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 2014

Results Highlights

	1H 2014	1H 2013	Change
	(RMB million)	*(RMB million)*	
Revenue	**465**	563	–17.4%
Gross profit (before provision for impairment of inventories)	**215**	271	–20.7%
Gross profit margin (before provision for impairment of inventories)	**46.2%**	48.1%	–1.9pts
Operating profit	**50**	32	56.3%
Profit for the period attributable to equity holders of the Company	**96**	92	4.3%
	(RMB cents)	*(RMB cents)*	
Basic earnings per share	**1.75**	1.67	4.8%
Interim dividend and interim special dividend per share	**1.22**	1.17	4.3%
Total dividend payout ratio	**70%**	70%	—

CHAIRMAN'S STATEMENT

Dear Shareholders,

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

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

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

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

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

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

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

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

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

Chen Yihong
Chairman

21 August 2014

INTERIM CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2014

		Unaudited	
		Six months ended 30 June	
		2014	2013
	Note	***RMB'000***	*RMB'000*
Revenue	2	**465,080**	562,682
Cost of goods sold	4	**(250,030)**	(292,066)
Reversal of impairment of inventories	4	**15,280**	12,397
Gross profit		**230,330**	283,013
Other gains, net	3	**66,532**	9,806
Provision for impairment of available-for-sale financial assets	9	**—**	(11,959)
Distribution costs	4	**(192,285)**	(181,102)
Administrative expenses	4	**(54,410)**	(67,689)
Operating profit		**50,167**	32,069
Finance income, net	5	**95,057**	98,442
Share of (losses)/profits of jointly controlled entities		**(53)**	143
Profit before income tax		**145,171**	130,654
Income tax expense	6	**(53,132)**	(44,532)
Profit for the period		**92,039**	86,122
Profit attributable to:			
— Equity holders of the Company		**96,498**	91,866
— Non-controlling interests		**(4,459)**	(5,744)
		92,039	86,122
Earnings per share for profit attributable to the equity holders of the Company (expressed in RMB cents per share)			
— Basic and diluted earnings per share	7	**1.75**	1.67
Dividends	8	**67,544**	64,776

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2014

		Unaudited Six months ended 30 June	
		2014	2013
	Note	***RMB'000***	*RMB'000*
Profit for the period		**92,039**	86,122
Other comprehensive income:			
Items that may be reclassified to profit or loss			
— Fair value change on available-for-sale financial assets, net of tax	9	**(5,633)**	(3,391)
— Foreign currency translation differences		**34,805**	(62,577)
Total items that may be reclassified subsequently to profit or loss		**29,172**	(65,968)
Other comprehensive income, net of tax		**29,172**	(65,968)
Total comprehensive income for the period		**121,211**	20,154
Total comprehensive income for the period attributable to:			
— Equity holders of the Company		**125,670**	25,898
— Non-controlling interests		**(4,459)**	(5,744)
		121,211	20,154

INTERIM CONSOLIDATED BALANCE SHEET

As at 30 June 2014

	Note	**Unaudited 30 June 2014** *RMB'000*	Audited 31 December 2013 *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**82,683**	85,967
Lease prepayments		**11,865**	12,008
Intangible assets		**254,442**	257,141
Interests in jointly controlled entities		**15,532**	15,591
Available-for-sale financial assets	9	**3,234,720**	3,223,605
Deferred income tax assets		**81,313**	97,829
Prepayments, deposits and other receivables — non-current portion		**43,965**	55,304
		3,724,520	3,747,445
Current assets			
Inventories		**210,782**	182,758
Trade receivables	10	**245,709**	333,041
Prepayments, deposits and other receivables		**109,871**	57,166
Other financial assets		**3,310,512**	3,551,091
Cash and bank balances		**1,338,186**	1,096,797
		5,215,060	5,220,853
Total assets		**8,939,580**	8,968,298
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		**53,589**	53,589
Share premium account		**1,781,427**	1,863,919
Reserves		**6,821,042**	6,691,690
		8,656,058	8,609,198
Non-controlling interests		**16,351**	14,626
Total equity		**8,672,409**	8,623,824

INTERIM CONSOLIDATED BALANCE SHEET (continued)

As at 30 June 2014

	Note	Unaudited 30 June 2014 RMB'000	Audited 31 December 2013 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**37,900**	33,574
		37,900	33,574
Current liabilities			
Trade payables	11	**114,725**	148,035
Accruals and other payables		**99,715**	114,258
Provisions		**12,650**	17,836
Current income tax liabilities		**2,181**	30,771
		229,271	310,900
Total liabilities		**267,171**	344,474
Total equity and liabilities		**8,939,580**	8,968,298
Net current assets		**4,985,789**	4,909,953
Total assets less current liabilities		**8,710,309**	8,657,398

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 21 August 2014.

This condensed consolidated interim financial information has not been audited.

2 SEGMENT INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

3 OTHER GAINS, NET

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

Notes:

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

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

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

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

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

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

4 EXPENSES BY NATURE

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

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

5 FINANCE INCOME, NET

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

6 INCOME TAX EXPENSE

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

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

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

Hong Kong and Singapore profits tax have not been provided as there are no estimated assessable profits arising in or derived from Hong Kong and Singapore during the six months ended 30 June 2014 (2013: nil).

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

The subsidiary incorporated in Japan is subject to income tax and local inhabitant tax. The corporate income tax rate for the six months ended 30 June 2014 applicable to the subsidiary is 30% (2013: 30%) based on the assessable profit. The inhabitant tax is determined based on rates (determined by the prefecture and city where the company maintains its operations) on the income tax payable, subject to a certain minimum payment. As there was no assessable profit derived during the six months ended 30 June 2014 (2013: nil), such subsidiary was subject to the minimum inhabitant tax payments.

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.

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

(b) Diluted

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

8 DIVIDENDS

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

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

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

9 AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

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

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

Notes:

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

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

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

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

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

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

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

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

During the six months ended 30 June 2014, the Group disposed all the remaining 35,380,806 shares of Mecox Lane, and had recognised disposal gains of approximately RMB11,572,000 (Note 3).

10 TRADE RECEIVABLES

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

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

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

11 TRADE PAYABLES

The ageing analysis of trade payables is as follows:

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Macroeconomic Review

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

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

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

Industry Overview

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

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

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

Business Review

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

Brand Building and Marketing

PRC-Kappa brand

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

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

On 18 January 2014, Zhang Jingchu was invited by Kappa to attend a special fun event titled "Kappa Back To Back Once Again" in Beijing. Zhang Jingchu in Kappa KOMBAT one-piece jumpsuit played interactive games with event guests using Kappa remote-controlled swivel chair with special equipment, attracting the interest from the public. Moreover, the placing of Kappa new design V-shaped chairs at shopping districts, such as Beijing CBD, Sanlitun, Galaxy Soho, Shijingshan Wanda and Wukesong Yaolai, bringing Kappa closer to younger generation, the consumers of sports and fashion, and conveying the promotional information “Back To Back Once Again” of Kappa. The Group has released the theme messages through non-internet items, attracting exposure on Weibo of over 100 million visits. There were 60 portal websites, mass media and vertical portal websites following up on the event. Such event was a new form of theme concept to subliminally promote Kappa brand, allowing consumers to re-recognize the Kappa brand.

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

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

PRC — RDK brand

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

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

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

Japan — Kappa brand

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

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

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

Japan — Phenix brand

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

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

Japan — Inhabitant brand

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

Product Design and Research and Development

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

Kappa KOMBAT Series

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

ESSENTIAL Series

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

RAINWAY Series

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

KOLOR Series

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

K-TEE Series

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

Accessories Series

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

Running Shoes/Leisure Shoes

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

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

Upgrading our retail network

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

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

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

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

Maximizing contributions of the Group's projects

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

Outlook

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

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

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

Financial Review

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

Key Financial Performance by Segments

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

Notes:

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

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

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

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

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

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

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

Sales Analysis

Sales analyzed by geographical segments, business segments and product categories

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

China Segment

Kappa Brand

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

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

International Business, RDK and Others

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

Japan Segment

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

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

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

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

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

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

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

Notes:

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

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

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

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

Cost of Goods Sold and Gross Profit

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

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

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

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

* *Before provision for impairment of inventories*

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

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

Other Gains, Net

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

Provision for Impairment of Available-for-sale Financial Assets

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

Distribution Expenses and Administrative Expenses

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

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

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

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

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

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

Operating Profit

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

Finance Income, Net

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

Taxation

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

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

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

Earnings Per Share

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

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

Dividend and Special Dividend

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

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

FINANCIAL POSITION

Working capital efficiency ratios

China Segment

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

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

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

Japan Segment

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

Liquidity and financial resources

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

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

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

Investments in Available-For-Sale Financial Assets

As at 30 June 2014, our balance of investments in available-for-sale financial assets was RMB3,235 million, an increase of RMB11 million as compared with the balance of RMB3,224 million as at 31 December 2013. Such increase was mainly due to: 1) additional investment of approximately US$7 million (equivalent to approximately RMB43 million) in Yunfeng Fund LP II available for subscription; 2) investment gain on disposal of equity interests in Mecox Lane at nominal cost of approximately RMB22 million; 3) cost return from investment in CITIC Mezzanine Fund I of RMB30 million; 4) increase in USD capital contribution of approximately RMB21 million due to a slight appreciation of USD to RMB.

The investments included:

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

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

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

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

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

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

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

Pledge of assets

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

Capital commitments and contingencies

In May 2013, the Group entered into a limited partner agreement with Yunfeng Fund LP II, pursuant to which the Group subscribed a capital contribution of USD20 million. In May 2014, the Group entered into a capital contribution transfer agreement with another limited partner of Yunfeng Fund LP II, increasing the Group's capital contribution to USD30 million. As at 30 June 2014, the Group paid a capital contribution of US$8.5 million with remaining balance of US$21.5 million (equivalent to approximately RMB132 million) as capital commitments.

Foreign exchange risk

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

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

Significant investments and acquisitions

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

OTHER INFORMATION

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

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

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

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

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 2013.

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 2014.

The unaudited condensed consolidated interim financial information for the six months ended 30 June 2014 of the Group has also been reviewed by PricewaterhouseCoopers, the auditor of the Company, in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", whose review report is included in the interim report to be sent to shareholders.

Purchase, Sale or Redemption of Listed Securities

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

Book Closure

The Register of Members of the Company will be closed from 6 September 2014 to 11 September 2014, both days inclusive, for the purpose of determining shareholders' entitlements to the 2014 interim dividend and interim special dividend. In order to qualify for the 2014 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 5 September 2014 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

21 August 2014

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