt |

The gross profit margin of Kappa brand in China segment remained fairly stable at the level of 64.3% and 64.1% for the six months ended 30 June 2010 and 2009 respectively mainly due to persistent effects of our consistent product pricing and discount policy to distributors.

Due to keen competition and higher production cost in Japan, the gross profit margin in Japan segment for the six months ended 30 June 2010 was 45.2%. As compared to 46.2% in Japan segment for the same period of 2009, such decrease was primarily caused by larger-scale of sales promotion for old stock clearance conducted by Phenix for the period in which the gross profit margin of the old stock products was lower than that of the new products for the season.

The gross profit margin of Kappa brand products in China segment analysed by product category are as follows:

| | Six months ended 30 June | | |
|---|---|---|---|
| | **2010** | 2009 | |
| | **Gross profit margin** | Gross profit margin | Change |
| Apparel | **67.0%** | 67.6% | -0.6% pt |
| Footwear | **55.0%** | 53.2% | 1.8% pts |
| Accessories | **63.7%** | 62.1% | 1.6% pts |
| Overall | **64.3%** | 64.1% | 0.2% pt |

The gross profit margin of apparel products was maintained at a high level of 67.0% for the six months ended 30 June 2010, substantially the same as 67.6% for the six months ended 30 June 2009.

The gross profit margins of footwear products and accessories increased from 53.2% and 62.1% for the six months ended 30 June 2009 to 55.0% and 63.7% respectively for the six months ended 30 June 2010. Such increases were attributable to increase in product prices as well as effective cost control.

**Other Gains, Net**

Other gains for the six months ended 30 June 2010 and 2009 mainly represented subsidy income from the government amounted to RMB41,787,000 and RMB22,011,000 respectively.

**Distribution Costs and Administrative Expenses**

Distribution costs and administrative expenses mainly comprised advertising and marketing expenses, employee salaries and benefit expenses, design and product development expenses, legal and consulting fees as well as logistic fees. For the six months ended 30 June 2010, total distribution costs and administrative expenses amounted to RMB441,262,000 (2009: RMB337,415,000), accounted for 20.6% of the Group's total sales, an increase of 2.5 percentage points from 18.1% of the Group's total sales for the six months ended 30 June 2009. Such increase was primarily due to expanded efforts in advertising and marketing, product design and development. For major expenses, advertising and marketing expenses as a percentage of sales increased by 1.6 percentage points from 5.8% for the six months ended 30 June 2009 to 7.4% for the same period in 2010. Further to the "we are One" slogan campaign launched last year, the Group has launched its Winter Olympics and World Cup advertising campaigns as well as its first television commercial to further promote our brand, thus the advertising and marketing expenses went up in the first half of 2010. Furthermore, design and product development expenses as a percentage of sales increased from 2.0% for the six months ended 30 June 2009 to 2.8% for the same period in 2010, such increase was primarily due to develop of the Kappa P-A.C series jointly designed and developed with Mr. Michael Michalsky, the former global creative director of Adidas, since the second half of 2009. Since the acquisition of Phenix, the Group has endeavored to expand and integrate the product development function of Phenix which resulted in a higher design and product development expenses.

**Operating Profit**

For the six months ended 30 June 2010, operating profit of the Group was RMB947,105,000, an increase of RMB97,410,000 (or 11.5%) compared with RMB849,695,000 for the six months ended 30 June 2009. The operating profit margin was 44.1% for the six months ended 30 June 2010 compared with 45.5% for the six months ended 30 June 2009. The decrease in the operating profit margin by 1.4 percentage points was mainly due to the increase of 2.5 percentage points in expense ratio.

**Finance Income, Net**

For the six months ended 30 June 2010, finance income mainly comprised interest income of RMB43,893,000 (2009: RMB57,354,000) and foreign exchange losses of RMB5,485,000 (2009: exchange gains of RMB2,101,000).

The interest income mainly comprised interest income from unutilised Global Offering proceeds and cash generated from operating activities deposited into licenced banks and financial institutions in Hong Kong and the PRC. The decrease in interest income for the six months ended 30 June 2010 as compared with the same period of 2009 was mainly attributable to fall in interest rates of our deposits denominated in Hong Kong dollars ("HK Dollars") and United States Dollars ("US Dollars") placed in Hong Kong licenced banks.

**Share of Profits of Jointly Controlled Entities and Associated Companies**

For the six months ended 30 June 2010, share of profits of jointly controlled entities and associated companies amounted to RMB5,347,000. This mainly represented the share of profits of the 6 joint ventures with our distributors amounted to RMB17,681,000 under equity method of accounting, less amortization of intangible assets recognized at fair value and other fair value adjustments on dates of acquisitions amounted to RMB11,613,000.

**Taxation**

For the six months ended 30 June 2010, income tax expense of the Group amounted to RMB210,048,000 (2009: RMB181,700,000). The effective tax rate was 21.1% (2009: 20.1%). Such change was primarily due to the increase in income tax rate of our major operating subsidiaries established in the Shanghai Pudong New Area from 20% for 2009 to 22% for 2010.

Effective from 1 January 2008, the subsidiaries of the Group incorporated in the PRC are subject to corporate income tax at the rate of 25% in accordance with the Corporate Income Tax Law of the PRC (the "New EIT Law") as approved by the National People's Congress on 16 March 2007. The EIT rate applicable to subsidiaries of the Group established in the PRC is reduced to 25% for those with original applicable EIT rates higher than 25%, or gradually increase to 25% over a 5-year period from 2008 to 2012 for those with original applicable EIT rates lower than 25%, where appropriate. The major operating subsidiaries of the Group established in the Shanghai Pudong New Area are entitled to preferential income tax rate of 22% in 2010 (2009: 20%).

**Profit for the Period Attributable to Equity Holders of the Company and Net Profit Margin**

Profit for the period attributable to equity holders of the Company for the six months ended 30 June 2010 was RMB786,000,000, representing an increase of 8.9% from RMB721,975,000 for the six months ended 30 June 2009. Net profit margin for the six months ended 30 June 2010 was 36.6%, representing a decrease of 2.0 percentage points against 38.6% for the six months ended 30 June 2009. Such decrease was primarily due to the increase in expense ratio as well as income tax rate.

**Earnings Per Share**

Both the basic and diluted earnings per share were RMB13.87 cents for the six months ended 30 June 2010, a rise of 8.9% against the basic and diluted earnings per share of RMB12.74 cents for the six months ended 30 June 2009.

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 the Company has resolved to declare an interim dividend and interim special dividend of RMB4.16 cents and RMB4.16 cents respectively per ordinary share (totaling RMB8.32 cents per ordinary share) for the six months ended 30 June 2010, amounting to RMB235,722,000 and RMB235,722,000 respectively (totaling RMB471,444,000).

The interim dividend and interim special dividend will be paid in HK Dollars based on the rate of HKD1.00 = RMB0.8746 being the official exchange rate of HK Dollars against Renminbi as quoted by the People's Bank of China at 24 August 2010. The dividends will be paid on or around 20 September 2010 to shareholders whose names appear on the register of members of the Company on 13 September 2010.

**Financial Position**

***Working capital efficiency ratios***

*China Segment*

The average trade receivables turnover days for the six months ended 30 June 2010 and 2009 were 26 days and 22 days respectively. The relatively short turnover days in both periods was mainly attributable to the Group's stringent credit control policy.

The average trade payables turnover days for the six months ended 30 June 2010 and 2009 were 58 days and 60 days respectively. This was in line with the Group's major policy to repay trade debts to its suppliers and manufacturers within 60 to 90 days.

As the Group has maintained a sound inventory management system, the average inventory turnover days for the six months ended 30 June 2010 and 2009 were 33 days and 38 days respectively.

Owing to the Group's prudent operations policies, the Group has been able to maintain healthy and relatively short trade receivables and inventory turnover days in the initial phases of economic recovery and consolidation period.

*Japan Segment*

The average trade receivables turnover days, average trade payables turnover days and average inventory turnover days were 116 days, 154 days and 227 days respectively for the six months ended 30 June 2010 as compared to 109 days, 154 days and 231 days respectively for the six months ended 30 June 2009. As our management policies on procurement and sales remained unchanged, the above turnover days have maintained substantially constant.

The turnover days of Japan segment are relatively longer than the turnover days of China segment. The frequency of Phenix's sales fairs is less than China segment and therefore required a longer production and settlement period.

**Liquidity and financial resources**

As at 30 June 2010, cash and bank balances (including long term bank deposits) of the Group amounted to RMB5,531,676,000, a decrease of RMB595,712,000 compared with a balance of RMB6,127,388,000 as of 31 December 2009. This decrease mainly represents net cash generated from operating activities of RMB1,006,032,000, less investments in the treasury bonds issued by the Ministry of Finance of the PRC and investments in capital guaranteed products offered by PRC commercial banks of RMB850,000,000 and dividends paid of RMB733,799,000.

As at 30 June 2010, the Group's net asset value was RMB7,406,110,000 (31 December 2009: RMB7,354,204,000). The Group's current assets exceeded current liabilities by RMB6,434,968,000 (31 December 2009: RMB6,521,252,000). The Group also had a very strong liquidity position. The current ratio as of 30 June 2010 was 9.4 times as compared to 12.8 times as of 31 December 2009, such fall was due to higher taxes payable of the Group as at 30 June 2010 than that as at 31 December 2009, which were settled in full in July 2010. As at 30 June 2010, the Group had no outstanding bank loans or other borrowings.

**Pledge of assets**

As at 30 June 2010, the Group had restricted bank deposits of RMB11,100,000 (31 December 2009: RMB11,100,000) to secure advertising costs payable to a third party business partner and approximately RMB37,016,000 (31 December 2009: RMB37,348,000) were held in banks as guarantee deposit for the issue of letters of credit.

**Capital commitments and contingencies**

As at 30 June 2010, the Group had no significant capital commitments or contingent liabilities.

**Foreign exchange risk**

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

The major operations of the Group were mainly carried out in the PRC and transacted in Renminbi, apart from the Global Offering proceeds in HK Dollars or US Dollars, the exchange rate risk of the Group was not significant. The Group will closely monitor the unutilized Global Offering proceeds and will use appropriate hedging solutions if necessary.

**Significant investments and acquisitions**

The Group has made no significant investment or any material acquisition or disposal of subsidiaries during the six months ended 30 June 2010.

## Business Review

### *Brand building and marketing*

With the expansion of Kappa's distribution network and business scale in the PRC market, the Group increased the magnitude of Kappa brand promotion as it launched a wide range of nationwide brand building and marketing campaigns, while continuing to implement an efficient brand marketing strategy underpinned by product differentiation.

Following the official launch of "we are One" as the Kappa brand slogan in November 2009, the Group continued to focus on Kappa brand building on the notion of "we are One" in the first half of 2010, with ongoing improvements in international brand recognition and market competitiveness. In line with the Company's brand building strategy, Kappa worked with the "Total Soccer" (《天下足球》) programme of CCTV 5 and launched a brand image TV commercial on 17 May 2010, the first of its kind since the brand was introduced in the PRC.

*Kappa's promotion activities for 2010 FIFA World Cup South Africa*

Our marketing activities during the first half of 2010 were mainly associated with the 2010 FIFA World Cup South Africa, as an integrated campaign was officially launched under the theme for the year of "we are One" in a synchronous move with the debut of the first Kappa TV commercial. The objective was to launch a multi-dimensional, integrated World Cup marketing programme under the theme of "Soccer Frenzy" ("知足狂樂") in joint effort with numerous Internet and graphic media, presenting the event from the perspective of "football as fashion." Through various sponsorships, we promoted the fusion of sport and fashion to consumers under the "we are One" notion and fostered Kappa's unique approach to the soccer as a sport. We also hope to reinforce consumers' understanding of the brand slogan "we are One" that fashion is a sport that requires lasting involvement instead of a short-lived show, while sport is an enduring fashion rather than mere games and competitions, through these marketing efforts as shown below:

— The "Kappa World Team" Series Video

For a more indepth interpretation of Kappa's approach to the soccer as a sport and also a brand new and unique experience with the brand, the Group conceived a series of official marks inspired by the World Cup and produced the "Kappa World Team" series video, which was shown on the Kappa activity website in three colours: dazzling red, green and grey, to highlight Kappa's spirit of sport and fashion.

— The Kappa "Soccer Frenzy" interactive website

The Group designed an interactive website featuring a Flash presentations, interactive games with prizes and AR interactive platform, etc. during the World Cup game. Innovative and entertaining web contents complemented by the excitement of competition and interaction of online games have provided consumers with an exquisite experience of the Kappa brand which they could readily share with others to spread the soccer frenzy of Kappa.

— The Kappa World Cup Celebrity Campaign

The Group sponsored the "DreamBoat Soccer Team" formed by members from the show business and launched the "DreamBoat and Kappa Teaming Up for 2010 World Cup Africa" campaign in June, as a host of entertainment celebrities attended the World Cup in South Africa to enhance brand recognition for Kappa. Kappa also joined forces with Bazaar, the world-renowned fashion magazine, to launch a soccer frenzy carnival, stealing the limelight from other fashion parties and celebrity functions in Beijing during the month of June. The fusion of "sport and fashion " was highlighted as the carnival showcased Bazaar's lavish magnificence and Kappa's fashionable youthfulness, while the presence of the entertainment celebrities added glamour to the event.

— Kappa Art Show

Kappa organised street art shows at Beijing Wangfujing and Solana (藍色港灣), where the works of various artists were displayed and promoted through a combination of online and offline activities. The art shows were met with enthusiastic response, which was positive for the marketing of the Kappa brand.

— Soft penetration through the Internet

Through advertisements on the SNS public homepage, dissemination through 163 mailbox signatures and advertising inserts on www.kaixin001.com (開心網) and www.renren.com (人人網), the Group took full advantage of the Internet platform to publicise Kappa's World Cup activities among young, frequent Internet-surfers. Further attraction for the young generation was assured through the hot and lively "Kappa Lady."

*Crossover with Bazaar*

In a crossover with Bazaar, the internationally renowned fashion magazine, the Kappa brand was officially presented in Bazaar (《時尚芭莎》) and Bazaar Men's Style (《芭莎男士》). Credit to some creative mix-and-match by the stylists, fashion mix-and-matchers and column editors of Bazaar working with the Kappa team, a brand new graphic fashion image was created for Kappa. During June to October, Kappa will continue to greet shoppers in new looks of fashion through Bazaar.

*The Kappa public home page on www.kaixin001.com*

Officially launched during the first half of 2010, The Kappa public home page on www.kaixin001.com has quickly grown into the largest and most popular platform for youngsters, being closely followed by a host of young Internet surfers and claiming the largest user population in the PRC which significantly overlaps with Kappa's customer base. The Group has presented Kappa's brand resources such as products, history and activities, etc. in a soft language fondly spoken by the young generation through the Kappa public home page on www.kaixin001.com, complemented by direct interactions with Kappa's followers as part of our brand building and marketing initiatives. Many young web browsers have been attracted to the web page and the number is expected to grow, which will result in a more extensive outreach to consumers.

During the first half of 2010, the Group continued to cooperate with BasicNet, the other owner of the Kappa brand, together with licensees of Kappa brand in other countries in a series of sporting sponsorships, including:

— Co-sponsorship for Italian Serie A club AS Roma

— Official supplier for team clothing for Virgin Racing F1 Team

— Co-sponsorship for German Bundesliga club Borussia Dortmund

***Product design and development***

Product differentiation has always been one of the most important factors contributing to the success of the Group. To avoid price competition arising from the homogenisation of products, the Group developed and launched several new product lines in the first half of 2010, leveraging fully Phenix's inherent strengths in product research that featured in-house as well as guest designers of different nationalities.

A young fashion line named Kappa P-A.C was developed by renowned German designer Mr. Michael Michalsky during the first half of 2010 with the Group. Underpinned by the idea of a green and healthy life and simple designs, the new fashion line was targeted at young consumers in central urban areas or first-tier cities. Mr. Michael Michalsky is well-known for his amazing creativity and uniqueness in fashion design mainly for trendy international consumers, and the essence of his design works in perfect tandem with Kappa's notion of "Sport and Fashion." The Group believes that it will register higher profit margin in the intensely competitive market as the Kappa product lines continue to expand on the back of research and development strengths fostered through cooperation with domestic and international renowned designers.

Construction work for our research and development centre in Taicang, Jiangsu, with an area of over 1,550 square metres, was officially completed in June 2010. Product research and development is being conducted on a synchronous basis between the PRC and Japan as technical personnel at the Taicang centre carry out their work using the same software platform as that used in the Group's research and development centre in Japan. With the gradual transfer of Phenix's technology and experience in manufacturing top-class sportswear generated from more than 50 years in history to the PRC research and development centre, the technical qualities of the Group's products marketed in the PRC will be greatly enhanced and the response time of its research and development significantly shortened.

The competence of our in-house design teams was further enhanced as we continued to work with overseas institutions such as University of Arts London ("UAL") and WGSN. As a partner of UAL in the PRC apparel industry since 2007, the Group has been receiving support and assistance in creative and commercial activities from UAL through consulting services, student programmes and training courses. Through the UAL student programme, many outstanding UAL graduates have been recruited to join our design teams, bringing invaluable creativity to our product design. WGSN is a world-leading supplier of online researches, trend analyses and latest information on the fashion, design and style industries. The Group believe that cooperation with UAL and WGSN will broaden the vision of our designers and provide them with new creativity and inspirations, imparting elements of international design in our product portfolio.

***Sales and Channels***

*Number of stores*

In China segment, the Group has adopted an "exclusive distributor" policy to sell the Group's products to a limited number of distributors. Under this policy, the Group typically appoints only one primary distributor in one designated geographical area of a market. We believe that such policy will effectively reduce disorderly competition within the same area among distributors selling the same brand, and also help distributors to improve their profitability and thereby enhance their loyalty. As of 30 June 2010, the Group had 38 distributors who directly or indirectly operated 3,820 retail outlets selling Kappa brand products in the China segment. This represented a net increase of 309 retail outlets compared with the 3,511 retail outlets as of 31 December 2009. The distribution of retail outlets covered all major provincial cities and other large urban areas and towns in China. Meanwhile, following the official launch of the fourth-generation store plan in July 2009, the Group continued to advance the opening and renovation of fourth-generation stores. As at 30 June 2010, a total of 164 fourth-generation stores have been newly opened and renovated.

The following table details the change in the number of Kappa brand retail outlets operated directly and indirectly by the distributors of the Group for the year ended 30 June 2010:

| | **As at 30 June 2010** *(number of retail outlets)* | As at 31 December 2009 *(number of retail outlets)* | **Net increase** *(number of retail outlets)* |
|---|---|---|---|
| **Total** | **3,820** | 3,511 | **309** |

*Joint venture project*

The six joint ventures formed by the Group with its six key distributors in Beijing and nearby areas, Shandong, Shaanxi, Ningxia, Hangzhou, Shanxi, Shenyang, Tianjin and Nanjing last year were under sound operation during the first half of 2010. By owning a 30.0% minority stake in each of the six joint ventures, the Group facilitated a consolidation of the financial systems of these joint ventures during the period and completed full implementation of the DRP retail system at all shops of the joint ventures. Through these measures, the Group has been able to monitor sales in these key markets more effectively and respond to any situation in a more timely and effective manner. In the second half of 2010, the Group will continue to advance the joint venture plan and further consolidate the resources of the Group and the joint ventures to achieve win-win results for both.

*On-line sale*

The Group reported growth in a number of both online distributors and online stores for the first half of 2010, as it continued with its efforts to promote online sales. Although shoppers were able to buy Kappa products at an increasing number of online stores, Taobao.com, the leading e-commerce platform in the PRC, remained as our leading strategic partner.

The Group is of the view that online sales would not only provide a positive complement to physical shops in terms of geographic coverage and products sold, but would also serve as an effective platform for brand promotion and direct communications with customers. The Group will continue to benefit from the huge membership base and the resource advantage of the e-platform of Taobao.com to further increase the awareness and influence of the Kappa brand and the Kappa flagship store at Taobao.com.

***Other businesses***

*Japan Market*

Being the most popular ski brand in Japan with the largest market share, Phenix also enjoys strong recognition in the international market with sales presence in a number of European and North American countries. As the markets for its products are mostly located in the Northern Hemisphere, sales for the first six months of the year typically account for a minimal share of total annual sales because of the seasonal factor. In order to introduce the Phenix brand to China, the Group has enhanced the development of outdoor product series under the Phenix brand, with a view to achieving more balanced sales contributions from different periods of the year, as well as providing effective support for exclusive outlets for branded products as a business model for the PRC market.

Brand promotion for Phenix, as a trademark for professional alpine skiing apparel, is conducted by way of sponsorships for some of the world's top ski teams and athletes. At the XXI Olympic Winter Games held in Vancouver in February 2010, Phenix sponsored the Norwegian National Alpine Ski Team and the Japanese National Ski Team, as well as the apparel sponsor for Norway's Winter Olympics Team. The Norwegian National Ski Team ranked the fourth in the medal table having bagged 23 medals, including 9 gold, 8 silver and 6 bronze medals at the Olympic Winter Games.

In line with Kappa products marketed in Japan comprising mainly soccer, general training and golf items, brand promotion for Kappa is also conducted through sponsorships for soccer teams and golfers. During the first half of 2010, we sponsored three J-2 soccer teams in Japan, namely Consadole Sapporo, Tokyo Verdy, and JEF United, as well as famous Japanese golfers Tsujimura Asuka and Tamie Durdin.

*PRC Market*

Robe Di Kappa

Subsequent to the opening of the first Robe Di Kappa outlet in Beijing on 24 February 2010, further Robe Di Kappa outlets have been opened in various cities across the nation. The launch of the Robe Di Kappa brand with the opening of new stores was complemented by a variety of marketing activities, which were met with enthusiastic response and highly praised. Prior to the "Presentation of Fashion Trends for Fall/Winter 2010," marketing activities for Robe Di Kappa in different formats were launched, such as the "Weekend Surprise" musical performance in May and the "SUMMERHILL" musical performance in June, where we interacted with consumers via cross-media activities in different art forms.

The operation of Robe Di Kappa retail outlets during the first six months of 2010 was intended as a market-testing exercise. The sales performance of the retail outlets during the period, however, exceeded the expectations of the management and distributors and provided valuable experience for channel and market expansion in future. The Group is actively working with its distributors to plan for further channel and market expansion.

**Human Resources**

As of 30 June 2010, the Group have approximately 480 employees throughout the PRC region (As of 31 December 2009: 460 employees). We also have approximately 271 employees in Japan (As of 31 December 2009: 247 employees) after the acquisition of Phenix.

Human resources remains as the key strategic resources for corporate development. In order to attract, foster and retain high caliber personnel, we are committed to offer employees at all levels a sound platform for career development as well as competitive compensation packages by enhancing and optimizing our human resource management system. During the period under review, the Group continued to deploy a performance based remuneration scheme to stimulate initiative and creativity among employees, ensuring the targets at all levels of the Group could be achieved. In addition, the Group continued to implement long-term cash-settled performance based employees benefit plan (also known as Performance Unit Plan), which has effectively linked the individual reward to overall operating results of the Group. The Performance Unit Plan has also served as a bonus to reward long-term contribution from employees. With an aim to effectively implement 5-year plan of the Group, in addition to our successful reforms of branding, marketing and supply chain systems, we have recruited more professionals with international visions as planned for our multi-brand strategy.

## OUTLOOK

In light of the current economic development in China, management of the Group sees huge potential for growth in the sportswear industry in China. However, with increasingly more new brands popping up in sporting goods market, consumers are becoming more rational with better understanding on brand attributes and product knowledge, implying that brand differentiation with uniqueness from others is the key to success. Thus, brand positioning has to be taken into account for sportswear brand in brand building, product innovation, operating model design and market expansion. Recognition of consumers and consolidation of market position should be only achieved by operations optimization as well as competitiveness enhancement.

Looking ahead, the Group will continue to implement its corporate development strategy reoriented in the beginning of 2010 by reinforcing, among others, brand building, multi-brand operations and management, research and development as well as channel and retail management so as to further bolster our competitiveness.

**Brand Expansion and Brand Relevance**

Unique brand image and high brand recognition of "Kappa" have been perceived by consumers in China after years of rapid development. Our attention will continue to be paid on the brand value of "Kappa" weighted by our target consumers. By communicating our brand attributes to consumers through multi-dimension advertising and promotion campaigns, our brand awareness will be further enhanced. In the second half of 2010, in addition to our continual sponsorship for national sports events, such as China Open Tennis Championships and WGC-HSBC Golf Champions, a new Kappa TV commercial will be launched. Further, the Group will enter into a cooperation arrangement with BasicNet, the Kappa's global owner, in respect of co-sponsorship for global sports events and clubs aiming to consolidate and even enhance the high end sports brand image of "Kappa".

**Sales Channel Expansion and Retail Management Improvement**

Under our brand guidelines of "Kappa" in establishing high-end fashion sportswear brand, the Group will also speed up the expansion and penetration of Kappa stores in first tier cities. Also, product planning management and product retail management will be established based on point-of-sale system for in-time data collection and analysis on terminal retail and inventory. As a result, the strengthening of control and management of our retails stores will increase our store efficiency.

**International Cooperation for R&D Upgrade**

Kappa P-A.C series, the product of our unprecedented cooperation with Mr. Michael Michalsky (a German renowned designer), have won widespread acceptance. We will continue to work with Mr. Michael Michalsky. Besides, the Group plans to further solidify the leading position of "Kappa" brand in the fashion sportswear industry by using additional resources of international design, such as UAL, Phenix in Japan as well as BasicNet in Italy.

In addition, R&D center in Taicang, Jiangsu will continue to conduct technology transfer in production and fabric as well as product design transfer from Phenix in Japan, aiming to enhance the technological competitiveness of our products under different brands.

**Development of "Robe Di Kappa" and Multi-brand Operations**

Consequent to our successful trial operations, the popularity of "Robe Di Kappa" has gone beyond the expectation of our management. As such, more efforts on development of "Robe Di Kappa" in China will be paid to allow us to effectively enter into such high-end sportswear market characterized by faster growth and less competition in China. With effective development of "Robe Di Kappa" brand, the Group will further accelerate its pace towards multi-brand operations, which could in turn provide positive contribution to our overall sales.

## OTHER INFORMATION

**Purchase, Sale or Redemption of Listed Securities**

During the six months ended 30 June 2010, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

**Book Closure**

The Register of Members of the Company will be closed from 9 September 2010 to 13 September 2010, both days inclusive, for the purpose of determining shareholders' entitlements to the 2010 interim dividend and interim special dividend. In order to qualify for the 2010 interim dividend and interim special dividend, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 8 September 2010.

**Compliance with Code on Corporate Governance Practices**

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

During the period under review, the Company has complied with all the code provisions set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except one deviation from code provision E.1.2 of the CG Code. The chairman and executive director, Mr. Chen Yihong could not attend the annual general meeting of the Company held on 12 May 2010 due to business engagement at the Company's trade fair in Beijing. The chief executive officer, the non-executive director and the company secretary 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 2009.

**Compliance with the Model Code for Directors' Securities Transactions**

The Company has adopted a set of code of practice prescribed in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the standard for securities transactions by Directors. Having made specific enquiry by the Company, all the directors of the Company confirmed that they had complied with the required standard regarding securities transactions by the directors as set out in the Model Code during the period under review.

**Audit Committee**

The Audit Committee of the Company, comprising the 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 2010.

The unaudited condensed consolidated interim financial information for the six months ended 30 June 2010 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 unmodified review report is included in the interim report to be sent to shareholders.

**Publication of Results Announcement**

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

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

Hong Kong, 25 August 2010

*As at the date of this announcement, the executive Directors of the Company are Mr. Chen Yihong and Mr. Qin Dazhong, the non-executive Director of the Company is Mr. Gao Yu, and the independent non-executive Directors of the Company are Mr. Jin Zhi Guo, Dr. Xiang Bing and Mr. Xu Yudi.*

*In this announcement, RMB are translated for illustration purpose only into HK$ at the exchange rate of RMB0.8746 to HKD1.00.*