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China Dongxiang (Group) Co., Ltd.
中 國 動 向 （ 集 團 ） 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 3818)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2012

Results Highlights

For the six months ended 30 June	**1H 2012**	1H 2011	Change
	(RMB million)	*(RMB million)*	
Revenue	**832**	1,179	-29.4%
Gross profit	**417**	722	-42.2%
Gross profit margin	**50.2%**	61.3%	-11.1 pts
Operating profit	**53**	277	-80.9%
Profit for the period attributable to equity holders of the Company	**97**	225	-56.9%
	(RMB cents)	*(RMB cents)*	
Basic earnings per share	**1.75**	3.99	-56.1%
Interim dividend and interim special dividend per share	**1.23**	2.78	-55.8%
Total dividend payout ratio	**70%**	70%	—

CHAIRMAN'S STATEMENT

Dear Shareholders,

A tough operating environment may be too challenging for some companies, but it also presents an opportunity for well-founded groups with strong fundamentals, such as China Dongxiang, to upgrade operations. In the first half of 2012, macro-economic conditions did not improve, thus creating more obstacles for the retail and sportswear markets. What distinguishes China Dongxiang is its culture of continuous improvement, which is a driving force throughout the Group. Our pursuit of product innovation and breakthroughs, and our insistence on quality and on constantly improving operational management, give me and my team a clear goal for the future: creating an even more competitive China Dongxiang.

In review of the first half, the European debt crisis continued to deepen, triggering instability of the global economy and China was not spared. China's GDP growth slowed to 7.8% for the first half, dipping below the 8.0% level for the first time in three years, as retail sales growth also came down to 14.4%. While the consumer purchasing power diminished in tandem with a weaker economy, competition in the sportswear industry also became more fierce. Meanwhile, the influx of domestic and international casual wear brands further squeezed the operating space for the sportswear market, causing the overall sportswear industry to be faced with unprecedented difficulties.

For the six months ended 30 June 2012, the Group recorded income of RMB832 million, a decline of 29.4% compared to the same period last year. During the period, net profit attributable to equity holders of the Company was RMB97 million, down 56.9% compared to the same period last year. Basic earnings per share were RMB1.75 cents, a decrease of 56.1% compared to the same period last year. Despite the decrease in income, the Group has maintained a sound financial position with cash on hand and at bank (including principal protected treasury products issued by commercial banks) amounting to approximately RMB4.8 billion as at 30 June 2012, and without bank loans, allowing the Group adequate financial resources and flexibility to execute a variety of strategic measures. In view of our solid cash position and to enhance shareholders value, the Board proposed to distribute 70% of the profit attributable to equity holders for the six months ended 30 June 2012 as interim and interim special dividend.

Facing the challenging market environment, we upheld the Group core values of pragmatism, passion and innovation in the first half, enhanced our competitiveness, and achieved product innovation through hard work, which was one of the most significant achievements in the period. We observed that product homogeneity was worsening in the market, thus performed a careful review of our products and swiftly re-structured our product mix. Our team was fully committed to these innovative products with passionate and enterprising attitude. In a short period of time, we integrated design resources from China, Japan and South Korea to engineer the transformation of the Group's products. This highlighted our brand elements of "sports, fashion, sexiness, and style", strengthened our unique brand philosophy, and created a series of innovative products. The Group also launched the all-new mix-and-match concept of Kappa according to our grasp of consumer behavior and fashion habits, in a bid to diversify our portfolio to meet consumer demand and stay in the forefront of fashion trends. Quality products are the heart of China Dongxiang; we are confident that the innovative product designs will enhance our core competitiveness, setting us ready to seize new market opportunities.

Market competition further intensified owing to diversifying demand of consumers. The Group exerted extra efforts in optimizing its supply chain to cater to the changing market needs and trends. The Group established a Regional Technical Center ("RTC") in Taicang, Jiangsu, in August 2010 and commenced the gradual transfer of Phenix's technologies from Japan RTC to Taicang RTC. At present, the core component of Taicang RTC is approaching maturity and gradually expanding in scale. Meanwhile, under the joint efforts among suppliers, distributors and various departments within China Dongxiang, we are actively working on an improved dual process in improved market and production responsiveness. Not only will this measure allow us to implement production plans that answer to market needs in a timely manner while helping to enhance production efficiency and achieve more effective inventory management, it will also help to realize cost controlling in various production processes starting from the early stage of product planning, thus achieving a win-win result.

Channel efficiency is critical for both inventory management and new product sales. During the first half of the year, the Group continued to optimize its sales channels, resulting in the reduction of the total number of Kappa Brand stores, from 3,119 by the end of last year to 2,550 stores in the middle of this year. At the same time, we intend to increase the proportion of prop-order sales through change in our trade fair sales model and measures such as order target reduction for distributors. This way we alleviated the inventory pressure on distributors, while optimizing their inventory structure. In addition, we strengthened our monitoring of the performance of front-end retailing operation. We defined key markets, conventional stores or discount outlets by region and store levels. We managed stock clearance and sales of new products simultaneously in different stores to strike a balance while maintaining our brand image.

Looking into the second half, we will continue to develop innovative products and optimize our sales channel distribution, which focuses on a "brand + retail" business model. Leveraging close relationship with Mai Sheng Yue He Group ("MSYH" Group), a retailer in which the Group holds a stake, both sales teams will have seamless cooperation to achieve the common goal of enhancing sales at the retail end. Brand operators and retailers have a closely-knit partnership. Good communication allows an efficient flow of information and will help the Group tune into the market pulse, so that it can quickly adjust its sales and production strategy, while also providing timely support to retailers. Through the joint promotion of the "brand + retail" model with MSYH Group, we can significantly improve sales efficiency and act as a role model for other distributors. We will further strengthen strategic cooperation with distributors to maintain long-term and healthy development of sales channels.

In addition to the existing sales network, the Group is planning to make a new attempt by opening Dongxiang Concept Stores, specializing in selling the Group's brands including Kappa, Robe Di Kappa, Phenix, X-nix and inhabitant. The combination of different brands creates mix-and-match of different styles, providing consumers with a new shopping experience. The Group believes that Dongxiang Concept Stores can effectively strengthen the popularity of the brands belonging to the Group, cultivating a new business for China Dongxiang with relatively low input and fewer risks. In addition, the Group launched the Kappa Kids and Kappa Eyewear businesses through franchises in the first half of 2012 and will continue to explore new business opportunities, including developing new products related to the brands, as well as development of e-commerce, to energize the Group.

Despite the turbulent market conditions, the Group remains profitable and maintains strong cash position. On this solid foundation, China Dongxiang will uphold its corporate philosophy in enhancing its competitiveness in an operating environment filled with challenges. The implementation of this strategic plan will take time, and the Group's financial results and operating performance will inevitably come under pressure in the near term. Nevertheless, we believe these measures will allow the Group to capture more market opportunities when the market rebounds.

Finally, I would like to take this opportunity to thank our distributors, partners, the Group's employees and shareholders for being on our side all along. You have all contributed and provided China Dongxiang with the support it needs. The Group will grow stronger to reward you for your effort.

Chen Yihong
Chairman

22 August 2012, Hong Kong

CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30 June 2012

	Note	Unaudited Six months ended 30 June 2012 RMB'000	2011 RMB'000
Revenue	2	**832,351**	1,178,787
Cost of goods sold	4	**(414,870)**	(456,233)
Gross profit		**417,481**	722,554
Other gains, net	3	**4,038**	37,190
Distribution costs	4	**(263,077)**	(317,261)
Administrative expenses	4	**(105,803)**	(165,086)
Operating profit		**52,639**	277,397
Finance income, net	5	**90,532**	57,743
Share of (losses)/profits of jointly controlled entities, net		**(412)**	67
Profit before income tax		**142,759**	335,207
Income tax expense	6	**(49,117)**	(113,013)
Profit for the period		**93,642**	222,194
Profit attributable to:			
— Equity holders of the Company		**97,074**	224,958
— Non-controlling interests		**(3,432)**	(2,764)
		93,642	222,194
Earnings per share for profit attributable to the equity holders of the Company (expressed in RMB cents per share)			
— Basic earnings per share	7	**1.75**	3.99
— Diluted earnings per share	7	**1.75**	3.99
Dividends	8	**68,098**	157,526

CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

		Unaudited Six months ended 30 June	
		2012	2011
	Note	***RMB'000***	*RMB'000*
Profit for the period		**93,642**	222,194
Other comprehensive income:			
— Fair value change on available-for-sale financial assets, net of tax	9	**(6,212)**	(123,072)
— Foreign currency translation differences		**770**	(21,800)
Total other comprehensive income, net of tax		**(5,442)**	(144,872)
Total comprehensive income for the period		**88,200**	77,322
Total comprehensive income for the period attributable to:			
— Equity holders of the Company		**91,632**	80,086
— Non-controlling interests		**(3,432)**	(2,764)
		88,200	77,322

CONSOLIDATED INTERIM BALANCE SHEET
As at 30 June 2012

	Note	**Unaudited 30 June 2012** *RMB'000*	Audited 31 December 2011 *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**110,170**	116,614
Lease prepayments		**12,436**	12,788
Intangible assets		**280,616**	289,111
Interests in jointly controlled entities		**18,498**	18,909
Available-for-sale financial assets	9	**969,735**	973,398
Deferred income tax assets		**117,290**	112,542
Prepayments, deposits and other receivables — non-current portion		**42,040**	33,706
		1,550,785	1,557,068
Current assets			
Inventories		**359,437**	403,656
Trade receivables	10	**357,278**	547,621
Prepayments, deposits and other receivables		**111,541**	100,338
Other financial assets		**1,452,242**	1,068,255
Cash and bank balances		**3,343,439**	3,774,868
		5,623,937	5,894,738
Total assets		**7,174,722**	7,451,806

CONSOLIDATED INTERIM BALANCE SHEET (Continued)
As at 30 June 2012

	Note	Unaudited 30 June 2012 *RMB'000*	Audited 31 December 2011 *RMB'000*
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		**53,589**	54,562
Share premium account		**2,052,157**	2,135,560
Reserves		**4,696,682**	4,605,050
		6,802,428	6,795,172
Non-controlling interests		**1,307**	4,739
Total equity		**6,803,735**	6,799,911
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**41,245**	30,922
		41,245	30,922
Current liabilities			
Trade payables	11	**140,331**	275,734
Accruals and other payables		**163,054**	309,372
Provisions		**18,643**	27,184
Current income tax liabilities		**7,714**	8,683
		329,742	620,973
Total liabilities		**370,987**	651,895
Total equity and liabilities		**7,174,722**	7,451,806
Net current assets		**5,294,195**	5,273,765
Total assets less current liabilities		**6,844,980**	6,830,833

NOTES

1 General information

China Dongxiang (Group) Co., Ltd. (the "Company") and its subsidiaries (together the "Group") are principally engaged in brand development, design and sales of sport-related apparel, footwear and accessories in Mainland of the People's Republic of China (the "PRC"), Macau and Japan.

The Company was incorporated in the Cayman Islands on 23 March 2007 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 10 October 2007.

This condensed consolidated interim financial information is presented in Renminbi ("RMB"), unless otherwise stated. This condensed consolidated interim financial information was approved for issue by the Board of Directors on 22 August 2012.

This condensed consolidated interim financial information has not been audited.

2 Revenue and segment information

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

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

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

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

Revenue between segments are carried out on terms set out in agreements governing the transactions. The revenue from external customers reported to the chief operating decision maker is measured in a manner consistent with that in the condensed consolidated interim income statement.

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

	Six months ended 30 June 2012			
	China	**Japan**	**Unallocated**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total revenue before inter-segment elimination	**614,289**	**227,722**	**—**	**842,011**
Inter-segment revenue	**—**	**(9,660)**	**—**	**(9,660)**
Revenue from external customers	**614,289**	**218,062**	**—**	**832,351**
Cost of goods sold	**(285,608)**	**(129,262)**	**—**	**(414,870)**
Segment gross profit	**328,681**	**88,800**	**—**	**417,481**
Segment operating profit	**125,965**	**(27,984)**	**(45,342)**	**52,639**
Interest income	**77,128**	**2**	**7,556**	**84,686**
Interest expenses and others, net	**1,706**	**4,889**	**(749)**	**5,846**
Share of profits of jointly controlled entities	**—**	**(412)**	**—**	**(412)**
Profit before income tax	**204,799**	**(23,505)**	**(38,535)**	**142,759**
Income tax expense	**(48,405)**	**(712)**	**—**	**(49,117)**
Profit for the period	**156,394**	**(24,217)**	**(38,535)**	**93,642**
Other items of income and expense				
Depreciation and amortization	**14,145**	**5,347**	**—**	**19,492**
Provision for impairment losses of inventories	**—**	**11,855**	**—**	**11,855**
Reversal of impairment losses of trade and other receivables	**—**	**(7,439)**	**—**	**(7,439)**

	Six months ended 30 June 2011			
	China	Japan	Unallocated	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total revenue before inter-segment elimination	1,001,331	190,840	—	1,192,171
Inter-segment revenue	(11,787)	(1,597)	—	(13,384)
Revenue from external customers	989,544	189,243	—	1,178,787
Cost of goods sold	(352,062)	(104,171)	—	(456,233)
Segment gross profit	637,482	85,072	—	722,554
Segment operating profit	360,801	(31,626)	(51,778)	277,397
Interest income	58,491	2	4,224	62,717
Interest expenses and others, net	(12,117)	8,572	(1,429)	(4,974)
Share of profits of jointly controlled entities	—	67	—	67
Profit before income tax	407,175	(22,985)	(48,983)	335,207
Income tax expense	(112,459)	(554)	—	(113,013)
Profit for the period	294,716	(23,539)	(48,983)	222,194
Other items of income and expense				
Depreciation and amortization	14,158	4,750	—	18,908
Provision for impairment losses of inventories	35,233	7,952	—	43,185
Provision for/(reversal of) impairment losses of trade and other receivables	15,147	(6,794)	—	8,353

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

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
China		
— Distribution of Kappa Brand products	**599,598**	978,666
— International business and others	**14,691**	10,878
	614,289	989,544
Japan		
— Distribution and retailing of Kappa Brand products	**117,210**	110,382
— Distribution and retailing of Phenix Brand products	**100,852**	78,861
	218,062	189,243
	832,351	1,178,787

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

	As at 30 June 2012			
	China	**Japan**	**Unallocated**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total assets before inter-segment elimination	**6,029,470**	**460,532**	**809,649**	**7,299,651**
Inter-segment elimination	**(9,215)**	**(20,375)**	**(95,339)**	**(124,929)**
Total assets	**6,020,255**	**440,157**	**714,310**	**7,174,722**
Deferred income tax assets	**(117,290)**	**—**	**—**	**(117,290)**
Interests in jointly controlled entities	**—**	**(18,498)**	**—**	**(18,498)**
Available-for-sale financial assets	**(969,735)**	**—**	**—**	**(969,735)**
Segment assets	**4,933,230**	**421,659**	**714,310**	**6,069,199**
Total liabilities before inter-segment elimination	**236,110**	**164,552**	**39,462**	**440,124**
Inter-segment elimination	**(20,368)**	**(9,307)**	**(39,462)**	**(69,137)**
Total liabilities	**215,742**	**155,245**	**—**	**370,987**
Deferred income tax liabilities	**(37,376)**	**(3,869)**	**—**	**(41,245)**
Current income tax liabilities	**(6,409)**	**(1,305)**	**—**	**(7,714)**
Segment liabilities	**171,957**	**150,071**	**—**	**322,028**

	As at 31 December 2011			
	China	Japan	Unallocated	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total assets before inter-segment elimination	6,160,743	524,782	895,036	7,580,561
Inter-segment elimination	(19,682)	(22,977)	(86,096)	(128,755)
Total assets	6,141,061	501,805	808,940	7,451,806
Interests in jointly controlled entities	—	(18,909)	—	(18,909)
Available-for-sale financial assets	(973,398)	—	—	(973,398)
Deferred income tax assets	(112,542)	—	—	(112,542)
Segment assets	5,055,121	482,896	808,940	6,346,957
Total liabilities before inter-segment elimination	485,422	209,034	40,723	735,179
Inter-segment elimination	(22,977)	(19,584)	(40,723)	(83,284)
Total liabilities	462,445	189,450	—	651,895
Deferred income tax liabilities	(27,000)	(3,922)	—	(30,922)
Current income tax liabilities	(6,823)	(1,860)	—	(8,683)
Segment liabilities	428,622	183,668	—	612,290

3 Other gains, net

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Government subsidy income	**1,744**	36,517
Loss of disposal construction in progress	**(193)**	—
Others	**2,487**	673
	4,038	37,190

Government subsidy income is granted by the local finance bureaus at their full discretion and is recognised at fair value where there is a reasonable assurance that the subsidy will be received.

4 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	
	2012	2011
	RMB'000	*RMB'000*
Cost of inventories recognised as cost of goods sold and distribution costs	**406,250**	441,811
Depreciation/amortization of property, plant and equipment, lease prepayments and intangible assets	**19,492**	18,908
Loss on disposal of property, plant and equipment	**299**	38
Advertising and marketing expenses	**89,751**	129,430
Employee salary and benefit expenses	**104,921**	102,558
Withholding business tax on licence fees payable for an overseas subsidiary	**(1,068)**	4,965
Design and product development expenses	**45,342**	51,779
Legal and consulting expenses	**3,909**	17,740
Operating lease in respect of buildings	**27,985**	26,906
Logistic fees	**38,287**	37,554
Provision for impairment losses of inventories	**11,855**	43,185
(Reversal of)/provision for impairment losses of trade and other receivables	**(7,439)**	8,353
Travelling expenses	**10,840**	14,624
Auditors' remuneration	**900**	1,120
Others	**32,426**	39,609
Total of cost of goods sold, distribution costs and administrative expenses	**783,750**	938,580

5 Finance income, net

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Finance income:		
— Interest income from bank deposits	**50,463**	41,738
— Interest income from treasury bonds and treasury products	**34,224**	20,979
Finance cost:		
— Foreign exchange gains/(losses), net	**7,872**	(4,095)
— Others	**(2,027)**	(879)
	90,532	57,743

6 Income tax expense

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Current income tax		
— PRC enterprise income tax ("EIT")	**71,005**	135,793
— Taxation in Japan	**750**	603
Deferred income tax	**(22,638)**	(23,383)
	49,117	113,013

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 2012 (2011: nil).

Effective from 1 January 2008, the subsidiaries of the Company incorporated in the PRC are subject to corporate income tax at the rate of 25% in accordance with the Corporate Income Tax Law of the PRC (the "New EIT Law") as approved by the National People's Congress on 16 March 2007. The EIT rate applicable to subsidiaries of the Group established in the PRC had been reduced to 25% from 2008 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, distribution of profits earned by PRC companies since 1 January 2008 to foreign investors is subject to withholding tax of 5% to 10% depending on the country of incorporation of the foreign investor. Should the Group's PRC subsidiaries distribute dividends to overseas-incorporated entities within the Group, the Group should accrue the withholding tax. During the six months ended 30 June 2012, the Group provided for a deferred withholding tax liability of RMB10,377,000 (2011: RMB21,575,000) in relation to the profit of the PRC subsidiaries for the six months ended 30 June 2012 that will be distributed in the 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 2012 applicable to the subsidiary is 30% (2011: 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 2012 (2011: nil), the subsidiary was subject to the minimum inhabitant tax payments.

7 Earnings per share

(a) Basic

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

	Six months ended 30 June	
	2012	2011
Profit attributable to equity holders of the Company *(RMB'000)*	**97,074**	224,958
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme *(thousands)*	**5,543,387**	5,636,401
Basic earnings per share *(RMB cents per share)*	**1.75**	3.99

(b) Diluted

No diluted earnings per share has been presented since there was no potential diluted ordinary share during the period as at 30 June 2012.

8 Dividends

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Interim dividend of RMB0.53 cents per share (2011: 1.19 cents per share)	**29,343**	67,430
Interim special dividend of RMB0.70 cents per share (2011: 1.59 cents per share)	**38,755**	90,096
	68,098	157,526

Pursuant to a resolution passed on 22 August 2012, the board of directors declared an interim dividend and an interim special dividend of RMB0.53 cents and RMB0.70 cents per share, respectively (2011: 1.19 cents and 1.59 cents per share), totalling RMB1.23 cents, to be distributed from the share premium account of the Company. The interim dividend and interim special dividend, amounting to RMB68,098,000 (2011: RMB157,526,000) have not been reflected as dividends payable in the consolidated interim financial information. They will be recognised in shareholders' equity in the year ending 31 December 2012.

During the six months ended 30 June 2012, no dividend was paid (2011: RMB553,041,000 paid in May 2011, including the dividends of RMB2,912,000 paid to the Shares held for Restricted Share Award Scheme).

9 Available-for-sale financial assets

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
At 1 January	**973,398**	213,938
Additions *(note (d))*	**—**	228,295
Exchange differences	**2,549**	(2,329)
Changes in fair value *(note (e))*	**(6,212)**	(129,356)
At 30 June	**969,735**	310,548

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

	30 June	31 December
	2012	2011
	RMB'000	*RMB'000*
Unlisted equity securities in the PRC		
— MSYH Group *(Note (a))*	**130,000**	130,000
— Yunfeng Funds *(Note (b))*	**632,490**	630,090
— CITIC Mezzanine Fund I *(Note (c))*	**150,000**	150,000
— Other investment	**21,000**	21,000
Listed equity securities in the US		
— Mecox Lane *(Note (d))*	**36,245**	42,308
	969,735	973,398
Market value of listed securities	**36,245**	42,308

Notes:

(a) This represents the Group's holding of 22.05% equity interests in Mai Sheng Yue He Sporting Goods Co., Limited which wholly owns various companies engaging in the distribution and retail of sport-related products in various provinces in the PRC ("MSYH Group").

(b) In September 2011, the Group subscribed for limited partnership interests with a total capital commitment of USD100,000,000 in Yunfeng E-commerce funds ("Yunfeng Funds). Yunfeng Funds are established for the purpose of making investments in Alibaba Group Holding Limited, a leading group in the Chinese e-commerce industry. As at 30 June 2012, the Group has fully paid the capital commitment.

(c) In September 2011, the Group subscribed for limited partnership interests with a total capital commitment of RMB300,000,000 in CITIC Mezzanine Fund I. The CITIC Mezzanine Fund I is a limited partnership established for the purpose of making equity and debt investments in the PRC. As at 30 June 2012, the Group has paid RMB150,000,000, being 50% of the capital commitment.

(d) In March 2011, the Group purchased 40,519,225 ordinary shares of Mecox Lane Limited ("Mecox Lane"), representing approximately 10% of the issued shares of Mecox Lane, at a price of USD0.8571 per share, totaling USD34,729,000 (equivalent to approximately RMB228,295,000). Mecox Lane is a company listed on NASDAQ in the United States of America and engaged in sales of apparel and accessories on online platforms in the PRC. In addition, the Group has options to purchase up to 18,306,117 ordinary shares of Mecox Lane at an exercise price of USD1.1429 per ordinary share during a two-year's period starting from 25 March 2011.

(e) The available for sale financial assets are stated at fair value. The fair values of investments in the unlisted equity securities as at the balance sheet date are determined with reference to a valuation model based on estimated discounted cash flows. The fair value of listed equity securities as at the balance sheet date is determined by reference to the quoted prices in an active market.

10 Trade receivables

	30 June 2012 RMB'000	31 December 2011 RMB'000
Trade receivables		
— Third parties	**250,345**	416,926
— Related parties	**158,382**	188,724
	408,727	605,650
Less: provision for impairment	**(51,449)**	(58,029)
Trade receivables, net	**357,278**	547,621

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

	30 June 2012 RMB'000	31 December 2011 RMB'000
Current	**164,312**	290,345
Within 30 days	**73,642**	154,226
31 to 120 days	**155,585**	147,989
Over 120 days	**15,188**	13,090
	408,727	605,650

11 Trade payables

The ageing analysis of trade payables is as follows:

	30 June 2012 RMB'000	31 December 2011 RMB'000
Current	**131,010**	267,291
Within 30 days	**177**	4,599
31 to 120 days	**2,397**	3,770
Over 120 days	**6,747**	74
	140,331	275,734

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

MANAGEMENT DISCUSSION AND ANALYSIS

Macroeconomic Review

During the first half of 2012, the global economy remained highly volatile. As the European debt crisis continued to intensify and would remain unresolved in the near future, it imposed a long-term impact on the global economy. On the other hand, the US economy continued to be sluggish, while the Asian market also experienced moderated growth. China's robust economic growth since a few years ago has softened to a slower pace. The People's Bank of China had reduced the reserve requirement and lowered interest rates twice within a month. The implementation of easing monetary policy to stimulate economy demonstrated the economic foundation was weakened. In June 2012, the CPI in Mainland China recorded a year-on-year growth of 2.2%, which was a record low in 29 months. GDP for the first half of 2012 was RMB22,700 billion, representing a moderated growth of 7.8% as compared to the same period last year, and was at a level below 8.0% for the first time in three years. During the period, total retail sales reached approximately RMB9,800 billion, representing a year-on-year nominal growth of 14.4%, representing a 2.4% decline as compared to the same period last year.

Industry Review

While the overall economic situation remained sluggish, the Chinese sportswear market also faced intensifying competition. Following a period of vigorous growth in the past few years, the slowdown in both demand and industry growth has created the problem of excessive inventory, adding tremendous operating pressure to brands and retailers. While endeavoring in brand building and product R&D, the market also offered greater discounts to distributors in an aggressive manner, leading to even more intense competition.

Meanwhile, international sports brands developed actively in the Chinese market, and further penetrated into second- and third-tier cities with more aggressive pricing in order to seize market share. The sportswear industry faced further suppression with the large influx of both local and international casual wear brands and the changing trend of sportswear from functional to casual.

The slowdown in demand, together with soaring labor and rental costs, caused the sportswear industry to suffer from unprecedented challenges in all aspects. Brand operators needed to readjust their distribution channels, or even close down some stores to boost operational efficiency. The operational structure of increasing sales through network expansion was no longer valid; brand operators needed to revamp similar products, and to proactively emphasize product innovation in order to stand out in the industry.

It is expected that various challenges in the sportswear industry will linger for some time. During this trough, brand operators and retailers must lay out comprehensive strategies to tackle the problem of accumulated inventory, and inject new elements into the brands and products in order to ramp up future growth momentum and grasp opportunities that may come along as the market rebounds.

Business Review

Moving on to 2012, the Group adopted innovative marketing means by increasing the use of popular social network, product-embedded publications, advertisements and thematic promotion, etc. to reiterate Kappa's unique brand philosophy of "sports, fashion, sexiness and style". The Group also actively developed new products to diversify and enrich the product portfolio and improved retail points to enhance operational efficiency to welcome future growth opportunities.

Brand Building and Marketing

During the period under review, the Group carried out "smart marketing" for greater cost effectiveness by infusing Kappa into consumers' daily lives through social networks, online drama series, micro-movies and talk-of-the-town topics, which successfully enhanced Kappa's brand awareness. The Group also sponsored and organized different thematic promotion activities to enhance brand positioning together with the use of infotainment, print advertisements and advertorials to promote key products and stimulate product sales.

Social network and new media promotion

— The Group fully utilized Weibo during the period under review. Promotion activities including festival blessings, song dedication, blog postings and photo album promotion during Chinese New Year, Valentine's Day and Mother's Day, which successfully encouraged netizens (online participants) to participate and helped promote Kappa Brand in an interactive way.

— Organize thematic promotion activities online, including "Kappa Sports Show" to match the style of new products and visualize the creative elements in sports. "UEFA Sharing" encouraged netizens to participate by capturing the passion during the pre-UEFA period.

— Make use of online drama series "Mahua Funage" and creative photo gallery of the prominent Chinese poet "Dufu" to generate exposure for Kappa products and drew netizens' attention.

Entertainment Marketing

— Organized "Celebrity Snapshot" based on the hot topic of Chinese local celebrity Yao Di being spotted by paparazzi visiting Kappa's store and promoted the Kappa Brand through entertainment websites, forums and Weibo.

Product Embedding

— Selected a number of fashion and lifestyle magazines including "Modern Weekly" and "Sports Illustrated China" and placed advertorials of Kappa products including the newly-launched Kappa Arch Tech and Miss Kappa series to demonstrate the trendy image of Kappa products.

Advertisement Placement

— The Group placed advertisements and advertorials in magazines and websites which reach the Group's target customers, including the advertorials on golf products in magazines including "Golf Trip", the introduction of Kappa Arch Tech's product description and functionality in a fashion magazine called *1626* which also helped promote the Group's products to its target customer segment.

UEFA Related Promotion

— Organized "Cool Guys of UEFA" activity to strengthen Kappa's brand positioning by means of online advertisement, match results guessing, role playing, match broadcast and interactive discussions.

— Arranged media activities for DreamBoat Soccer Team. Celebrity team members paid visits to the matches to create more promotion opportunities.

— Cooperated with Bazaar to convey Kappa's mix-and-match brand philosophy via videos, online forums and photo galleries with captions on various platforms.

— Launched personalized Kappa thematic comics and drew consumers closer to Kappa by sharing fun facts with netizens through football match watching, guessing results, commenting and discussing matches.

Sports Sponsorships

During the period under review, Kappa continued to be the official sponsor of Italian Serie A Club AS Roma and provided sports apparel to the team to enhance brand awareness.

Diversified Brand Portfolio

Kappa Products

Arch Tech

— The Arch Tech sports shoe series makes use of the arch structure technique to create a shock-resistant pad that provides support and outstanding rebound ability which will be able to help release pressure on knees and legs during running, thus minimizing the injury caused by exercise.

Miss Kappa

— Miss Kappa products included the special use of lace, fresh colours and various feminine elements to bring about a fresh image to customers, presenting the harmony of sports and feminine fashion.

Aqua Grip

— Kappa OUTDOOR-AQUA GRIP introduced the use of "quick dry, tear-shaped net fabric" with vibrant colours, lighting up gloomy rainy days, making everyday a sports day.

C19

— Kappa C19 launched the "vivacious winter" series with bright colours to spice up the dark winter. Warm-keeping materials help protect sports lovers from the strong cold wind, demonstrating the carefree and uncompromising attitude.

— Kappa C19 products were inspired by "Fixed Wheel Bicycle" (Fixed Gear), incorporating the free, simple and uncompromising attitude of street sports. The wing design by the Japanese designer team is the highlight of the series, letting consumers experience the carefree feeling of spreading wings with the wind.

Kappa Kids

— Kappa Kids is a trendy kids' sportswear brand jointly presented by Kappa and PacLantic. The product series covers the fashionable, energetic and fun elements including "National", "ColourFUN", "Mind Free" etc.

— Kappa Kids is suitable for children aged 3–14 with its diversified product portfolio. It serves as an extension of the thriving styles in the adult fashion and emphasizes the European heritage, which is a complete contrast with the bold American style.

Robe Di Kappa Business

Robe Di Kappa ("RDK") stepped up its marketing efforts in 2012. In the first half of the year, RDK organized "Old for Love", a charity sales activity with "nostalgia" as its theme. Through formats including fashion exhibition and auction, young consumers' interaction was strengthened while the trendy and charitable attitude of Kappa Brand was shown.

During the period under review, RDK was also introduced in movies and the entertainment area for the first time. It sponsored the movie "To Our Youth that is Fading Away" directed by famous Chinese celebrity, Ms. Zhao Wei, and products of the RDK 2012 series appeared in the film. In addition, RDK organized a 2012 Fall/Winter video competition under the theme "Create a New World" to explore the inner world with Kappa's customers.

As at 30 June 2012, there were 18 RDK stores. The Group will further promote the brand awareness and image of RDK through different marketing and promotion methods.

Phenix Business

Since its launch in 2011, Phenix brand products underwent rapid expansion in the Mainland China market. As at 30 June 2012, Phenix had a total of 26 retail outlets.

In early 2012, Phenix officially launched a full series of products from Kayland, a high-end Italian outdoor footwear brand, in the Mainland China market. This has enriched Phenix's product portfolio. In June 2012, Phenix title sponsored a camping event in Beijing, attracted camp lovers from all over the country. Phenix sponsored sports apparel and gears for netizens, and prepared a series of activities on-site which made the event a great success in terms of scale throughout the years.

Optimizing Sales Network

During the period, the Group continued to optimize the distribution and efficiency of its retail network by monitoring and making adjustments to the existing store network. As at 30 June 2012, the Group had 35 distributors in its China segment that directly or indirectly operated 2,550 retail outlets selling Kappa Brand products. In addition, Robe Di Kappa and Phenix retail outlets reached 18 and 26, respectively. The distribution of retail outlets covered all major provincial cities and other major urban areas and towns in China.

Apart from traditional sales in retail outlets, the Group placed great emphasis on Internet sales as well. An Internet platform provides an efficient channel to clear accumulated inventories. The Group's collaboration with Taobao.com, an e-shopping giant in the PRC, also provided consumers a convenient way to purchase Kappa products. The Group will brush up its efforts in building an integrated Internet sales platform and promote online sales by tapping into multiple popular Internet channels.

Design and Development

During the period under review, the Group achieved significant results in product design and product R&D. Since Mr. Chen Yihong was appointed as the Group's CEO at the end of 2011, his first duty was to increase the Group's design and R&D efforts, including the employment of Korean, Japanese and Chinese designers, allowing the three teams of designers with different styles to work together and learn from each other.

Integrating design resources enabled the efficient and effective new product development, which is shown in the new products launched in 2012. These products were developed in October 2011, and were launched in March 2012, spanning only four months for the whole R&D process. This is significantly shorter than the twelve to fourteen months needed in the past, which allows for swift new product response to market demands.

The Group also strengthened its design and R&D foundation continuously. Its RTC in Taicang, Jiangsu, has introduced new craftsmanship from Technical Center in Niigata Japan, and Japanese technicians were brought in for technical training and consultation. This greatly elevated Taicang RTC's product development quantity and quality. Its product development ability in the early stages was also strengthened, so that it is able to produce products that require intricate craftsmanship for Kappa and RDK products in China and Phenix products in Japan.

Business Review in Japan

Although the Japanese economy gradually recovered after the earthquake in 2011, yet the appreciation of Japanese Yen, sluggish performance of the stock market and increased sales tax brought adverse challenges to the Japanese economy. Affected by the weak European economy, orders from European countries decreased. On the other hand, despite the robust development in our business in Japan during the Spring/Summer season, gross profit margin was affected since the Group had to clear old stock that was accumulated after the earthquake events. In spite of the challenging operational environment, our Japan office exerted extra effort in marketing and R&D during the first half of the year, gathering growth momentum for future business development.

In terms of marketing, Phenix sponsored the London Olympics 2012 Norway national team sports apparel, which greatly enhanced its popularity in international, top-tier sports event. With regards to domestic sales in Japan, the Group worked on strengthening the shop-in-shop stores and concessionaire counters for each brand. The self-operated store of inhabitant in PARCO, Shibuya, was opened in the first half of 2012.

On the R&D front, the Japanese team successfully researched and devised a number of new technologies in the first half of the year, including the covered heat pressure belt — adding a cover on top of the breathing hole, making sure that airflow is not obstructed. In terms of production, the Japan team further improved efficiency and quality control during the first half of the year, and worked closely with China Dongxiang's PRC team to enhance operational efficiency.

Financial Review

Our sales for the six months ended 30 June 2012 was RMB832 million, decreased by 29.4% as compared to RMB1,179 million for the six months ended 30 June 2011. Profit attributable to equity holders of the Company for the six months ended 30 June 2012 was RMB97 million, decreased by 56.9% as compared to RMB225 million for the six months ended 30 June 2011.

Key Financial Performance by Segments

		Group (Note 3)			China Segment (Note 1)			Japan Segment (Note 2)		
		Six months ended 30 June			Six months ended 30 June			Six months ended 30 June		
	Note	**2012** *RMB million*	2011 *RMB million*	**change**	**2012** *RMB million*	2011 *RMB million*	**change**	**2012** *RMB million*	2011 *RMB million*	**change**
Key items of condensed consolidated income statement										
Sales		**832**	1,179	-29.4%	**614**	990	-38.0%	**218**	189	15.3%
Gross profit		**417**	722	-42.2%	**329**	637	-48.4%	**89**	85	4.7%
Operating profit	3	**53**	277	-80.9%						
Profit attributable to equity holders of the Company	3	**97**	225	-56.9%						
		RMB cent	*RMB cent*							
Basic and diluted earnings per share		**1.75**	3.99	-56.1%						
		%	*%*	*% pt*	*%*	*%*	*% pt*	*%*	*%*	*% pt*
Profitability ratios										
Gross profit margin		**50.2%**	61.3%	-11.1	**53.6%**	64.4%	-10.8	**40.8%**	45.0%	-4.2
Operating profit margin		**6.4%**	23.5%	-17.1						
Effective tax rate		**34.4%**	33.7%	0.7						
Net profit margin		**11.7%**	19.1%	-7.4						
Key operating expenses ratios (as percentage of sales)										
Advertising and marketing expenses		**10.8%**	11.0%	-0.2	**11.3%**	10.7%	0.6	**9.4%**	12.5%	-3.1
Employee salary and benefit expenses		**12.6%**	8.7%	3.9	**11.9%**	7.0%	4.9	**14.5%**	17.6%	-3.1
Design and product development expenses	3	**5.4%**	4.4%	1.0						

Notes:

1. The China segment is principally engaged in the wholesale of sport-related products under Kappa Brand in the PRC and Macau. It is also engaged in international business under Kappa Brand as well as domestic businesses under the Phenix brand and RDK brand.

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

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

Sales Analysis

Sales analyzed by geographical segments, business segments and product categories

	Six months ended 30 June						
	2012			2011			
	RMB million	***% of product/ brand mix***	***% of Group sales***	*RMB million*	*% of product/ brand mix*	*% of Group sales*	*change*
CHINA SEGMENT							
Kappa Brand							
Apparel	**394**	**65.7%**	**47.4%**	693	70.8%	58.8%	-43.1%
Footwear	**185**	**30.8%**	**22.2%**	247	25.2%	21.0%	-25.1%
Accessories	**21**	**3.5%**	**2.5%**	39	4.0%	3.3%	-46.2%
Kappa Brand total	**600**	**100.0%**	**72.1%**	979	100.0%	83.1%	-38.7%
International business, RDK and others	**14**		**1.7%**	11		0.9%	27.3%
CHINA SEGMENT TOTAL	**614**		**73.8%**	990		84.0%	-38.0%
JAPAN SEGMENT							
Phenix Brand	**101**	**46.3%**	**12.1%**	79	41.8%	6.7%	27.8%
Kappa Brand	**117**	**53.7%**	**14.1%**	110	58.2%	9.3%	6.4%
JAPAN SEGMENT TOTAL	**218**	**100.0%**	**26.2%**	189	100.0%	16.0%	15.3%
THE GROUP TOTAL	**832**		**100.0%**	1,179		100.0%	-29.4%

China Segment

Kappa Brand

Total sales from the Kappa Brand business, the core business of the Group, for the six months ended 30 June 2012 was RMB600 million, decreased by RMB379 million from RMB979 million for the six months ended 30 June 2011. Such decrease was principally due to (1) the competition within the sportswear industry in China continued to intensify in the first half of 2012 which resulted in higher product discounts offering in the market. On the other hand, the issue of excessive inventory at the distribution channel level in the industry remains a challenge to the distributors. Facing these challenging circumstances, the Group has further adjusted the Group's product offerings and significantly reduced the distributors' volume of sales order for each product seasons in the first half of 2012; (2) strategic closedown of certain retail stores that recorded unsatisfactory profitability by the Group and our distributors for further optimizing sales channels and enhancing profitability per store. The total number of Kappa Brand retail stores operated, directly or indirectly, by our distributors decreased to 2,550 as at 30 June 2012 from 3,119 as at 31 December 2011, representing net decrease of 569.

International Business, RDK and Others

Sales from international business, RDK and other brands increased by RMB3 million to RMB14 million for the six months ended 30 June 2012 from RMB11 million for the six months ended 30 June 2011. Such increase was mainly due to the growth in sales of Phenix and RDK.

Japan Segment

Sales from Japan segment for the six months ended 30 June 2012 increased by RMB29 million to RMB218 million from RMB189 million for the six months ended 30 June 2011. Our sales from Japan segment remained stable and saw increase, primarily due to the gradual recovery of the market in Japan from earthquake, the combined positive effects of channels development, branding and sales promotion by Phenix. As a result, our market share has been secured.

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

	Six months ended 30 June					
	2012		2011		Change	
	ASP *RMB*	**Total units sold** *in '000*	ASP *RMB*	Total units sold *in '000*	ASP	Total units sold
Apparel	**112**	**3,673**	135	6,475	-17.0%	-43.3%
Footwear	**166**	**1,184**	181	1,738	-8.3%	-31.9%

Notes:

1. Average selling price represent the sales for the period divided by the total units sold for the period.

2. Accessories cover a wide range of products that vary significantly in terms of average selling price per unit. We believe that the average selling price per unit analysis of this product category is not meaningful.

In the first half of 2012 and 2011, average selling prices per unit for apparel products were RMB112 and RMB135 respectively, average selling prices per units for footwear products were RMB166 and RMB181 respectively. Decreases in average selling prices for apparel and footwear products were mainly due to increased discount offer of obsolete products for accelerating inventory clearance as well as further discount offer to our distributors by adjusting our sales policies.

Total units sold for apparel and footwear products in the period under review fell, to a greater degree, by 43.3% and 31.9%, respectively, as compared to the same period last year, which were primarily due to our initiative to decrease the distributors' target of sales orders for easing their inventory pressure in 2012.

Cost of Goods Sold and Gross Profit

Cost of goods sold of the Group has dropped by RMB41 million, or 9.0%, to RMB415 million for the six months ended 30 June 2012 (1H2011: RMB456 million).

For the six months ended 30 June 2012, Gross profit of the Group has dropped by RMB305 million, or 42.2% to RMB417 million (1H2011: RMB722 million). Our overall gross profit margin for the six months ended 30 June 2012 fell by 11.1 percentage points to 50.2% from 61.3% for the six months ended 30 June 2011.

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

	Six months ended 30 June		
	2012	2011	Change
	Gross profit margin	*Gross profit margin*	*% pt*
China segment			
Kappa Brand:			
Apparel	**55.8%**	66.7%	-10.9
Footwear	**49.4%**	58.1%	-8.7
Accessories	**57.2%**	66.8%	-9.6
Kappa Brand overall	**53.9%**	64.5%	-10.6
International business, RDK and others	**37.0%**	52.9%	-15.9
China segment overall	**53.6%**	64.4%	-10.8
Japan segment	**40.8%**	45.0%	-4.2
Group overall	**50.2%**	61.3%	-11.1

Gross profit margin of Kappa Brand in China segment for the six months ended 30 June 2012 dropped by 10.6 percentage points to 53.9% from 64.5% for the six months ended 30 June 2011. Such fall was due to rise in cost of production, as well as increased discount offer of off-season products for accelerating inventory clearance as well as further discount offer to our distributors by adjusting our supply policies.

Gross profit margin of Japan segment for the six months ended 30 June 2012 was 40.8%, dropped by 4.2 percentage points as compared to 45.0% for the six months ended 30 June 2011. Such decrease was mainly due to increase in production costs and increased discount offer for obsolete inventory clearance.

Other Gains, Net

Other gains for the six months ended 30 June 2012 was RMB4 million (1H 2011: RMB37 million), of which RMB2 million (1H 2011: RMB37 million) was subsidy income from the government for China segment, and the balance was other incomes, such as the license fee in Japan.

Distribution Costs and Administrative Expenses

Distribution costs and administrative expenses mainly comprised advertising and marketing expenses, employee salaries and benefit expenses, design and product development expenses, legal and consulting expenses as well as logistic fees. Total distribution costs and administrative expenses for the six months ended 30 June 2012 dropped by RMB113 million to RMB369 million as compared to RMB482 million for the same period in 2011, constituting 44.3% of the Group's total sales. As our further business adjustment is conducted in 2012, the Group has been exploring new business operation model and developing trend leading product types that are brand-new to the market. Accordingly, the structure of our distribution costs and administrative expenses has been adjusted for ensuring cost effectiveness achieved by reasonable inputs of distribution costs and administrative expenses.

In response to deteriorating market environment and our shrinking business scale, the Group has implemented streamlined strategies for making necessary adjustments in internal organizational structure and human resources. Our overall staff costs for the first half of 2012 were RMB105 million which were substantially in line with RMB103 million for the same period last year. The positive impact of human resources adjustment on distribution costs and administrative expenses will be reflected in the second half of the year. Advertising and marketing expenses reduced by RMB39 million to RMB90 million for the six months ended 30 June 2012 from RMB129 million for the same period last year, and the strategic focus on marketing has shifted from above-the-line brand promotion to below-the-line retail promotion activities which better accommodate the retail market. In the first half of 2012, despite the fall in sales orders for the year has cut our logistic fees, increase in storage fees for inventory pile-up by inventory repurchase last year has maintained our logistic fees at a similar level for the same period of 2011 at RMB38 million. In 2011, our consulting fees substantially increased by the launch of consulting projects on strategic planning, human resources and internal management upgrade, but we have rationalized those projects deemed to be unnecessary in 2012, resulting in decrease in our consulting fees to RMB4 million for the period from RMB18 million for the first half of 2011. For product development, the Group has continued to maintain a high level of investment, but the strategies on product development have been adjusted by shifting our collaborative partners from European designers to Japanese and Korean designers whose aesthetic designs are more suitable for Chinese customers as well as strengthening the cooperation between our regional training centre RTC and the research centre in Japan, in a bid to enhance fashion taste and quality of our products in terms of design and production. In the first half of 2012, our design and product development expenses were RMB45 million (1H2011: RMB52 million).

Operating Profit

For the six months ended 30 June 2012, operating profit of the Group was RMB53 million (1H 2011: RMB277 million). The operating profit margin was 6.4% for the six months ended 30 June 2012 (1H 2011: 23.5%). Such change was mainly due to a drop in gross profit margin by 11.1 percentage points, an increase in expense ratio by 3.4 percentage points as well as a decrease in other net gains by RMB33 million.

Finance income, Net

For the six months ended 30 June 2012, finance income mainly comprised interest income of RMB50 million (1H 2011: RMB42 million), and income derived from investment in treasury bonds and capital guaranteed treasury products issued by banks of RMB34 million (1H 2011: RMB21 million).

Taxation

For the six months ended 30 June 2012, income tax expense of the Group amounted to RMB49 million (1H 2011: RMB113 million). The effective tax rate was 34.4% (1H 2011: 33.7%). Increase in effective tax rate was primarily due to: 1) the increase in income tax rate of our major operating subsidiaries established in the Shanghai Pudong New Area from 24% for 2011 to 25% for 2012; and 2) a 5% to 10% withholding tax rate was imposed on dividends paid to a non-resident company by a resident company in accordance with the new PRC Enterprise Income Tax Law promulgated in 2008, accordingly withholding income tax of RMB10 million has been provided based on management estimation on future dividend payment to offshore subsidiary calculated at a 10% withholding tax rate.

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 subject to income tax at a standard rate of 25% in 2012 (2011: 24%).

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

Profit attributable to equity holders of the Company for the six months ended 30 June 2012 was RMB97 million (1H 2011: RMB225 million), and net profit margin of the Group was 11.7% (1H 2011: 19.1%).

Earnings Per Share

The basic and diluted earnings per share were RMB1.75 cents and RMB1.75 cents for the six months ended 30 June 2012, respectively, decreases of 56.1% and 56.1% against the basic and diluted earnings per share of RMB3.99 cents and RMB3.99 cents for the six months ended 30 June 2011, respectively.

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

Interim Dividend and Interim Special Dividend

The board of directors (the "Board") of the Company has resolved to declare an interim dividend and interim special dividend of RMB0.53 cents and RMB0.70 cents respectively per ordinary share (totaling RMB1.23 cents per ordinary share) for the six months ended 30 June 2012, amounting to RMB29 million and RMB39 million respectively (totaling RMB68 million).

The interim dividend and interim special dividend will be paid in HK Dollars based on the rate of HKD1.00 = RMB0.8176 being the official exchange rate of HK Dollars against Renminbi as quoted by the People's Bank of China at 21 August 2012. The dividends will be paid on or around 18 September 2012 to shareholders whose names appear on the register of members of the Company on 11 September 2012.

Financial Position

Working capital efficiency ratios

China Segment

Average trade receivable turnover days for the six months ended 30 June 2012 and 2011 were 112 days and 102 days, respectively. Despite the fact that the Group has exerted further efforts on credit control in such grim market environment in the first half of 2012, our average trade receivable turnover days in the first half of 2012 increased as compared with the same period in 2011 as a result of decline in our revenue caused by our strategic reduction of the number of distributor's orders in the period under review as well as extended credit terms granted to our corporate clients with strong financial positions for supporting them to address the current market situation.

Average trade payable turnover days for the six months ended 30 June 2012 and 2011 were 69 days and 100 days respectively. Remarkable decrease in average trade payable turnover days was primarily due to settlement procedure being promptly followed by our major suppliers in the period under review for ensuring that our trade payables were settled in due course in accordance with the Group's policy.

Average inventory turnover days for the six months ended 30 June 2012 and 2011 were 304 days and 125 days respectively. Drastic increase in average inventory turnover days was primarily due to increase in inventory balance resulting from inventory repurchase by the Group last year. Meanwhile, we have performed our inventory clearance well in the period under review, but a certain period of time is required for allowing the inventory balance back to healthy level.

Japan Segment

Average trade receivable turnover days, average trade payable turnover days and average inventory turnover days were 109 days, 140 days and 249 days, respectively for the six months ended 30 June 2012 as compared to 133 days, 161 days and 257 days, respectively for the six months ended 30 June 2011. Decreases in all above turnover days were mainly due to the increase in our revenue for the first half of 2012 as compared to that in 2011.

Liquidity and financial resources

As at 30 June 2012, cash and bank balances (including long term bank deposits) of the Group amounted to RMB3,343 million, a decrease of RMB432 million compared to a balance of RMB3,775 million as of 31 December 2011. This decrease mainly due to 1) an investment in capital guaranteed treasury products issued by banks of RMB350 million; and 2) payment of share repurchase of approximately RMB84 million.

As at 30 June 2012, net assets attributable to our equity holders was RMB6,802 million (31 December 2011: RMB6,795 million). The Group's current assets exceeded current liabilities by RMB5,294 million (31 December 2011: RMB5,274 million). The Group also had a very strong liquidity position. The current ratio as of 30 June 2012 was 17.1 times (31 December 2011: 9.5 times).

As at 30 June 2012, the Group had no outstanding bank loans or other borrowings.

Pledge of assets

As at 30 June 2012, the Group had approximately RMB136 million (31 December 2011: RMB137 million) were held in banks as deposits of advertising fee payable to our business partner who is a third party as well as guarantee deposit for the issue of letters of credit for our business.

Capital commitments and contingencies

According to a limited partnership agreement with CITICPE, the Group shall pay a capital contribution of RMB300 million for investment. As at 30 June 2012, the Group has paid RMB150 million as capital contribution, with the remaining balance of RMB150 million as capital commitments.

Foreign exchange risk

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

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

Significant investments and acquisitions

The Group has made no significant investment or any material acquisition or disposal of subsidiaries during the six months ended 30 June 2012.

Outlook

In light of such severe operating environment, the Group adopted a pragmatic approach and formulated a series of strategic measures for the healthy and long-term growth of China Dongxiang to cope with upcoming opportunities and challenges.

During the first half of 2012, the Group achieved further improvement in branding, product development, distribution channel and business development. Looking ahead, the group will continue to strengthen its efforts in these four areas.

In terms of branding and product development, the Group will improve its brand positioning by further integrating and unitizing design resources from Italy, Japan and Korea, while launching modern and innovative products that will be well-received by consumers. Concurrently, the Group will also emphasize product details and differentiation, as well as the mix-and-matching of different products to provide a unique product experience to consumers. We will launch a new product line under the theme of "easy, breezy, outdoor life", showcasing a continuous effort to combine sports equipment with modern elements. In addition, through the integration of the R&D centers in China and Japan, our supply chain will become more responsive with greater agility, thus fulfilling the needs of consumers in a timelier manner. Together with the optimization of cost control measures, our operational efficiency will be further improved.

In terms of sales network, the Group will step up its efforts in monitoring the performance of retail outlets, and continue to promote the "brand + retail" business model through close cooperation with MSYH Group. The collaboration of the sales teams of China Dongxiang and MSYH Group will allow both companies to enjoy the benefits of shared resources and product knowledge, while raising sales efficiency and enhancing sales network quality.

The Group will open Dongxiang Concept Stores in the second half of 2012 in first-tier cities, including Beijing and Shanghai, for consumers to enjoy a brand new shopping experience and showcase the unique specialties of China Dongxiang. The Group will also make the most of the winning edges of its multi-brand strategy to promote the organic collaboration of the brands in its Concept Stores. By doing so, we will be able to showcase the elements of "trendy, outdoor, purity and quality" of different brands and strengthen the notion of product mix-and-match, so as to create a one-stop, relaxing shopping experience for consumers with this new operation format and stimulate product sales.

China Dongxiang remains confident about the future despite the complexity and ever-changing market situation. With the support of our experienced management and their expertise in the China sportswear industry, our solid financial foundation, combined with the Group's strategic planning for future development, we are confident that we will be able to cope with upcoming challenges and grasp opportunities that come along when the market recovers and bring about the maximum return for our shareholders.

OTHER INFORMATION

Compliance with the Code on Corporate Governance Practices (the "CG Code")

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

During the period under review, the Company has complied with the code provisions set out in the CG Code contained in Appendix 14 of The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules"), except one deviation from code provision A.2.1 of the CG Code. Provision A.2.1 of the Code provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Our Company deviates from this provision because Mr. Chen Yihong performs both the roles of chairman and chief executive officer since 20 October 2011. Mr. Chen is the founder of our Group and has extensive experience in sporting goods industry in China. The Board believes that vesting the two roles in the same person provides our Company with strong and consistent leadership and facilitates the implementation and execution of our Group's business strategies. The Company shall nevertheless review the structure from time to time in light of the prevailing circumstances.

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 2011.

Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code")

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the standard for securities transactions by directors. Having made specific enquiry by the Company, all the directors of the Company confirmed that they had complied with the required standard regarding securities transactions by the directors as set out in the Model Code during the period under review.

Audit Committee

The Audit Committee of the Company, comprising three independent non-executive directors, has reviewed the interim financial information, financial reporting system and internal control of the Company, including the interim results for the six months ended 30 June 2012.

The unaudited condensed consolidated interim financial information for the six months ended 30 June 2012 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.

Purchase, Sale or Redemption of the Company's Listed Securities

During the six months ended 30 June 2012, the Company repurchased a total of 100,000,000 ordinary shares of par value HK$0.01 each of the Company at an aggregate purchase price of HK$104,208,698.05 on the Hong Kong Stock Exchange. Details of the repurchases of such ordinary shares were as follows:

Months of repurchase	Number of ordinary shares repurchased	Price per ordinary share Lowest	Highest	Aggregate purchase price
		HK$	*HK$*	*HK$*
April 2012	69,970,000	0.98	1.05	71,809,867.25
May 2012	30,030,000	1.05	1.09	32,398,830.80
	100,000,000			104,208,698.05

As at the date of this interim report, all the 100,000,000 ordinary shares repurchased by the Company during the reporting period had been cancelled and the issued share capital of the Company was reduced by the par value thereof accordingly. The above repurchases were effected by the directors, pursuant to the mandate from shareholders, with a view to benefiting shareholders as a whole by increasing net asset value and/or earnings per share of the Company.

Saved as disclosed above, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of any listed securities of the Company during the six months ended 30 June 2012.

Book Closure

The Register of Members of the Company will be closed from 7 September 2012 to 11 September 2012, both days inclusive, for the purpose of determining shareholders' entitlements to the 2012 interim dividend and interim special dividend. In order to qualify for the 2012 interim dividend and interim special dividend, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 6 September 2012 at 4:30 p.m.

Publication of Results Announcement

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

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

Hong Kong, 22 August 2012

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