



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

WE
ARE
ONE

Interim
Report
2010



VISION

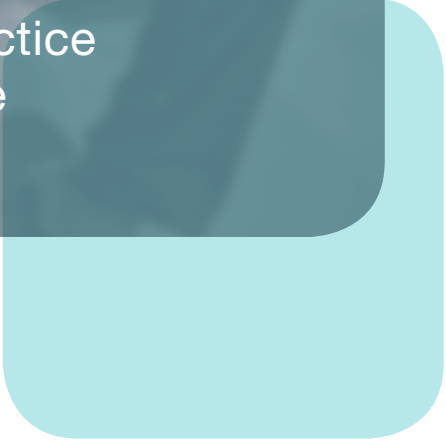
By uniting outstanding individuals and striving for managerial excellence, we'll lead the sports fashion industry, all with joy and passion.

MISSION

To be the most pioneering and desired sport-life brands

CORE VALUE

Innovation, Practice
and Confidence



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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Chen Yihong (Chairman)
Mr. Qin Dazhong (Chief Executive Officer)

NON-EXECUTIVE DIRECTOR

Mr. Gao Yu

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Jin Zhi Guo
Dr. Xiang Bing
Mr. Xu Yudi

AUTHORISED REPRESENTATIVES

Mr. Gao Yu
Ms. Wai Pui Man

COMPANY SECRETARY

Ms. Wai Pui Man

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

LEGAL ADVISERS

Norton Rose Hong Kong
Conyers Dill & Pearman
Hylands Law Firm

INVESTOR RELATIONS CONSULTANT

Porda International (Finance) PR Group

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
Grand Cayman KY1-1107
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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Wanchai
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REGISTERED OFFICE

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Grand Cayman KY1-1111
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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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No. 89 Queensway
Hong Kong

WEBSITE

www.dxsport.com



INFORMATION FOR INVESTORS

OTHER IMPORTANT INFORMATION

1. Share Information

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

Stock code: 3818

Number of ordinary shares issued as at 30 June 2010:
5,666,401,000

2. Important Dates

Announcement of 2010 interim results: 25 August 2010

Book closure dates: 9 September 2010 to 13 September 2010
(both days inclusive)

3. 2010 Interim Dividend and Interim Special Dividend

Interim dividend: RMB4.16 cents per ordinary share

Interim special dividend: RMB4.16 cents per ordinary share

Payment date: on or after 20 September 2010

4. Investor Relations Department

Building 21, No. 2 Jingyuanbei Street,
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Beijing 100176, China

Telephone: (8610) 6783 6585

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5. Website

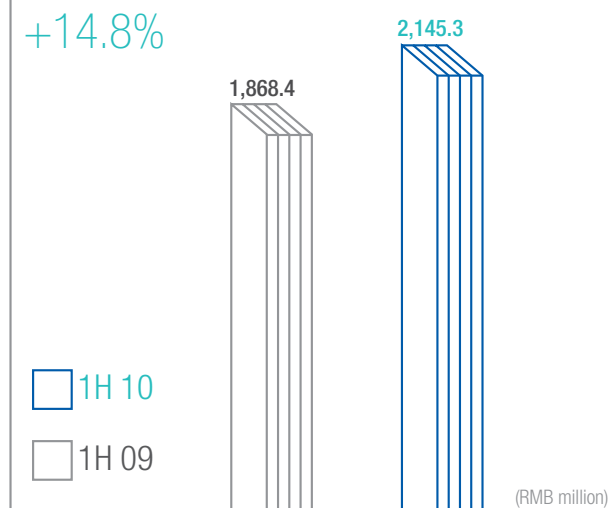
www.dxsport.com



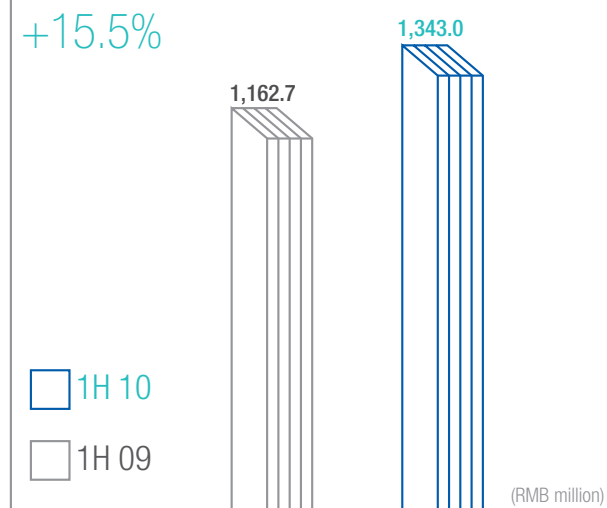


RESULTS HIGHLIGHTS

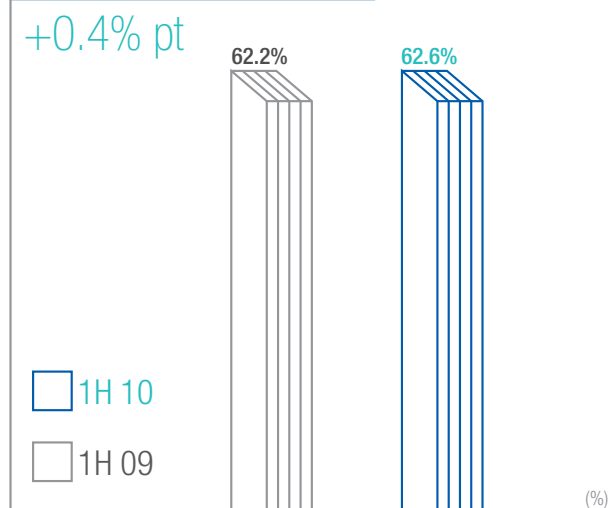
SALES



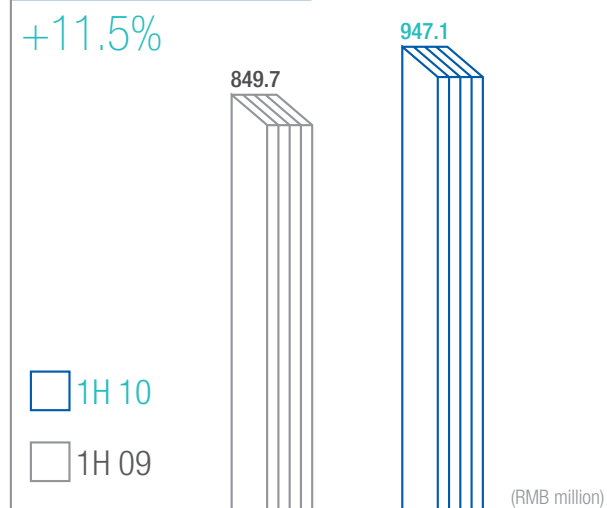
GROSS PROFIT



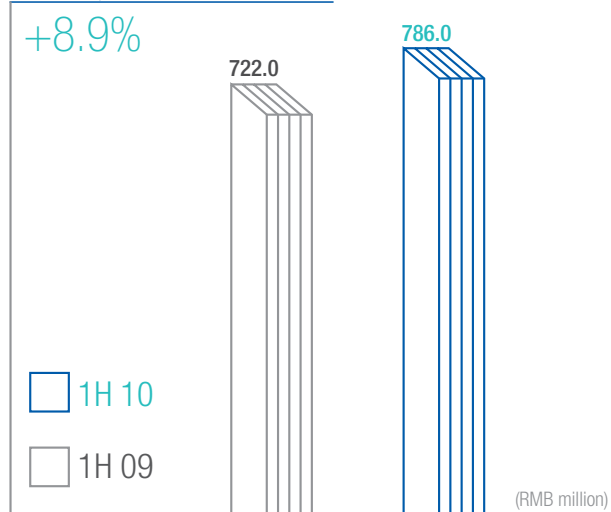
GROSS PROFIT MARGIN



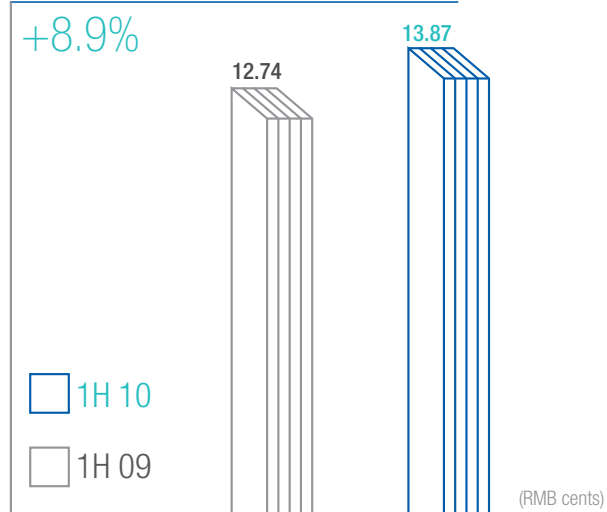
OPERATING PROFIT



PROFIT FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS



BASIC EARNINGS PER SHARE



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 profit 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



CHEN Yihong
Chairman

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 its 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 to 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

MANAGEMENT
DISCUSSION
AND
ANALYSIS





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 awakened 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Key Financial Performance

Note	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
	RMB'000	RMB'000		RMB'000	RMB'000		RMB'000	RMB'000	
Key items of condensed consolidated income statement									
	2,145,285	1,868,421	14.8%	1,956,632	1,678,346	16.6%	188,653	190,075	-0.7%
	1,342,970	1,162,686	15.5%	1,257,676	1,074,905	17.0%	85,294	87,781	-2.8%
Operating profit	947,105	849,695	11.5%						
Profit for the period, attributable to equity holders of the Company	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% pts						
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	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	34	31	3	26	22	4	116	109	7
Average trade payables turnover days	71	74	-3	58	60	-2	154	154	0
Average inventory turnover days	58	66	-8	33	38	-5	227	231	-4
Asset ratios									
Current ratio	9.4 times	12.4 times		8.0 times	8.8 times		2.1 times	1.9 times	

Notes:

- 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.
- The Japan segment is principally engaged in sales of sport-related products under Kappa, Phenix and other brands.
- 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.
- 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.
- 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.
- 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.
- 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	2010		2009	2009		Change
	RMB'000	% of product/brand mix	% of Group sales	RMB'000	% of product/brand mix	% of Group sales	
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%

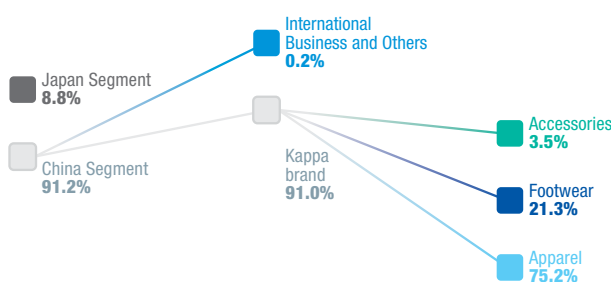
SALES ANALYSIS – THE GROUP



THE GROUP
Sales analysis by geographical segments

CHINA SEGMENT
Sales analysis by business

KAPPA BRAND (CHINA SEGMENT)
Sales analysis by product categories



MANAGEMENT DISCUSSION AND ANALYSIS

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				Change	
	2010		2009		ASP	Total units sold
	ASP RMB	Total units sold in '000	ASP RMB	Total units sold 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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

	Six months ended 30 June		Change
	2010	2009	
	Gross profit margin	Gross profit margin	
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		Change
	2010	2009	
	Gross profit margin	Gross profit margin	
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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.”



1.



2.



3.



4.

1. The World Cup Africa Tour of the DreamBoat Soccer Team

2. The “Soccer Frenzy” World Cup Night activity on June 11

3. Works of the Kappa Street Art Show

4. The DreamBoat Soccer Team’s gathering with disable people from charity organization in Africa

MANAGEMENT DISCUSSION AND ANALYSIS

Crossover with Bazaar

In a crossover with Bazaar, the internationally renowned fashion magazine, the Kappa brand was officially presented in Bazaar (《时尚芭莎》) 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 new graphic and fashion image for Kappa designed by Bazaar and Kappa team



从左至右
Katia
 印花 T 恤、运动休闲鞋 Kappa
 嫩粉色皮质短靴 Zara
 拼色手链 H&M
 蕾丝长裙 私人物品
 项链
 棕色运动外套、足球长袜 Kappa
 珠片刺绣背心 DKNY
 针织内裤 Louis Vuitton
 水晶戒指 Konplott
 拼色黑色凉鞋 Fendi
Telma
 T 恤、棕色运动外套、足球长袜、
 运动休闲鞋 Kappa
 褶皱超短裙 H&M
 金属手链、拼色手链
 Louis Vuitton

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



- 1. German Bundesliga club Borussia Dortmund
- 2. Virgin Racing F1 Team
- 3. Italian Serie A club AS Roma

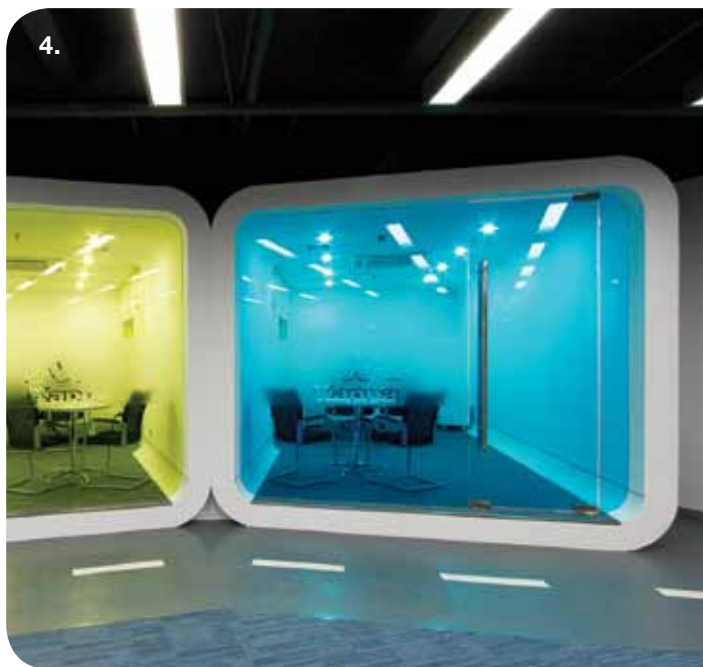
MANAGEMENT DISCUSSION AND ANALYSIS

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.



1. Mr. Michael Michalsky with the Kappa P-A.C products

3. The POP of Kappa P-A.C products

4. The Group's R&D centre in Taicang

2. The official launching ceremony for Kappa P-A.C products

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.



1 & 2. Fourth-generation stores of the Kappa brand at Shenyang ZhongJei

MANAGEMENT DISCUSSION AND ANALYSIS

The following diagram illustrates geographic distribution of the retail outlets of Kappa Brand as at 30 June 2010:



Province	Province	Province	Province
Anhui	158	Shandong	236
Macau	4	Shanxi	88
Beijing	144	Shaanxi	68
Fujian	165	Guizhou	64
Gansu	23	Hainan	26
Guangdong	294	Hebei	191
Guangxi	51	Henan	103
Qinghai	10	Heilongjiang	172
		Hubei	166
		Tibet	6
		Xinjiang	46
		Yunnan	96
		Zhejiang	341
		Chongqing	94
		Hunan	133
		Jilin	134
		Jiangsu	266
		Jiangxi	78
		Liaoning	208
		Inner Mongolia	63
		Ningxia	9
		Shanghai	101
		Sichuan	211
		Tianjin	71

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.



1. The Norwegian National Ski Team member was awarded at the XXI Winter Olympic Games held in Vancouver



2. The Sponsorship Signing Ceremony among Norway Olympic Committee, Norway Ski Federation and the Group

MANAGEMENT DISCUSSION AND ANALYSIS

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.



1 & 2. Robe Di Kappa store and the POP of its products

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”.

MANAGEMENT DISCUSSION AND ANALYSIS

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 retail 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

1. PRE-IPO SHARE OPTION SCHEME (“PRE-IPO SHARE OPTION SCHEME”)

The Company had adopted a Pre-IPO Share Option Scheme on 12 September 2007. Options to subscribe for 18,700,000 shares were granted to three independent non-executive directors and 50 employees on 17 September 2007. The exercise price per Share is HK\$2.786. The options granted under the Pre-IPO Share Option Scheme vested 6 months after 10 October 2007, the listing date and may be exercised for a period of two years ending 9 April 2010.

For the six months ended 30 June 2010, there were no options outstanding or lapsed under the Pre-IPO Share Option Scheme.

2. DISCLOSURE OF INTERESTS

(a) Interests of directors

As at 30 June 2010, the interests and short positions of the directors and chief executive 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 and 8 of Part XV of the SFO, including interests and short positions which the directors and chief executive of the Company are taken or deemed to have under such provisions of the SFO, or which were required to be and are recorded in the register maintained by the Company 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:

Name of Directors	Nature of interest	Long position	Short position	Approximate percentage of existing share capital of the Company
Mr. Chen Yihong	Interest of a controlled corporation ⁽¹⁾	2,467,081,000 shares	—	43.54%
	Deemed interest ⁽²⁾	325,520,000 shares	—	5.74%
Mr. Qin Dazhong	Interest of a controlled corporation ⁽³⁾	211,864,000 shares	—	3.74%

Notes:

1. Mr. Chen Yihong, Harvest Luck Development Limited and Talent Rainbow Far East Limited are deemed to be interested in the shares held by Poseidon Sports Limited (“Poseidon”) by virtue of Harvest Luck Development Limited and Talent Rainbow Far East Limited being entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of Poseidon. Harvest Luck Development Limited is in turn wholly-owned and controlled by Mr. Chen Yihong. On April 2010, 100% of the issued share capital of Talent Rainbow Far East Limited was injected into a BVI investment holding company incorporated for the purpose of the Trust, namely, Billion Giant Development Limited held under the Cerises Trust by way of gift by Mr. Chen Yihong. ING Trust Company (Jersey) Limited acts as Trustee of the Cerises Trust.
2. Ms. Liu Peiyong is the spouse of Mr. Chen Yihong and Mr. Chen Yihong is therefore deemed to be interested in the shares held by Ms. Liu Peiyong through Colour Billion Limited.
3. Wise Finance Ltd., is wholly-owned and controlled by Mr. Qin Dazhong and Mr. Qin Dazhong is therefore deemed to be interested in the shares held by Wise Finance Ltd.

OTHER INFORMATION

Save as disclosed above, as at 30 June 2010, none of the directors or the chief executive of the Company had under Divisions 7 and 8 of Part XV of the SFO, or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), or any interests which were required to be recorded in the register maintained by the Company pursuant to section 352 of the SFO or any interests which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) Interests of Substantial Shareholders

As at 30 June 2010, so far as is known to the directors or chief executive of the Company other than the interests and short positions of the directors or chief executive of the Company as disclosed above, the following persons had interests or short positions in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Part XV section 336 of the SFO, as otherwise notified to the Company and the Hong Kong Stock Exchange:

Name of shareholders	Nature of interest	Long position	Short position	Approximate percentage of existing share capital of the Company
Poseidon Sports Limited	Corporate interest	2,467,081,000 shares	—	43.54%
Talent Rainbow Far East Limited ⁽¹⁾	Interest in a controlled corporation	2,467,081,000 shares	—	43.54%
Harvest Luck Development Limited ⁽¹⁾	Interest in a controlled corporation	2,467,081,000 shares	—	43.54%
Colour Billion Limited ⁽²⁾	Corporate interest	325,520,000 shares	—	5.74%
Ms. Liu Peiyong ⁽²⁾	Interest in a controlled corporation, deemed interest	2,792,601,000 shares	—	49.28%

Notes:

- Mr. Chen Yihong, Harvest Luck Development Limited and Talent Rainbow Far East Limited are deemed to be interested in the shares held by Poseidon Sports Limited ("Poseidon") by virtue of Harvest Luck Development Limited and Talent Rainbow Far East Limited being entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of Poseidon. Harvest Luck Development Limited is in turn wholly-owned and controlled by Mr. Chen Yihong. On April 2010, 100% of the issued share capital of Talent Rainbow Far East Limited was injected into a BVI investment holding company incorporated for the purpose of the Trust, namely, Billion Giant Development Limited held under the Cerises Trust by way of gift by Mr. Chen Yihong. ING Trust Company (Jersey) Limited acts as Trustee of the Cerises Trust. Mr. Chen Yihong, an executive director of the Company, is the sole director of each of Poseidon, Harvest Luck Development Limited and Talent Rainbow Far East Limited.

2. Colour Billion Limited is wholly-owned by Ms. Liu Peiyong, who is the wife of Mr. Chen Yihong. Ms. Liu Peiyong is deemed to be interested in the shares held by Colour Billion Limited and Mr. Chen Yihong's interests in the Company. Mr. Chen Yihong, an executive director of the Company, is the sole director of Colour Billion Limited.

Save as disclosed above, as at 30 June 2010, the directors are not aware of any other persons or corporation (other than the directors and chief executive of the Company) having an interest or short position in the shares and underlying shares of the Company which were required to be recorded in the register required to be kept under section 336 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange.

3. 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.

4. 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 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.

5. COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a set of code of practice prescribed in 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.

6. 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 review report is included in the interim report to be sent to shareholders.



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

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 37 to 64, which comprises the condensed consolidated balance sheet of China Dongxiang (Group) Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2010 and the related 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, 25 August 2010

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

As at 30 June 2010

	Note	Unaudited 30 June 2010 RMB'000	Audited 31 December 2009 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	119,552	120,101
Lease prepayments	8	20,719	33,615
Intangible assets	9	301,925	304,465
Investments in jointly controlled entities		19,167	19,442
Investments in associated companies	10	135,621	158,839
Deferred income tax assets		44,808	16,849
Other financial assets – non-current portion	12	150,478	—
Long term deposits		34,209	35,001
Long term bank deposits	13	150,000	150,000
Total non-current assets		976,479	838,312
Current assets			
Inventories		207,864	223,281
Trade receivables	11	409,952	374,585
Prepayments, deposits and other receivables		94,808	96,228
Other financial assets	12	1,108,037	401,964
Cash and bank balances	13	5,381,676	5,977,388
Total current assets		7,202,337	7,073,446
Total assets		8,178,816	7,911,758

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET (CONTINUED)

As at 30 June 2010

	Note	Unaudited 30 June 2010 RMB'000	Audited 31 December 2009 RMB'000
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	14	54,810	54,810
Share premium account	14	3,360,540	4,094,339
Reserves	15	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	10	1,292	1,292
Deferred income tax liabilities		4,045	4,068
Total non-current liabilities		5,337	5,360
Current liabilities			
Trade payables	16	312,752	312,264
Accruals and other payables		184,094	146,105
Provisions	17	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

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

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30 June 2010

	Note	Unaudited Six months ended 30 June	
		2010 RMB'000	2009 RMB'000
Sales	6	2,145,285	1,868,421
Cost of goods sold	19	(802,315)	(705,735)
Gross profit		1,342,970	1,162,686
Other gains, net	18	45,397	24,424
Distribution costs	19	(342,098)	(258,888)
Administrative expenses	19	(99,164)	(78,527)
Operating profit		947,105	849,695
Finance income, net	20	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	21	(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 the equity holders of the Company			
— Basic	22	13.87	12.74
— Diluted	22	13.87	12.74
Dividends	23	471,444	288,414

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

		Unaudited Six months ended 30 June	
	Note	2010 RMB'000	2009 RMB'000
Profit for the period		786,000	721,975
Other comprehensive income, net of tax			
– Foreign currency translation differences	15	(295)	(14,653)
Total comprehensive income for the period, attributable to equity holders of the Company		785,705	707,322

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

	Note	Unaudited				Total RMB'000
		Attributable to equity holders of the Company				
		Share capital RMB'000	Share premium account RMB'000	Other reserves RMB'000	Retained earnings RMB'000	
Balance at 1 January 2009		54,805	4,910,138	(62,275)	1,816,695	6,719,363
Profit for the period		—	—	—	721,975	721,975
Other comprehensive income:						
— Foreign currency translation reserve		—	—	(14,653)	—	(14,653)
Total comprehensive income for the period ended 30 June 2009		—	—	(14,653)	721,975	707,322
Transactions with owners in their capacity as owners:						
Exercise of Pre-IPO share options	14	4	1,913	(725)	—	1,192
Dividends relating to 2008 paid in May 2009	23	—	(529,752)	—	—	(529,752)
Total transactions with owners		4	(527,839)	(725)	—	(528,560)
Balance at 30 June 2009		54,809	4,382,299	(77,653)	2,538,670	6,898,125
Balance at 1 January 2010		54,810	4,094,339	(71,452)	3,276,507	7,354,204
Profit for the period		—	—	—	786,000	786,000
Other comprehensive income:						
— Foreign currency translation reserve		—	—	(295)	—	(295)
Total comprehensive income for the period ended 30 June 2010		—	—	(295)	786,000	785,705
Transactions with owners in their capacity as owners:						
Dividends relating to 2009 paid in May 2010	23	—	(733,799)	—	—	(733,799)
Total transactions with owners		—	(733,799)	—	—	(733,799)
Balance at 30 June 2010		54,810	3,360,540	(71,747)	4,062,507	7,406,110

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

CONDENSED CONSOLIDATED INTERIM CASH FLOWS STATEMENT

For the six months ended 30 June 2010

	Note	Unaudited Six months ended 30 June	
		2010 RMB'000	2009 RMB'000
Cash flow from operating activities			
Cash generated from operations		1,020,653	920,528
Interest received		46,762	40,037
Income tax paid		(61,383)	(137,883)
Cash inflow from operating activities – net		1,006,032	822,682
Cash flow from investing activities			
Investments in associated companies	10	–	(110,210)
Dividends received from associated companies	10	9,873	–
Purchase of property, plant and equipment	7	(4,933)	(8,244)
Purchase of intangible assets	9	(4,364)	(2,087)
Decrease/(increase) in term deposits with initial terms over three months		468,089	(4,834,469)
Decrease in restricted bank deposits		332	54,052
Increase in other financial assets		(850,000)	–
Cash outflow from investing activities – net		(381,003)	(4,900,958)
Cash flow from financing activities			
Proceeds from exercise of Pre-IPO share options	14	–	1,192
Dividends paid	23	(733,799)	(529,752)
Cash outflow from financing activities – net		(733,799)	(528,560)
Net decrease in cash and cash equivalents			
Cash and cash equivalents at beginning of the period		1,473,361	5,942,048
Exchange differences		(18,521)	2,416
Cash and cash equivalents at end of the period		1,346,070	1,337,628

The notes on pages 43 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 2010

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.

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

This condensed consolidated interim financial information has not been audited.

2 BASIS OF PREPARATION

This 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.

3 ACCOUNTING POLICIES

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

(a) New and amended standards adopted by the Group

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

Relevant to the Group’s operations:

- 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2010

3 ACCOUNTING POLICIES (CONTINUED)

(a) New and amended standards adopted by the Group (continued)

Relevant to the Group's operations: (continued)

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

- 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.

Not relevant to the Group's operations:

- IFRIC — Int 17, 'Distributions of non-cash assets to owners'. This is not currently applicable to the Group, as it has not made any non-cash distributions.
- 'Additional exemptions for first-time adopters' (Amendment to IFRS 1). This is not relevant to the Group, as it is an existing IFRS preparer.
- IAS 39 (Amendment), 'Eligible hedged items'. That is not currently applicable to the Group, as it has no hedging.
- First improvements to IFRS (2008) issued in May 2008 by the IASB.
- Second improvements to IFRS (2009) issued in April 2009 by IASB.

(b) New and amended standards issued but not yet effective for 2010 and not early adopted by the Group

The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2010 and have not been early adopted by the Group:

- IFRS 9, 'Financial instruments' addresses the classification and measurement of financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2013.
- IAS 24 (Revised) 'Related party disclosures' supersedes IAS 24 'Related party disclosures' issued in 2003. The revised IAS 24 is required to be applied from 1 January 2011.
- Under 'Classification of rights issues' (Amendment to IAS 32), for rights issues offered for a fixed amount of foreign currency, current practice appears to require such issues to be accounted for as derivative liabilities. The amendment should be applied for annual periods beginning on or after 1 February 2010.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2010

3 ACCOUNTING POLICIES (CONTINUED)

(b) New and amended standards issued but not yet effective for 2010 and not early adopted by the Group (continued)

- Amendments to IFRIC Int – 14 ‘Prepayments of a minimum funding requirement’ corrects an unintended consequence of IFRIC Int-14, ‘IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction’. The amendments are effective for annual periods beginning 1 January 2011.
- IFRIC – Int 19, ‘Extinguishing financial liabilities with equity instruments’ clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity’s shares or other equity instruments to settle the financial liability fully or partially. The interpretation is effective for annual periods beginning on or after 1 July 2010.
- ‘Limited exemption from comparative IFRS 7 disclosures for first-time adopters’ (Amendment to IFRS 1). This is required to be applied for annual periods beginning on or after 1 July 2010.
- Third improvements to IFRS (2010) issued in May 2010. All improvements are effective in the financial year of 2011.

4 FINANCIAL RISK MANAGEMENT

All aspects of the Group’s financial risk management objectives and policies are consistent with those disclosed in the annual financial statements for the year ended 31 December 2009.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The critical accounting estimates and judgments made by management are consistent with those disclosed in the annual financial statements for the year ended 31 December 2009.

6 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2010

6 SEGMENT INFORMATION (CONTINUED)

(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			Total RMB'000
	China RMB'000	Japan RMB'000	Unallocated 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)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2010

6 SEGMENT INFORMATION (CONTINUED)

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

	Six months ended 30 June 2009			Total RMB'000
	China RMB'000	Japan RMB'000	Unallocated 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)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2010

6 SEGMENT INFORMATION (CONTINUED)

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

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

	Six months ended 30 June	
	2010 RMB'000	2009 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			Total RMB'000
	China RMB'000	Japan RMB'000	Unallocated 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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2010

6 SEGMENT INFORMATION (CONTINUED)

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

	As at 31 December 2009			Total RMB'000
	China RMB'000	Japan RMB'000	Unallocated 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).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2010

7 PROPERTY, PLANT AND EQUIPMENT

	RMB'000
Six months ended 30 June 2009	
Net book amount as at 1 January 2009	121,283
Additions	8,244
Disposals	(2,138)
Impairment reversal	31
Depreciation (Note 19)	(5,936)
Exchange difference	(1,645)
Net book amount as at 30 June 2009	119,839
Six months ended 30 June 2010	
Net book amount as at 1 January 2010	120,101
Additions	4,933
Disposals	(482)
Impairment reversal	30
Depreciation (Note 19)	(6,621)
Exchange difference	1,591
Net book amount as at 30 June 2010	119,552

8 LEASE PREPAYMENTS

	Lease prepayments for land use rights RMB'000	Lease prepayments for stores RMB'000	Total RMB'000
Six months ended 30 June 2009			
Net book amount as at 1 January 2009	13,436	28,627	42,063
Additions	—	38,082	38,082
Amortization (Note 19)	(143)	(30,677)	(30,820)
Net book amount as at 30 June 2009	13,293	36,032	49,325
Six months ended 30 June 2010			
Net book amount as at 1 January 2010	13,151	20,464	33,615
Additions	—	12,567	12,567
Amortization (Note 19)	(143)	(25,320)	(25,463)
Net book amount as at 30 June 2010	13,008	7,711	20,719

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2010

9 INTANGIBLE ASSETS

	Trademarks RMB'000	Computer software RMB'000	Total RMB'000
Six months ended 30 June 2009			
Net book amount as at 1 January 2009	290,963	16,166	307,129
Additions	—	2,087	2,087
Disposals	—	(96)	(96)
Exchange difference	(1,347)	(306)	(1,653)
Amortization (Note 19)	(3,921)	(2,887)	(6,808)
Net book amount as at 30 June 2009	285,695	14,964	300,659
Six months ended 30 June 2010			
Net book amount as at 1 January 2010	282,556	21,909	304,465
Additions	—	4,364	4,364
Exchange difference	835	287	1,122
Amortization (Note 19)	(3,931)	(4,095)	(8,026)
Net book amount as at 30 June 2010	279,460	22,465	301,925

10 INVESTMENTS IN ASSOCIATED COMPANIES

	30 June 2010 RMB'000	31 December 2009 RMB'000
Unlisted equity	135,621	158,839

The movements in investments in associated companies during the six months periods are set out below:

	Six months ended 30 June	
	2010 RMB'000	2009 RMB'000
At 1 January	158,839	—
Cost of investment at date of acquisition	—	130,402
Dividends received	(9,873)	—
Unrealized profit of transactions with associated companies	(19,413)	—
Share of profits/(losses)	6,068	(4,333)
Share of net assets, at 30 June	135,621	126,069

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2010

10 INVESTMENTS IN ASSOCIATED COMPANIES (CONTINUED)

On 1 January 2009, the Group completed the acquisitions of 30% equity interests in each of five joint ventures companies set up by the Group's five third party distributor customers, and on 1 November 2009, the Group further acquired 30% equity interest in a joint venture company set up by a related party distributor customer. The six joint venture companies are engaged in the distribution and retailing of sport-related products in Beijing and nearby area, Shandong, Shaanxi, Ningxia, Hangzhou, Shanxi, Shenyang, Tianjin and Nanjing. The considerations, totalling RMB168,591,000, were paid by way of capital contributions in cash to the six joint venture companies.

In accordance with the investment agreements and supplementary agreements, the joint venture companies are required to achieve certain profit targets for the year ended 31 December 2010 or up to the year ended 31 December 2013. In the event that the profit targets are met, the Group will be required to pay additional considerations to the original shareholders of the joint venture companies, while on the reverse, the Group will be entitled to obtain additional equity interests in the joint venture companies from the original shareholders.

The cost of investment at date of acquisition of RMB169,459,000 was determined based on the cash considerations paid by the Group by way of capital contributions to the joint venture companies amounting to RMB168,591,000, and the estimated additional considerations to be payable in relation to the profit targets requirement. The estimated additional considerations are recognized as financial liabilities at fair value through profit or loss in the balance sheet, and the changes in fair value of the financial liabilities at fair value through profit or loss were recognized in "other gains, net" of the consolidated income statement.

There was no goodwill derived from the acquisition of the associated companies.

The financial information below, after fair value adjustments of application of purchase accounting and the necessary adjustments to conform to the Group's significant accounting policies, represents the Group's respective interests in the associated companies as follows:

	30 June 2010 RMB'000	31 December 2009 RMB'000
Total assets	231,972	249,361
Total liabilities	(96,351)	(90,522)

	Six months ended 30 June	
	2010 RMB'000	2009 RMB'000
Revenue	243,983	123,704
Profit after income tax for the period	17,681	8,491
Less: amortization of intangible assets recognized at fair value and other fair value adjustments on date of acquisition	(11,613)	(12,824)
Adjusted profits/(losses) for the period	6,068	(4,333)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2010

10 INVESTMENTS IN ASSOCIATED COMPANIES (CONTINUED)

The particulars of the Group's indirectly held associated companies as at 30 June 2010 are set out below:

Company name	Place of incorporation	Particulars of issued/registered capital	Interest held	Principal activities
Indirectly held:				
上海熙沐雅體育用品有限公司 *Shanghai Ximuya Sporting Goods Co., Ltd.	PRC	RMB7,150,000	30%	Distribution and retailing of sport-related apparel, footwear and accessories
上海鵬賽服飾有限公司 *Shanghai Pengsai Apparel Co., Ltd.	PRC	RMB7,150,000	30%	Distribution and retailing of sport-related apparel, footwear and accessories
上海超銳服飾有限公司 *Shanghai Chaorui Apparel Co., Ltd.	PRC	RMB20,000,000	30%	Distribution and retailing of sport-related apparel, footwear and accessories
上海欣越家赫服飾有限公司 *Shanghai Xinyuejiahe Apparel Co., Ltd.	PRC	RMB7,150,000	30%	Distribution and retailing of sport-related apparel, footwear and accessories
上海標欣貿易有限公司 *Shanghai Biaoxin Trading Co., Ltd.	PRC	RMB7,150,000	30%	Distribution and retailing of sport-related apparel, footwear and accessories
上海億博韜厲經貿有限公司 *Shanghai Yibotaoli Trading Co., Ltd.	PRC	RMB28,580,000	30%	Distribution and retailing of sport-related apparel, footwear and accessories

* The names of the associated companies represent management's translation of the Chinese names of those companies as no English names have been registered.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2010

11 TRADE RECEIVABLES

	30 June 2010 RMB'000	31 December 2009 RMB'000
Trade receivables		
– Third parties	316,741	313,757
– Related parties (Note 25)	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

12 OTHER FINANCIAL ASSETS

	30 June 2010 RMB'000	31 December 2009 RMB'000
Held to maturity financial assets		
– State treasury bonds	507,504	401,964
Loans and receivables		
– Treasury products issued by commercial banks	751,011	–
Total of other financial assets	1,258,515	401,964
Less: non-current portion – loans and receivables	(150,478)	–
Other financial assets – current portion	1,108,037	401,964

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2010

12 OTHER FINANCIAL ASSETS (CONTINUED)

The Group invested in registered treasury bonds issued by the Ministry of Finance of the PRC in the amount of RMB500,000,000 (31 December 2009: RMB400,000,000). The treasury bonds are interest bearing at a fixed rate of 2.6% per annum, denominated in RMB and with a maturity of one year, neither endorsable nor transferrable. As at 30 June 2010, the amortized cost of these financial assets amounted to RMB507,504,000 (31 December 2009: RMB401,964,000).

The Group also invested in unlisted treasury products issued by commercial banks in the PRC. The principals of these investments are guaranteed. The investments are interest bearing at rates ranging from 2.25 % to 4% per annum, denominated in RMB and with maturity periods from one to two years.

13 CASH AND BANK BALANCES

	30 June 2010 RMB'000	31 December 2009 RMB'000
Non-current assets:		
Long term bank deposits	150,000	150,000
Current assets:		
Restricted bank deposits	48,116	48,448
Term deposits with initial terms over three months and within one year	3,987,490	4,455,579
Cash and cash equivalents	1,346,070	1,473,361
	5,381,676	5,977,388

The restricted bank deposits as at 30 June 2010 and 31 December 2009 comprised deposits held in bank accounts as guarantee deposits for advertising fees payable and for issue of letters of credit for certain subsidiaries of the Group.

The cash and cash equivalents represent cash deposits held at call with banks and in hand.

As at 30 June 2010 and 31 December 2009, cash and bank balances were denominated in the following currencies:

	30 June 2010 RMB'000	31 December 2009 RMB'000
RMB	3,119,330	2,966,413
USD	1,613,897	1,809,934
HKD	732,580	1,282,525
JPY	64,323	67,964
Other	1,546	552
	5,531,676	6,127,388

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2010

13 CASH AND BANK BALANCES (CONTINUED)

RMB is currently not a freely convertible currency in the international market. The conversion of RMB into foreign currency and remittance of RMB out of the PRC are subject to the rules and regulations of exchange controls promulgated by the PRC authorities.

14 SHARE CAPITAL AND SHARE PREMIUM ACCOUNT

	Authorized capital	
	Number of ordinary shares of par value HK\$0.01	Nominal value of ordinary shares HKD'000
At 31 December 2009 and 30 June 2010	10,000,000,000	100,000

	Issued capital				
	Number of ordinary shares of par value HKD0.01	Nominal value of issued ordinary shares HKD'000	Equivalent nominal value of ordinary shares RMB'000	Share premium account RMB'000	Total RMB'000
At 1 January 2009	5,665,801,000	56,659	54,805	4,910,138	4,964,943
Exercise of Pre-IPO share options (Note (a))	485,000	5	4	1,913	1,917
Dividends paid (Notes (b) and 23)	—	—	—	(529,752)	(529,752)
At 30 June 2009	5,666,286,000	56,664	54,809	4,382,299	4,437,108
At 1 January 2010	5,666,401,000	56,665	54,810	4,094,339	4,149,149
Dividends paid (Notes (b) and 23)	—	—	—	(733,799)	(733,799)
At 30 June 2010	5,666,401,000	56,665	54,810	3,360,540	3,415,350

Notes:

- (a) The Company adopted a Pre-IPO share option scheme and a share option scheme on 12 September 2007. Pre-IPO share options were granted under the Pre-IPO share option scheme and no options from the share option scheme have been granted up to 30 June 2010. During the six months ended 30 June 2009, options to acquire 485,000 shares of the Company were exercised at the exercise price of HKD 2.786 each, with exercise proceeds of RMB1,192,000 received by the Company.
- (b) Under the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company is in a position to pay off its debts as they fall due in the ordinary course of business.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2010

15 RESERVES

	Capital reserves RMB'000	Share-based compensation reserve RMB'000	Statutory reserves RMB'000	Exchange reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2009	295,001	899	15,926	(374,101)	1,816,695	1,754,420
Exercise of Pre-IPO share options (Note 14(a))	—	(725)	—	—	—	(725)
Foreign currency translation reserve	—	—	—	(14,653)	—	(14,653)
Profit for the period	—	—	—	—	721,975	721,975
At 30 June 2009	295,001	174	15,926	(388,754)	2,538,670	2,461,017
At 1 January 2010	295,001	—	15,958	(382,411)	3,276,507	3,205,055
Foreign currency translation reserve	—	—	—	(295)	—	(295)
Profit for the period	—	—	—	—	786,000	786,000
At 30 June 2010	295,001	—	15,958	(382,706)	4,062,507	3,990,760

16 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

17 PROVISIONS

The provisions represent provisions for the estimated sales returns and sales discount of the Group. As at 30 June 2010, the provisions for China and Japan segments amounted to RMB21,134,000 and RMB16,479,000 (31 December 2009: nil and RMB37,561,000), respectively.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2010

18 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

19 EXPENSES BY NATURE

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

	Six months ended 30 June	
	2010 RMB'000	2009 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 (Notes 7,8 and 9)	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 (Note)	89,822	84,956
Withholding business tax on licence fees payable for 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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2010

19 EXPENSES BY NATURE (CONTINUED)

Note:

Since 1 January 2009, the Group has adopted and implemented cash-settled performance-based employee benefit plans (the "Performance Unit Plans") for the middle to senior management of the Group. Under the Performance Unit Plans, the eligible employees are granted performance units, each of which represents an entitlement to receive cash payments when the Group's performance outperforms a pre-set benchmark in a period of 3 years starting from 1 January of the year the units are grant. The value of each unit has a cap at RMB2 per unit. The fair values of the Group's liabilities under the Performance Unit Plans as at each balance sheet date are estimated by Management using a valuation model. The changes in fair value of the liabilities are charged to the consolidated income statement.

During the six months ended 30 June 2010, the Group granted 19,355,000 (2009: 15,990,000) performance units and a total of 29,707,000 performance units were effective as at 30 June 2010. Management calculated the fair value of the performance units granted as at 30 June 2010 using the valuation model, based on which, approximately RMB4,629,000 (2009: RMB3,590,000) was charged as employee benefit expenses to the condensed consolidated interim income statement for the six months ended 30 June 2010.

20 FINANCE INCOME, NET

	Six months ended 30 June	
	2010 RMB'000	2009 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

21 INCOME TAX EXPENSE

	Six months ended 30 June	
	2010 RMB'000	2009 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).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2010

21 INCOME TAX EXPENSE (CONTINUED)

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 months 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 months ended 30 June 2010, the subsidiary was subject to the minimum inhabitant tax payments.

22 EARNINGS PER SHARE

(a) Basic

Basic earnings per share are calculated by dividing the profit 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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2010

22 EARNINGS PER SHARE (CONTINUED)

(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

23 DIVIDENDS

	Six months ended 30 June	
	2010 RMB'000	2009 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).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2010

24 COMMITMENTS

The Group had the following commitments as at 30 June 2010:

(a) Operating lease commitments – Group as lessee

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

	30 June 2010 RMB'000	31 December 2009 RMB'000
No later than 1 year	67,126	80,471
Later than 1 year and no later than 5 years	55,592	61,709
	122,718	142,180

(b) Operating lease commitments – Group as lessor

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

	30 June 2010 RMB'000	31 December 2009 RMB'000
No later than 1 year	4,960	5,750
Later than 1 year and no later than 5 years	4,260	5,979
	9,220	11,729

(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:

	30 June 2010 RMB'000	31 December 2009 RMB'000
No later than 1 year	16,526	15,058
Later than 1 year and no later than 5 years	23,452	6,040
	39,978	21,098

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2010

25 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, 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 an executive director of the Company.

During the six months periods and as at the balance sheet dates, the Group had the following transactions and balances with related parties:

(a) Transactions with related parties

	Six months ended 30 June	
	2010 RMB'000	2009 RMB'000
Sales of goods		
– Beijing Dong Gan Jing Ji Company Limited ("Dong Gan Jing Ji")	–	172,441
– Associated companies of the Group	551,109	353,353
	551,109	525,794
Purchase of goods		
– jointly controlled entities of the Group	11,219	8,325
Lease income of flagship stores		
– Dong Gan Jing Ji	–	3,992
– Associated companies of the Group	6,776	3,120
	6,776	7,112

(b) Balances with related parties

	30 June 2010 RMB'000	31 December 2009 RMB'000
	Trade receivables (Note 11)	
– Associated companies of the Group	102,251	76,550
Trade payables		
– Jointly controlled entities of the Group	305	518
Other receivables		
– Dong Gan Jing Ji	676	676
– Associated companies of the Group	5,216	5,682
	5,892	6,358

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2010

25 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Balances with related parties (continued)

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

(c) Key management compensation

	Six months ended 30 June	
	2010 RMB'000	2009 RMB'000
Salaries, bonus and other welfares	7,376	4,646
Pension — defined contribution plans	61	51
	7,437	4,697

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