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 Report 2008


VENI · VIDI · VICI

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Core Value

Confidence, Practice and Innovation

Mission

To build up the most outstanding sportswear brand management team in China

Vision

To provide more choices and create higher value to sportswear consumers on the basis of our multi-brand strategy

5th KAPPA Store, Jinghan Street, Wuhan, Hubei

Corporate Information

THE BOARD

- Executive Directors — Mr. CHEN Yihong, Mr. QIN Dazhong
- Non-executive Director — Mr. GAO Yu
- Independent non-executive Directors — Dr. XIANG Bing, Mr. XU Yudi, Mr. MAK Kin Kwong

Registered office
Cricket Square, Hutchins Drive, P.O. Box 2681
Grand Cayman KY1-1111, Cayman Islands

Principal place of business in Hong Kong
Office Unit 9, 13/F, Tower Two, Lippo Centre
No. 89 Queensway, Hong Kong

Website
www.dxsport.com

Company secretary
Mr. WONG Chi Keung, FCCA, CPA

Qualified accountant
Mr. WONG Chi Keung, FCCA, CPA

Authorised representatives
Mr. WONG Chi Keung, FCCA, CPA
Mr. GAO Yu

Principal share registrar and transfer office
Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
Grand Cayman KY1-1107
Cayman Islands

Hong Kong branch share registrar and transfer office
Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17/F Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

Legal advisers
Norton Rose Hong Kong
Conyers Dill & Pearman
Haiwen & Partners

Compliance adviser
Merrill Lynch Far East Limited

Auditors
PricewaterhouseCoopers
Certified Public Accountants

Investor relations consultant
Porda International (Finance) PR Group

Information for Investors

1. **Share Information**
   Listing: Main Board of the Hong Kong Stock Exchange
   Stock code: 3818
   Number of ordinary shares issued
   as at 30 June 2008: 5,675,971,000

2. **Important Dates**
   Announcement of 2008 interim results: 10 September 2008
   Book closure date: 2 to 6 October 2008

3. **2008 Interim and Special Dividend**
   Interim dividend: RMB2.71 cents per ordinary share
   Special dividend: RMB0.88 cents per ordinary share
   Payment Date: on or around 15 October 2008

4. **Investor Relations Contact**
   Investor Relations Department
   China Dongxiang (Group) Co., Ltd.
   Building 21, No. 2 Jingyuanbei Street
   Beijing Economic-Technology Development Area
   Beijing 100176, China
   Telephone: (8610) 6783 6585
   Facsimile: (8610) 6785 6606
   Email: ir@dxsport.com.cn

5. **Investor Relations Consultant**
   Porda International (Finance) PR Group

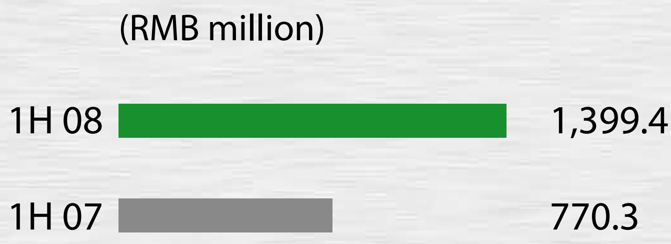
6. **Website**
   http://www.dxsport.com
   http://www.kappa.com.cn

Results Highlights

Sales

+81.7%

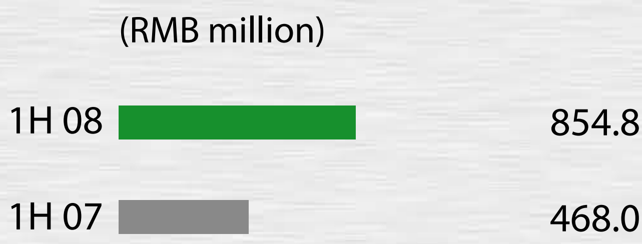
RMB1,399.4



Gross profit

+82.6%

RMB854.8



Gross profit margin

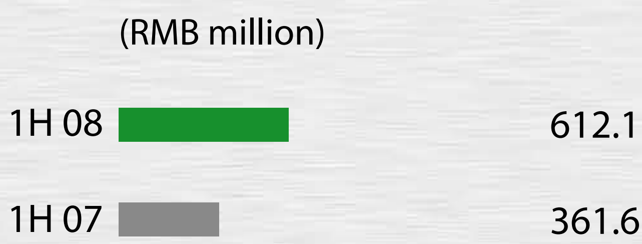
+0.3% pts

61.1%

Operating profit

+69.3%

RMB612.1



Profit attributable to equity holders

+95.6%

RMB656.8

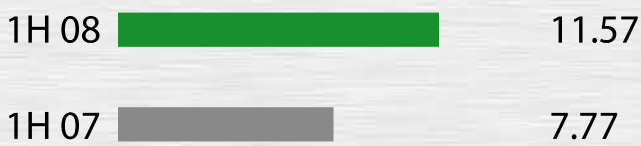
(RMB million)

Basic earnings per share

+48.9%

11.57cents

(RMB cents)



Operational Highlights

Solid & sustainable growth	• Sales and profit attributable to equity holders surged by 81.7% and 95.6% respectively, propelled by strong brand equity and unique fashion sport products offering
Stable gross margin	• Gross margin increased to 61.1% despite of the rising raw material and labour costs
Fast-growing retail network	• The number of Kappa Brand retail outlets directly and indirectly operated by the Group's distributors increased by 542 to 2,487
Strengthened products design capabilities	• Acquisition of Phenix offered immediate access to a world-class design team and a technical centre to strengthen products R&D
Impressive volume growth	• Apparel and footwear sales volume rose 92.6% and 71.1% respectively to 7.6 million pieces and 1.7 million pairs
Efficient working capital management	• Further strengthened working capital management, inventory turnover days and trade receivables turnover days shortened by 16 days and 5 days respectively, to 33 days and 19 days respectively

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors (the "Board") of China Dongxiang (Group) Co., Ltd. ("China Dongxiang" or the "Company"), I am delighted to present the results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2008.

During the period under review, sales of the Group surged by 81.7% year-on-year to RMB1,399.4 million. Net profit attributable to equity holders increased by 95.6% over the corresponding period in 2007 to reach RMB656.8 million. Basic earnings per share amounted to RMB11.57 cents (2007: RMB7.77 cents).

We proposed to distribute approximately 30% and 9.8% of our profit attributable to equity holders (exclude one-off gain on acquisition of Phenix) for the period ended 30 June 2008, equivalent to RMB2.71 cents and 0.88 cents respectively per share, as interim and special dividends respectively to reward our shareholders for their continuing support.

The 29th Olympic Games in Beijing, which has just been concluded, has captured worldwide attention. It was not only a grand international sporting event but also a platform for China to showcase its burgeoning economy that has propelled prosperity in every sector of the most populous country in the world.

China is poised to emerge as the world's largest sportswear market along with rising domestic purchasing power and increasing consumer spending. China Dongxiang will seize opportunities under the promising market outlook to create an even brighter future.

As an outstanding sportswear brand enterprise, China Dongxiang has been steering its business development under proactive yet prudent strategies, moving forward with a spirit of "confidence, practice and innovation". The Group has proactively pursued rapid market expansion and business diversification by fully capitalising on opportunities arising from China's rapidly growing sporting goods market. The Group added 542 Kappa Brand retail outlets in China during the period under review, bringing the total number of Kappa Brand retail outlets to 2,487 as of 30 June 2008. Prudence is the conscientious way we handle our shareholders' wealth and our resistance to temptations making unwise investment decisions spawned by rapid economic growth. Core capital and resources are reserved for better business opportunities. For the six months ended 30 June 2008, the Company achieved robust growth that outpaced its industry peers in terms of operating profit and operating profit margin, achieving RMB612.1 million and 43.7% respectively.

The Company places strong emphasis on working capital management. For the six months ended 30 June 2008, our trade receivables turnover days and inventory turnover days were 19 days and 33 days, respectively, outperforming the average industry level. Such remarkable results were mainly attributable to highly effective working capital management measures as well as healthy retail business.

As stated in our annual report of 2007, the Group will utilise the listing proceeds in an active and prudent manner to pursue merger and acquisition opportunities and integrate its global competitive advantages and resources to cater to the needs of the China market in order to solidify the market leading position of Kappa Brand. We will also identify opportunities for developing new brands and expanding into new markets, all of which will contribute greatly to optimizing organizational efficiency. On 1 May 2008, the Company successfully acquired Phenix, a Japanese company with a 52-year history. New brands such as Phenix, X-NIX and Inhabitant will be introduced to the China market following the acquisition. More importantly, we will quickly integrate our Japanese team and leverage their strong capabilities in product planning, design, technology implementation and production control in order to equip ourselves with greater competitive advantages to excel in the China market.

Our commitment to social responsibility is one of the keys to our success. To this end, the Group donated about RMB15 million in cash and inventories to aid relief efforts after the Sichuan earthquake in May which has drawn worldwide attention and concern. This type of socially responsible effort also reflects our desire to give back to society.

I am confident that China Dongxiang will achieve remarkable results this year and offer greater returns for our shareholders. On behalf of the Board, I would like to express my heartfelt appreciation to our shareholders as well as our business partners for their ongoing support and trust. In addition, I wish to take this opportunity to offer my sincere gratitude to our distinguished management team and our dedicated hard working staff.

CHEN Yihong
Chairman

Hong Kong, 10 September 2008

Management Discussion and Analysis

OVERVIEW

Year 2008 is the first full financial year of the Group following the Company's global initial public offering (the "Global Offering") and successful listing on the Main Board of the Hong Kong Stock Exchange on 10 October 2007. Buoyed by continuous strong economic growth in the PRC and widespread acceptance of Kappa Brand products by China's fast growing high spending consumers, the Group achieved an 81.7% surge in sales from RMB770.3 million for the six months ended 30 June 2007 to RMB1,399.4 million for the six months ended 30 June 2008. Profit attributable to equity holders reached an impressive RMB656.8 million for the six months ended 30 June 2008, representing a 95.6% growth compared to RMB335.8 million for the six months ended 30 June 2007. Even excluding the one-off gain from negative goodwill of RMB146.0 million on the acquisition of Phenix, we still saw a 52.1% growth in profit attributable to equity holders from our core operations.

On 1 May 2008, we completed the acquisition of 91% shareholdings of Phenix, a Japanese company whose core operations focus on the design, development and sales of sports apparel. Their major self-owned brands include "Phenix" for global ski and outdoor sportswear markets, and "Kappa" for football, golf and athletic-wear in Japan. The Group has now successfully reached a new milestone in enhancing its research and development capabilities and deploying a multi-brand strategy.

FINANCIAL REVIEW

Key Financial Performance

	Note	Six months ended 30 June 2008 RMB'000	2007 RMB'000	Change
Key items of condensed consolidated income statement				
Sales		**1,399,406**	770,263	81.7%
Gross profit		**854,809**	468,032	82.6%
Operating profit		**612,102**	361,551	69.3%
Profit attributable to equity holders	1	**656,789**	335,780	95.6%
		RMB cents	RMB cents	
Basic earnings per share	1	**11.57**	7.77	48.9%
Diluted earnings per share	1	**11.53**	7.74	49.0%
Profitability ratios				
Gross profit margin		**61.1%**	60.8%	0.3% pts
Operating profit margin		**43.7%**	46.9%	-3.2% pts
Effective tax rate	1	**19.5%**	8.5%	11.0% pts
Net profit margin	1	**46.9%**	43.6%	3.3% pts
Key operating expense ratios				
Advertising and marketing expenses as a percentage of sales		**7.7%**	5.7%	2.0% pts
Employee salary and benefit expenses as a percentage of sales		**3.9%**	2.0%	1.9% pts
Design and products development expenses as a percentage of cost of sales		**3.6%**	5.2%	-1.6% pts

	Note	Six months ended 30 June 2008 In days	Year ended 31 December 2007 In days	Change In days
Working capital efficiency ratios	2			
Average trade receivables turnover days	3	**19**	24	-5
Average trade payables turnover days	4	**64**	75	-11
Average inventory turnover days	5	**33**	49	-16
Asset ratios				
Current ratio	6	**11.1 times**	18.4 times	

Notes:

1. Excluding the one-off gain from negative goodwill of RMB146.0 million on the acquisition of Phenix realised during the six months ended 30 June 2008, the key items of the condensed consolidated income statement would be as follows:

	Six months ended 30 June		
	2008	2007	**Change**
	RMB'000	RMB'000	
Key items of condensed consolidated income statement			
Profits attributable to equity holders	**510,839**	335,780	52.1%
	RMB cents	RMB cents	
Basic earnings per share	**9.00**	7.77	15.8%
Diluted earnings per share	**8.97**	7.74	15.9%
Profitability ratios			
Effective tax rate	**23.8%**	8.5%	15.3% pts
Net profit margin	**36.5%**	43.6%	-7.1% pts

2. The calculations for working capital efficiency ratios for the six months ended 30 June 2008 exclude the Japan segment (i.e. the Phenix part). Since the condensed consolidated financial information of the Group only included the two months results of Phenix from 1 May (date of acquisition) to 30 June 2008, the inclusion of Phenix in the calculations would distort the ratios.

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

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

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

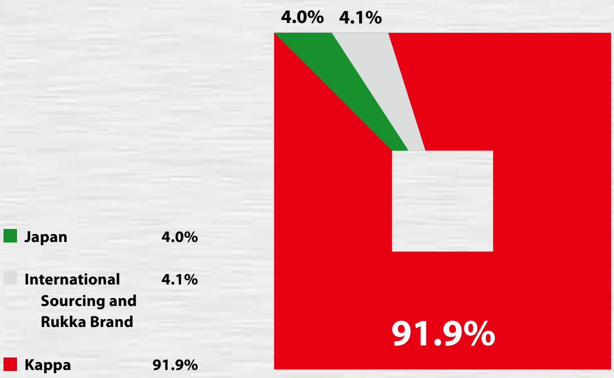
6. Current ratio equals to the closing current assets divided by the closing current liabilities.

Sales

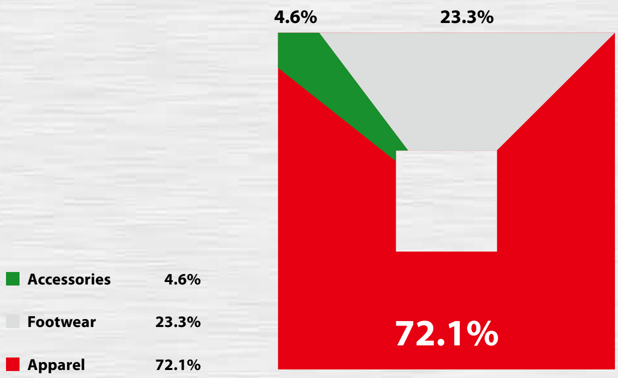
Sales analyzed by geographical segments, business segments and product categories

	Six months ended 30 June						
	2008			2007			
	RMB'000	**% of product mix**	**% of total Group sales**	RMB'000	% of product mix	% of total Group sales	**Change**
The PRC market							
Kappa Brand							
Apparel	**926,291**	**72.1%**		511,895	69.1%		81.0%
Footwear	**299,913**	**23.3%**		186,316	25.1%		61.0%
Accessories	**59,497**	**4.6%**		42,672	5.8%		39.4%
Kappa Brand total	**1,285,701**	**100.0%**	**91.9%**	740,883	100.0%	96.2%	73.5%
International sourcing	**53,394**		**3.8%**	26,427		3.4%	102.0%
Rukka Brand	**4,596**		**0.3%**	2,953		0.4%	55.6%
PRC market total	**1,343,691**		**96.0%**	770,263		100.0%	74.5%
Japan market total	**55,715**		**4.0%**	—		0.0%	N/A
The Group total	**1,399,406**		**100.0%**	770,263		100.0%	81.7%

Revenue by business segment — the Group



Revenue by product category — Kappa Brand



The PRC market

Kappa Brand

The Kappa Brand business, the major business of the Group, accounted for 91.9% (2007:96.2%) of the Group's sales for the six months ended 30 June 2008. The strong growth in Kappa Brand sales by RMB544.8 million (or 73.5%) compared to the same period in 2007 was mainly attributable to successful ongoing marketing activities and strategic positioning of the brand as well as widespread acceptance of Kappa Brand products by consumers in the PRC market. The Kappa Brand has now been successfully positioned at the forefront of sportswear fashion in China. It conveys an active, fashionable and youthful image that appeals to a fast growing customer base. Driven by strong demand, the number of Kappa Brand retail outlets directly or indirectly operated by the Group's distributors increased substantially from 1,945 as of 31 December 2007 to 2,487 as of 30 June 2008; a net increase of 542 (or 27.9%).

Since 2007, the Group has been reviewing its products mix strategy and has opted to further develop its footwear business in order to strengthen the Group's diversified products base. As a result, the proportion of sales for footwear increased to 22.8% for the year ended 31 December 2007 as compared with 19.3% for the year ended 31 December 2006 while the proportion of sales for apparel decreased to 69.0% in 2007 compared to 74.7% in 2006. For the six months ended 30 June 2008, the proportion of footwear and apparel sales held steady at 23.3% and 72.1% respectively.

The proportion of footwear sales for the six months ended 30 June 2007 was 25.1%, a relatively high level due to the Group's execution of the new product mix strategy which started from early 2007. Many new footwear products for the 2007 spring and summer seasons were launched in order to draw the attention of consumers. The result was a sharp increase in the proportion of footwear sales in our product mix during the first half of 2007. This proportion became more stable afterward and returned to the normal ratio of 22.8% for the whole year of 2007.

The proportion of sales for accessories remained fairly stable at 4.6% and 5.8% for the six months ended 30 June 2008 and 2007 respectively.

International Sourcing

The Group acted as a sourcing centre for BasicNet S.p.A. ("BasicNet"), owner of the Kappa Brand worldwide except for the PRC, Macau and Japan. The Group organised the design and development, as well as production and manufacturing of products in the PRC for Kappa licensees of BasicNet. These products were then shipped to the licensees for sale in their designated regions. Although sales from the international sourcing business were insignificant, it nonetheless gave the Group exposure to international market trends and provided new opportunities as well as help put in place more advanced management practices. For the six months ended 30 June 2008, sales of the international sourcing business enjoyed a growth of 102.0% compared to the same period in 2007.

Rukka Brand

The Group was the exclusive distributor and licensee for Rukka Brand products in the PRC. Rukka Brand is a Finnish sportswear brand specialising in high-quality function-focused products. The Group has been operating sales of Rukka Brand products through the retail outlets of consignees since late 2006. However, following the acquisition of Phenix, the Group has decided to terminate its Rukka Brand business in 2008 because its products are similar to the ski and outdoor sportswear lines of Phenix. The Group is planning to introduce Phenix Brand products to the PRC market in late 2009. The termination of Rukka Brand business will streamline and focus the Group's efforts in launching its self-owned skiwear and outdoor product brands. The sales of Rukka Brand products for the six months ended 30 June 2008 were only RMB4,596,000 (or 0.3% of total sales), an insignificant amount for the Group.

The Japan Market

On 1 May 2008, the Group completed the acquisition of a 91% shareholding of Phenix, a company primarily engaged in the design, development, marketing and sales of its owned branded products in Japan. These brands include: "Phenix" in the ski and outdoor sportswear markets, "Kappa" in the football, athletic and golf wear markets, "X-NIX" in the snowboard sportswear market, and "Inhabitant" in the casual wear market. The sales in the Japanese market for the six months ended 30 June 2008 represented two months sales of Phenix in May and June 2008.

Unit average selling prices and total units sold of Kappa Brand products in the PRC market

The unit average selling prices and total units sold of Kappa Brand products in the PRC market are analysed as follows:

	Six months ended 30 June					
	2008		2007		**Change**	
	Average selling prices RMB	**Total units sold In '000**	Average selling prices RMB	Total units sold In '000	**Average selling prices**	**Total units sold**
Apparel	**121**	**7,631**	129	3,963	-6.2%	92.6%
Footwear	**176**	**1,708**	187	998	-5.9%	71.1%

Note:

1. Unit average selling prices represent the sales for the period divided by the total units sold for the period.

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

For apparel products, the unit average selling price generally remained fairly stable during the six months ended 30 June 2008 compared with the similar products for same period in 2007.

On the other hand, the seasonal mix of sales of apparel products for the six months ended 30 June 2008 was different from the same period in 2007. As a result of the cold winter near the end of 2007, many winter products had been delivered early to our distributors before 31 December 2007 in order to meet the market demand. For this reason, sales of our winter products in the first quarter of 2008 were comparatively lower than the same period in 2007. The snowstorm that hit in the first quarter of 2008 also affected the opening of new Kappa shops and sales of our 2008 spring products. Nonetheless, sales rebounded rapidly and there was a strong up tick in the sales of summer products during the second quarter of 2008.

Overall, the proportion of summer product sales was higher while winter and spring products sales were lower during the six months ended 30 June 2008 compared to the same period in 2007. Since the unit average selling price of summer products was approximately 75% and 40% of the unit average selling price of the spring and winter items respectively, the change in the seasonal mix of sales caused the overall 6.2% decrease in unit average selling prices despite the fact that the unit average selling price for similar products remained fairly stable.

For footwear products, the seasonal effect on unit average selling prices is not significant. Instead, the movement of unit average selling price during the six months ended 30 June 2007 and 2008 was mainly a result of the Group's pricing strategy. The Group commenced to execute its new products mix strategy and launch many new footwear products during the six months ended 30 June 2007. Initially, the Group has adopted a high selling price strategy on a trial basis for those new products and therefore the unit average selling price reached the level of RMB187. The selling prices have been subsequently adjusted to a lower level and the unit average selling price for the year ended 31 December 2007 has already reduced to approximately RMB164. In fact, the unit average selling price of RMB176 for the six months ended 30 June 2008 represented an increase of 7.3% compared to RMB164 for the year ended 31 December 2007.

Total apparel and footwear product units sold increased by 92.6% and 71.1% respectively for the six months ended 30 June 2008 compared with the same period in 2007. The strong demand for the Kappa Brand products has driven the high growth in sales volume.

Cost of Goods Sold and Gross Profit

For the six months ended 30 June 2008, the cost of goods sold for the Group amounted to RMB544,597,000 (2007: RMB302,231,000), representing an increase of RMB242,366,000 (or 80.2%). This trend was mainly in line with the overall increase in sales. The gross profit of the Group amounted to RMB854,809,000 (2007: RMB468,032,000), representing an increase of RMB386,777,000 (or 82.6%). The overall gross profit margin of the Group for the six months ended 2008 was 61.1%, representing an increase of 0.3% compared to the overall gross margin of 60.8% for the same period in 2007. The gross profit and gross profit margin analyzed by geographical and business segments are detailed as follows:

	Six months ended 30 June				
	2008		2007		
	Gross profit (RMB'000)	**Gross profit margin**	Gross profit (RMB'000)	Gross profit margin	**Change**
The PRC market					
Kappa Brand	**818,485**	**63.7%**	460,889	62.2%	1.5% pts
International sourcing and Rukka Brand	**10,296**	**17.8%**	7,143	24.3%	-6.5% pts
The PRC market overall	**828,781**	**61.7%**	468,032	60.8%	0.9% pts
The Japan market	**26,028**	**46.7%**	—	N/A	N/A
The Group overall	**854,809**	**61.1%**	468,032	60.8%	0.3% pts

The gross profit margin of Kappa Brand business appeared fairly stable and was maintained at the level of 63.7% and 62.2% for the six months ended 30 June 2008 and 2007 respectively. The Group sells Kappa Brand products to its distributors at a discount to the uniform retail price and the "discounted price" represents the Group's sales. Since January 2007, the Group has adopted a new distributor grading system along with a new target driven discount scheme that has been consistently adopted since then. Therefore the overall gross profit margin was fairly stable during the two periods.

The international sourcing and Rukka Brand businesses have lower gross profit margins compared with Kappa Brand business. The combined gross margin of these two small business segments for the six months ended 30 June 2008 was 17.8%, a decrease of 6.5% compared to 24.3% for the same period in 2007. The purchases for the international sourcing business were mainly denominated in Renminbi and sales were mainly denominated in US Dollars. As a result the rapid appreciation of the Renminbi against the US Dollar in 2008, the gross profit margin of our international sourcing business was diminished.

The gross profit margin of Phenix in Japan market is relatively lower than the gross profit margin of Kappa Brand products in the PRC market due to keen competition and higher production cost in Japan. The gross profit margin of 46.7%, a relatively higher level as compared to Phenix's average 40% gross profit margin, arose from the high proportion of new product sales in May and June 2008.

The gross profit and gross profit margin of Kappa Brand products in the PRC market analysed by product category are as follows:

	Six months ended 30 June				
	2008		2007		
	Gross profit (RMB'000)	**Gross profit margin**	Gross profit (RMB'000)	Gross profit margin	**Change**
Apparel	**631,769**	**68.2%**	324,836	64.6%	3.6% pts
Footwear	**150,582**	**50.2%**	109,934	56.8%	-6.6% pts
Accessories	**36,134**	**60.7%**	26,119	60.0%	0.7% pts
Overall	**818,485**	**63.7%**	460,889	62.2%	1.5% pts

The gross profit margin for each product category is affected by sales discounts to distributors as well as the mark-up ratios of cost-to-retail price ("the mark-up ratios"). As mentioned in the previous paragraph, a discount policy for distributors was consistently adopted during the six months ended 30 June 2008 and 2007, therefore the change in gross profit margins for each product category during the two periods was mainly caused by a change in the mark-up ratios.

For apparel products, the mark-up ratios for summer products were normally higher than the winter and spring products. Because of the higher proportion of summer product sales during the six month ended 30 June 2008, the gross profit margin for apparel products increased by 3.6% from 64.6% to 68.2% for the six months ended 30 June 2007 compared with the same period in 2008.

For footwear products, the gross profit margin of 56.8% for the six months ended 30 June 2007 was relatively high due to the high price and high mark-up ratios strategy adopted during the execution of new product mix strategy. The selling prices and mark-up ratios have been subsequently adjusted downward to a lower level and the gross profit margin for the whole year ended 31 December 2007 has been reduced to approximately 50.7%, which was close to the gross profit margin of 50.2% for the six months ended 30 June 2008.

For accessories, the mark-up ratios are fairly stable and therefore the gross profit margins maintained at the level of 60.7% and 60.0% for the six months ended 30 June 2008 and 2007 respectively.

The suppliers in the PRC generally faced pressure on increased raw materials prices and labour costs in 2008. Because of the Group's strong bargaining power and well managed cost controls, we believe that we can minimize the additional costs shifted from our suppliers. In addition, if we finally need to share part of the additional costs, owing to the high end position of our products and low price sensitivity of our end-customers, we can still maintain the mark-up ratios.

Other Income

Other income for the six months ended 30 June 2008 and 2007 mainly representing subsidy income from the government amounted to RMB11,403,000 and RMB9,584,000 respectively.

Distribution Costs and Administrative Expenses

Distribution costs mainly comprised advertising and marketing expenses, employee salaries and benefit expenses for marketing and sales staff, logistic fees including transportation expenses, rental of distribution centres, amortisation of trademarks as well as design and product development expenses. For the six months ended 30 June 2008, distribution costs amounted to RMB194,507,000 (2007: RMB86,184,000), accounting for 13.9% of the Group's total sales; this represented an increase of 2.7% against 11.2% for the same period in 2007. The increase is mainly due to the increase in advertising and marketing expenses as a percentage of sales by 2.0% from 5.7% for the six months ended 30 June 2007 to 7.7% for the same period in 2008. During 2008, the Group had strategically increased spending on promotional activities surrounding the Beijing Olympics Games and opening of flagship stores.

Administrative expenses mainly comprised of employee salary and benefit expenses for administrative staff, legal and consulting fees, operating leases for office buildings, and depreciation of property, plant and equipment. For the six months ended 30 June 2008, administrative expenses amounted to RMB63,533,000 (2007: RMB30,146,000), accounting for 4.5% of the Group's total sales. This was an increase of 0.6% compared with 3.9% for the same period in 2007. The increase was mainly due to pre-IPO share option expenses amounting to RMB9,291,000 incurred during the six months ended 30 June 2008 (grouped under employee salary and benefit expenses). The pre-IPO share option was issued in September 2007, so no such expenses were incurred during the six months ended 30 June 2007. The total pre-IPO option expenses for the six months ended 30 June 2008 was RMB13,735,000, of which RMB4,444,000 and RMB9,291,000 were booked under distribution costs and administrative expenses respectively.

The total distribution costs and administrative expenses as a percentage of the Group's sales were 18.4% and 15.1% respectively for the six months ended 30 June 2008 and 2007 respectively.

Operating Profit

For the six months ended 30 June 2008, operating profit of the Group was RMB612,102,000, an increase of RMB250,551,000 (or 69.3%) compared with RMB361,551,000 for the same period in 2007. The operating profit margin was 43.7% for the six months ended 30 June 2008 compared with 46.9% for the same period in 2007. The decrease in the operating profit margin by 3.2% from 46.9% to 43.7% was mainly attributable to the increase in total distribution costs and administrative expenses as a percentage of the Group's sales by 3.3% from 15.1% for the six months ended 30 June 2007 to 18.4% for the same period in 2008 while gross margins remained fairly stable during these two periods.

Gain from Negative Goodwill on Acquisition

This represented a negative goodwill of RMB145,950,000 arose from the acquisition of Phenix during the six months ended 30 June 2008 and recognized as an one-off gain in the condensed consolidated income statement.

Finance Income, Net

For the six months ended 30 June 2008, finance income mainly comprised interest income of RMB62,280,000 minus foreign exchange losses of RMB3,042,000.

The interest income mainly comprises interest income from unutilised Global Offering proceeds and cash generated from operating activities deposited into short-term deposits in licenced banks and financial institutions in Hong Kong and the PRC.

In 2007, finance income mainly included RMB5,385,000 interest income from bank deposits.

Taxation

For the six months ended 30 June 2008, income tax expenses of the Group amounted to RMB159,508,000 (2007: RMB31,090,000). The effective tax rate was 19.5% (2007: 8.5%). If the one-off gain from the acquisition of Phenix were excluded, the effective tax rate for the six months ended 30 June 2008 would amount to 23.8%. The low effective tax rate in 2007 was mainly due to a major operating subsidiary of the Group, which enjoyed a PRC income tax exemption during its first profit making year ended 31 December 2007. With effect from 1 January 2008, major operating subsidiaries incorporated in the PRC are subject to a enterprise income tax ("EIT") at the rate of 25% in accordance with the Corporate Income Tax Law (the "New EIT Law") of the PRC approved by the National People's Congress on 16 March 2007.

The EIT tax rate applicable to subsidiaries of the Group incorporated in the PRC are reduced to 25% for those with original applicable EIT rates higher than 25%. They are also gradually increased to 25% over a 5-year period from 2008 to 2012 for those with original applicable EIT rates lower than 25%, where appropriate. In respect of subsidiaries of the Group established in the Shanghai Pudong New Area, the applicable EIT rate for the six months ended 30 June 2008 was 25%, which may be further adjusted subject to further notice issued by the relevant authorities.

Profit attributable to Equity Holders and Net Profit Margin

Profit attributable to equity holders for the six months ended 30 June 2008 was RMB656,789,000, representing an increase of 95.6% from RMB335,780,000 for the same period in 2007. Net profit margin for the six months ended 30 June 2008 was 46.9%, representing an increase of 3.3% against 43.6% for the same period in 2007. If the one-off income from the acquisition of Phenix amounting to RMB145,950,000 were excluded, the net profit and net profit margin for the six months ending 30 June 2008 would come to RMB510,839,000 and 36.5% respectively. The decrease of net profit margin by 7.1% from 43.6% to 36.5% was mainly attributable to an increase in total distribution costs and administrative expenses as a percentage of the Group's sales by 3.3% and the increase in the effective tax rate from 8.5% to 23.8%. The downward effect was partially mitigated by the increase in interest income from unutilised Global Offering proceeds placed in bank deposits.

Earnings per Share

The basic and diluted earnings per share were RMB11.57 cents and RMB11.53 cents respectively for the six months ended 30 June 2008, a rise of 48.9% and 49.0% against the basic and diluted earnings per share of 7.77 cents and 7.74 cents respectively for the same period in 2007.

If the one-off gain from the acquisition of Phenix were excluded, the basic and diluted earnings per share would come to RMB9.00 cents and RMB8.97 cents respectively for the six months ended 30 June 2008, a growth of 15.8% and 15.9% against the basic and diluted earnings per share respectively for the same period in 2007.

The basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period. The comparative basic earnings per share for the six months ended 30 June 2007 was calculated based on the assumption that the total of 4,319 million shares had been in issue since 1 January 2007 before the Global Offering of the Company. The number of shares was much lower than the approximately 5,677 million shares in issue since the Global Offering of the Company in October 2007 and an over-allotment option in relation to the Global Offering had been exercised. This explains why the profit attributable to equity holders increased by 52.1% (excluding the one-off gain from the acquisition of Phenix) for the six month period ended 30 June 2007 against the same period in 2008 but the basic earnings per share only increased by 15.8%.

Interim Dividend

The Board of the Company recommends the distribution of an interim dividend and special dividend of RMB2.71 cents and RMB0.88 cents respectively per ordinary share (totaling RMB3.59 cents per ordinary share) for the six months ended 30 June 2008, amounting to RMB153,543,000 and RMB49,859,000 respectively (totaling RMB203,402,000), approximately 30.0% and 9.8% respectively of the Group's net profits (excluding the one-off income resulting from the acquisition of Phenix) available for distribution for the period. The special dividend mainly represented the interest income from unutilised Global Offering proceeds during the period of which the Company would like to share with its shareholders.

The dividend will be paid in Hong Kong Dollars based on the rate of HK$1.00 = RMB0.8770, being the official exchange rate of Renminbi against Hong Kong Dollars as quoted by the People's Bank of China as at the date of this announcement. The dividend will be paid on or around 15 October 2008 to shareholders whose names appear on the register of members of the Company on 6 October 2008.

BUSINESS REVIEW

Effective marketing strategy

As an enterprise engaged in the sports fashion business, the Group continued to adopt a distinct and coherent marketing and promotion strategy. This included the securing of strategic sponsorships and implementing a promotion strategy through selected media and other advertising channels that the Group considered to be the most effective way to convey the image of their products. They also sought channels that were the most efficient in targeting the Group's desired consumer demographic.

The Group enhanced its visibility and promoted its brands through sponsorships of sport teams, sport events, entertainment figures and publicity events. The major marketing and promotion activities conducted in the PRC during the six months ended 30 June 2008 included:

Sports

- Sponsorship of the Hong Kong Table-tennis Team and the PRC's 49er Sailing Team, both of which participated in the 2008 Olympic Games;
- Sponsorship of the Tibet mountaineer team for the torch activities of the 2008 Olympics Games on Mt. Everest;

- Co-sponsorship of AS Roma, the top Italian soccer team; a new series of AS Roma products was launched in early 2008;
- Sponsorship of three soccer teams in the China Football Association Super league;

- Sponsorship of golf programmes at Travel Channel;
- Co-operation with NOCSP, a well-known sailing training organisation, to support sailing training programmes for adolescents in seven major cities across the PRC. Sailing is a big potential sport to be developed in the PRC; and
- Sponsorship of Electronic Sports World Cup.

Fashion

- Co-branding with Pepsi. A special version Pepsi Cola package solely designed for Kappa was launched;

- Kappa and Dongfeng Peugeot Citroen co-branding event. A special C2 car with elements of Kappa was released at the 2008 Beijing International Automotive Exhibition; and

- Sponsored the Dreamboat Team, a sports team comprising celebrities in the PRC, to attend the UEFA Euro 2008, which received massive publicity.

Charity

- Continuing participation in the "I want to go to school" campaign organised by the China National Radio and the China Youth Development Foundation; and

- Cash and product donations to the victims of the Sichuan earthquake through the Red Cross in China.

In addition, the Group primarily focused on print media and placed advertisements in leading sports and fashion magazines. The Group also utilised indoor and outdoor advertisements, the internet, electronic billboards and word of mouth to publicise the Group's brands and products.

The Phenix in Japan is the official equipment provider for the Norwegian Alpine Ski Team and sponsor of the Ski Association of Japan. In addition it is the sponsor for three J-1 soccer teams in Japan.

Innovative design and development capabilities

The Group adapted to ever-changing market trends by offering products with active, fashionable and youthful designs. These were realised through the Group's in-house design teams, which are highly knowledgeable about fashion trends and consumer preferences in the market. The Group's talented, innovative and passionate product designers were mainly based at the Group's design and development centre in Beijing and at the Phenix main office in Japan. As of 30 June 2008, the Group had design teams of 56 people, including PRC nationals, Japanese, Korean and Italians.

The acquisition of Phenix will greatly enhance the design and development capabilities of the Group. Phenix has a technical centre near Tokyo, which has 60 talented and knowledgeable specialists who are skillful in the sophisticated process of conversion of product designs into high quality product samples.

The Group's in-house design and merchandising team's capabilities were further strengthened by external cooperation with overseas institutions such as the University of Arts London ("UAL") and WGSN. Since 2007 the Group was the apparel sector cooperation partner of UAL in the PRC which has been supporting and assisting the Group's creative and commercial activities through the provision of consultancy services, student projects and training programmes. WGSN is a leading global service provider which provides online research, trend analysis and news to the fashion, design and style industries. The Group believes that co-operation with UAL and WGSN has broadened the vision of our designers, inspiring them with new and innovative ideas. It has also helped them anticipate and stay at the forefront of fashion trends, enabling them to introduce international design elements into the merchandise mix.

Extensive distribution and retail network

In the PRC market, the Group has adopted a "primary distributor" policy to sell the Group's products to a limited number of distributors. Under this policy, the Group typically appoints only one primary distributor in one defined geographical area of a market. This policy effectively motivates distributors and enhances their loyalty. As of 30 June 2008, the Group had 41 distributors who directly or indirectly operated 2,487 retail outlets selling Kappa Brand products in the PRC and Macau. This represented a net increase of 542 retail outlets (or 27.9%) compared with the 1,945 retail outlets as of 31 December 2007. The distribution of retail outlets covered all major provincial capital cities and many other large urban areas and towns in China. The Group feels that the renovation and display of retail outlets to be a crucial factor in building brand image. With this in mind, the Group co-operated with its distributors to renovate 220 retail outlets during the six months ended 30 June 2008. This included expansion of retail outlet areas and conversion of retail outlets into third generation stores. Fourth generation stores will be launched soon.

Since the second half of 2007, the Group has been launching its flagship store plan by co-operating with its distributors to open flagship stores in prime shopping locations of first-tier cities in the PRC. As of 30 June 2008, 8 flagship stores were opened in Beijing, Guangzhou, Tianjin, Hangzhou, Suzhou, Harbin and Changsha. The Group also plans to open up to 10 flagship stores by the end of 2008.

The following table details the change in the number of Kappa Brand retail outlets operated directly and indirectly by the distributors of the Group for the six months ended 30 June 2008:

	As of 30 June 2008 (No. of retail outlets)	As of 31 December 2007 (No. of retail outlets)	**Net increase (No. of retail outlets)**	Net increase
Total	**2,487**	1,945	**542**	27.9%

The following diagram illustrates the geographic distribution of the retail outlets of Kappa Brand as at 30 June 2008:

Anhui	87	Hebei	108	Liaoning	162	Sichuan	147
Beijing	93	Henan	70	Inner Mogolia	26	Tianjin	57
Fujian	105	Heilongjiang	105	Ningxia	6	Tibet	2
Gansu	9	Hubei	140	Qinghai	2	Xinjiang	19
Guangdong	183	Hunan	82	Shandong	129	Yunnan	54
Guangxi	38	Jilin	88	Shanxi	60	Zhejiang	232
Guizhou	36	Jiangsu	184	Shaanxi	39	Chongqing	71
Hainan	12	Jiangxi	49	Shanghai	88	Macau	4

The distribution channels of Phenix in Japan include major sport shops, specialty sport shops, distributors, department stores, the Internet as well as its own outlets and direct stores. As of 30 June 2008, the points of sales for "Phenix" and "Kappa" numbered approximately 800 and 2,400 respectively.

Comprehensive supply chain management

In the PRC market, the Group has applied a comprehensive supply chain management approach with respect to procurement, supplies, manufacturing and distribution of products. The Group adopted an asset-light business model and outsourced production processes to a number of PRC manufacturers that have many years of apparel, footwear or accessories production experience. As of 30 June 2008, the Group selectively engaged and actively supervised approximately 86 manufacturers in the processing and manufacturing the Group's products.

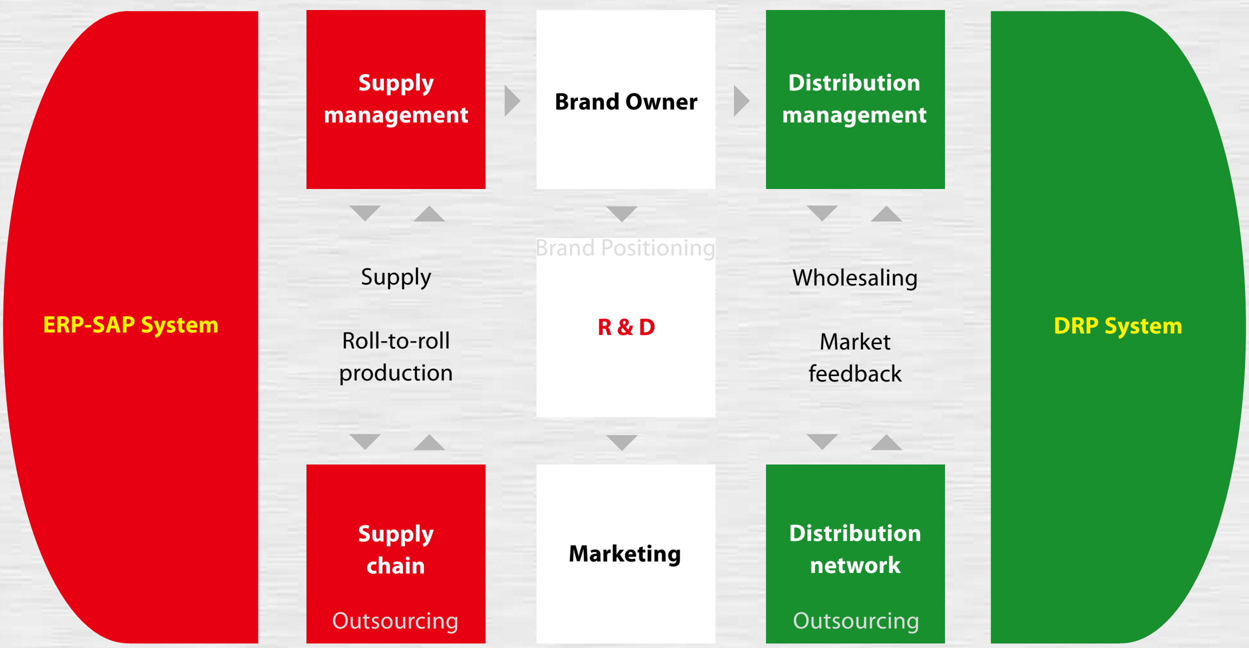
The Group has implemented a highly integrated ERP-SAP system. By using a platform to which the Group's manufacturers have direct access, the ERP-SAP system enables manufacturers to continually update the Group on the latest production status.

Finished goods from manufacturers were shipped to the Group's distribution centres before being dispatched to distributors. The Group operates a distribution centre in Fengtai District in Beijing with a floor area of approximately 12,169 sq.m. In May 2007, the Group also set up another distribution centre in Kunshan, Jiangsu Province with a floor area of approximately 5,772 sq.m. Since July 2008, a third distribution centre in Guangzhou has been in operation with a floor area of approximately 3,680 sq.m. The Group's manufacturers were mainly located in the southern and south eastern regions of China with these same areas also representing high growth markets with a strong demand for the Group's products. The new distribution centres greatly enhance the Group's response capabilities and shorten the overall time of distribution.

For sales of the Group's Kappa Brand products in the PRC, the Group hosts the sales fair for distributors four times each year to cover the spring, summer, fall and winter collections respectively.

Apart from their own inventories, the Group also closely monitors the inventories of its distributors. We also have in place a retail sales analysis system and a distribution resources planning ("DRP") system that has enabled us to swiftly collect and monitor retail sales and inventory levels of our distributors. The ERP-SAP system is also linked to the DRP system to enhance the exchange of information among various departments and strengthen the Group's supply chain and distribution network management.

Phenix primarily engages Japanese sourcing and production agencies for procurement of raw materials in Japan and the PRC as well as arranging production in the PRC. They also oversee two joint ventures in Shanghai mainly for the production of ski and outdoor sportswear products. Phenix outsources its logistics function to a third party company in Japan.



FINANCIAL POSITION

Working capital efficiency ratios

The average trade receivables turnover days for the six months ended 30 June 2008 and year ended 31 December 2007 were 19 days and 24 days respectively. The relatively low turnover days in both periods was mainly attributable to the Group's tight credit control policy and fast sales of its distributors' inventories allowing a shorter period to repay their trade balances.

The average trade payables turnover days for the six months ended 30 June 2008 and year ended 31 December 2007 were 64 days and 75 days respectively. This was in line of the Group's major policy to repay trade debts with its suppliers and manufacturers within 60 to 90 days.

The average inventory turnover days for the six months ended 30 June 2008 and year ended 31 December 2007 were 33 days and 49 days respectively. The enhancement of turnover days is mainly due to the Group's effective supply chain management and fully operational distribution centre in Kunshan.

Liquidity and financial resources

As of 30 June 2008, cash and cash equivalents of the Group amounted to RMB5,679,865,000, an increase of RMB368,805,000 compared with a balance of RMB5,311,060,000 as of 31 December 2007. This increase mainly represents net cash generated from operating activities of RMB557,051,000 and proceeds of RMB170,607,000 from disposal of financial assets, less exchange difference on translation of unutilised Global Offering proceeds of RMB249,037,000, payment of lease pre-payments amounting to RMB43,790,000 and dividends paid of RMB61,881,000.

As of 30 June 2008, the Group's net asset value was RMB6,205,426,000 (31 December 2007: RMB5,901,831,000). The Group's current assets exceeded current liabilities by RMB5,687,118,000 (31 December 2007: RMB5,500,124,000). The Group also had a very strong liquidity position. The current ratio as of 30 June 2008 was 11.1 times (31 December 2007: 18.4 times). As of 30 June 2008, the Group had no outstanding bank loans or other borrowings.

Pledge of assets

As of 30 June 2008, the Group had bank deposits of RMB27,428,000 (31 December 2007: RMB29,521,000) to secure advertising costs payable to a third party business partner and approximately RMB9,670,000 were held in a commercial bank as guarantee deposit for the issue of letters of credit.

As at 30 June 2008, certain trade receivables of Phenix totaling appropriately YEN 301,909,000 (equivalents to approximately RMB19,463,000) were secured to banks as guarantee deposit for the issue of letter of credit.

Capital commitments and contingencies

As of 30 June 2008, the Group had no significant capital commitments or contingent liabilities.

Foreign Exchange Risk

The functional currency of the Company is United States Dollars ("US Dollars") owing to the fact that its international sourcing business is transacted in US Dollars. During the Global Offering in October 2007, the Company received its proceeds in Hong Kong Dollars and the proceeds were deposited in bank accounts denominated in Hong Kong Dollars. As a result, the exchange differences arising from appreciation or depreciation of the US Dollar against the Company's Hong Kong 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 difference from the translation of financial statements will not be recognised in the income statement. Instead, it should be recognised as a separate component of equity of the Group.

The major operations of the Group were mainly carried out in the PRC and transacted in Renminbi, Apart from the Global Offering proceeds in Hong Kong Dollars, the exchange rate risk of the Group was not significant. As of 30 June 2008, the Group had invested in a non-listed principal protected and interest bearing financial instrument issued and managed by a commercial bank in Hong Kong. The interest rate of the financial instrument is determined based on the fluctuation of the exchange rate between US Dollars and Renminbi. This served as a hedge product for the appreciation of the Renminbi

against US Dollars. The Group will closely monitor the unutilised IPO proceeds in Hong Kong Dollars and will selectively use more hedging solutions if necessary.

HUMAN RESOURCES

As of 30 June 2008, the Group had approximately 391 employees throughout the PRC region (As of 31 December 2007: 353 employees). There were also approximately 242 employees in Japan as a result of the acquisition of Phenix. Due to the high growth of business, the Group has to recruit more talented employees in all departments in order to cope with this rapid expansion.

The Group deployed a performance based remuneration scheme to its employees under which quarterly KPI and annual bonuses were awarded to high performance employees on top of their basic salary. In addition, the Group has adopted a pre-IPO share option scheme to grant share options of 18,700,000 underlying shares to 53 key management members (including independent non-executive directors) as a mean to reward and retain high caliber management team members.

OUTLOOK

Year 2008 is a special year for China. The natural disasters that happened in the first half of the year, though impacting the whole of the economy, was insignificant and recovery came very soon. The success of the recently completed Beijing Olympics Games has put the Chinese people under the spotlight in today's globalised world. We feel that the Beijing Olympics Games was a catalyst for the advancement for society as a whole and will greatly enhance the long-term development of the PRC economy. On the other hand, we also see that the future holds challenges due to the recent complicated economy and intense competition in the market. By capturing opportunities and tackling threats, the Group will continue to develop its business in four directions: brand building, retail network expansion, internal operations enhancement and multi-brand strategy.

Brand building

The Group considers product design and development as the main drivers leading the market and creating demand and will continue to enhance its capabilities in this area. The acquisition of Phenix was an important milestone for the Group. Phenix has strong design and development capabilities especially as its technical centre is able to develop highly sophisticated apparel. The integration of Phenix's design and development functions will enhance the Group's existing capabilities in this area and provide a strong product design and technology development platform for the Group's long term development of Kappa Brand and other brands in the PRC market. This will strengthen the competitive advantage of the Group overall. In addition, the Group will further cooperate with well-recognised international design and development institutes. Our co-operation with UAL has already proven to create a strong synergy.

The Group will also continue to sponsor a number of selective sports and fashion activities which fit closely with the image of the Kappa Brand. We believe that the flagship store plan is a very effective mean to build the brand and we will continue to work with our distributors to open flagship stores in the prime shopping locations of first-tier cities in the PRC.

Retail network expansion

Compared with other top international sportswear brands in the PRC, the number of Kappa Brand retail outlets is still low and the retail network is under-penetrated. We believe that there is huge potential for the Kappa Brand to expand its retail network in order to meet the strong demand for its products. The Group will, therefore, continue to co-operate with its distributors to open new stores in provincial capitals and first-tier cities as well as the high potential second and third-tier cities. Moreover, the Group is planning to directly invest in its key distributors by setting up retail joint ventures with them. We will act as minority shareholders in the joint ventures but will exercise influence over their operations and development. The Group's direct investments in key distributors will further enhance our long-term strategy on retail network expansion plans.

Internal systems and structural enhancement

The Group invests and places considerable emphasis on management information systems to improve our efficiency in product design and development, supply chain management, quality and inventory control, as well as logistics and sales. Since June 2007, the Group has replaced its management system and financial information system with a highly integrated ERP-SAP system. We will further invest and enhance the system over the next three years to more deeply integrate our operations with the Group's manufacturers, distributors and their retail networks. The Group's direct investments in key distributors will help speed up the integration.

Since July 2008, the Group's third distribution centre in Guangzhou has begun operations. The third distribution centre will further enhance the Group's response time and shorten the time of distribution in the southern region of China.

In early 2008, the Group adjusted its organisational structure to streamline major business segments and administrative functions in order to alignment them with its future development strategies. We will continue to provide comprehensive training programmes to its employees for enhancement of their professional and management skills and will also continuously recruit the best people in the industry to prepare for growth and expansion.

In addition, the Group has a plan to establish a new operational headquarter in Beijing to cater for our future growth and we are currently actively searching for a suitable location.

Multi-brand strategy

The acquisition of Phenix provides an excellent opportunity for the Group to launch Phenix's high quality ski, outdoor and golf sportswear in the PRC market. The Group is planning to launch in China Phenix's "Kappa Golf" brand and "Phenix" brand products in 2009. In addition, the Group is also planning to launch the sub-brand of Kappa Brand, Robe Di Kappa ("RDK") in the PRC market as well.

The Group is committed to becoming one of the best multi-brand sportswear enterprises in the PRC. The Kappa Brand is our first brand and it has provided a very solid foundation for us to deploy our multi-brand strategy. By utilising management's abundant experience in the sportswear industry and our strong financial resources, we will endeavor to find and explore opportunities for acquisition of the ownership or long-term operating rights for one or more international brands in the PRC and/or regional markets. We believe that the multi-brand strategy will enhance the value of our shares and bring benefits to our shareholders and investors.

Other Information

1. PRE-IPO SHARE OPTION SCHEME ("PRE-IPO SHARE OPTION SCHEME")

Details of the Pre-IPO Share Option Scheme are set out in note 15 to the condensed consolidated interim financial information. Movements of the share options under the Pre-IPO Share Options Scheme for the six months ended 30 June 2008 are as follows:

	Date of grant	Exercise price per share	Number of share options outstanding at 01/01/2008	Number of share options exercised during the period	Number of share options lapsed or cancelled during the period	Number of share options outstanding at 30/6/2008	Exercise period
Employees and Non-executive directors of the Company and its subsidiaries in aggregate	17 September 2007	2.786	18,700,000	1,300,000 (Note 1)	—	17,400,000	10 April 2008–9 April 2010

Notes:

1. The weighted average closing price per share immediately before the dates of exercise of the options is HK$3.332.

2. No options granted were cancelled during the six months ended 30 June 2008.

2. DISCLOSURE OF INTERESTS

(a) Interests of Directors

As at 30 June 2008, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), which have been notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which the directors and chief executive of the Company are taken or deemed to have under such provisions of the SFO, or which were required to be and are recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise required to be notified to the Company and Stock Exchange pursuant to the Model Code for Securities Transactions by directors of Listed Companies ("Model Code") contained in the Rules Governing the listing of securities on the Stock Exchange ("Listing Rules"), were as follows :

Name of Director	Nature of interest	Number and class of securities[(1)]	Approximate percentage of existing issued share capital of the Company
Mr. Chen Yihong ("Mr. Chen")	Interest of a controlled corporation[(2)]	2,587,081,000 Shares (L)	45.58%
Mr. Chen	Deemed Interest[(3)]	345,520,000 Shares (L)	6.09%
Mr. Qin Dazhong ("Mr. Qin")	Interest of a controlled corporation[(4)]	241,864,000 Shares (L)	4.26%
Mr. Mak Kin Kwong	Personal Interest	200,000 Shares[(5)] (L)	0.0035%

Name of Director	Nature of interest	Number and class of securities(1)	Approximate percentage of existing issued share capital of the Company
Mr. Xu Yudi	Personal Interest	200,000 Shares(5) (L)	0.0035%
Dr. Xiang Bing	Personal Interest	200,000 Shares(5) (L)	0.0035%

Notes:

1. The letter "L" denotes the person's long position in such Shares.

2. Mr. Chen, Harvest Luck Development Limited and Talent Rainbow Far East Limited are deemed to be interested in the Shares held by Poseidon Sports Limited by virtue of Harvest Luck Development Limited and Talent Rainbow Far East Limited being entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of Poseidon Sports Limited. Both Harvest Luck Development Limited and Talent Rainbow Far East Limited are in turn wholly-owned and controlled by Mr. Chen. Mr. Chen, the husband of Ms. Liu Peiying, is also deemed to be interested in his wife's interests in the Company.

3. Ms. Liu Peiying is the spouse of Mr. Chen and Mr. Chen is therefore deemed to be interested in the Shares held by Ms. Liu Peiying through Colour Billion Limited.

4. Wise Finance Ltd, is wholly-owned and controlled by Mr. Qin and Mr. Qin is therefore deemed to be interested in the Shares held by Wise Finance Ltd.

5. These shares are subject to options granted under the Pre-IPO Share Option Scheme adopted by the Company.

Save as disclosed above, as at 30 June 2008, none of the directors and chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to -section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) Interests of substantial Shareholders

As at 30 June 2008, other than the interests and short positions as disclosed above, the following persons have interests or short positions in the shares, underlying shares and debentures of the Company which fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under Part XV section 336 of the SFO, or otherwise known to the directors:

Name of Shareholders	**Nature of interest**	**Number and class of securities[1]**	**Approximate percentage of existing issued share capital of the Company**
Poseidon Sports Limited ("Poseidon")	Corporate interest	2,587,081,000 Shares (L)	45.58%
Talent Rainbow Far East Limited[2]	Interest in a controlled corporation	2,587,081,000 Shares (L)	45.58%
Harvest Luck Development Limited[2]	Interest in a controlled corporation	2,587,081,000 Shares (L)	45.58%
Colour Billion Limited[3]	Corporate interest	345,520,000 Shares (L)	6.09%
Ms. Liu Peiying[3]	Interest in a controlled corporation, deemed interest	2,932,601,000 Shares (L)	51.67%

Notes:

1. The letter "L" denotes the person's long position in such Shares.

2. Mr. Chen, Harvest Luck Development Limited and Talent Rainbow Far East Limited are deemed to be interested in the Shares held by Poseidon by virtue of Harvest Luck Development Limited and Talent Rainbow Far East Limited being entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of Poseidon. Harvest Luck Development Limited and Talent Rainbow Far East Limited are in turn wholly-owned and controlled by Mr. Chen. Mr. Chen, an executive Director of the Company, is the sole director of each of Poseidon, Harvest Luck Development Limited and Talent Rainbow Far East Limited.

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

Save as disclosed above, as at 30 June 2008, the Directors are not aware of any other or corporation having an interest or short position in shares and underlying shares of the Company representing 5% or more of the issued share capital of the Company.

3. PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2008, the Company repurchased a total of 5,165,000 ordinary shares of par value HK$0.01 each of the Company at an aggregate purchase price of HK$16,360,890.54 on the Hong Kong Stock Exchange. Details of the repurchases of such ordinary shares were as follows:

Month of repurchase	Number of ordinary shares repurchased	Price per ordinary share Lowest HK$	Highest HK$	Aggregate purchase price HK$
June 08	5,165,000	3.12	3.22	16,360,890.54

As at the date of this interim report, all the 5,165,000 ordinary shares repurchased by us 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 in enhancing the net assets 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 2008.

During the month of July 2008, the Company also repurchased a total of 7,484,000 ordinary shares at purchase prices ranging from HKD2.86 to HKD3.03 per share. These repurchased shares were cancelled upon repurchase and the issued share capital of the Company were reduced by the par value thereof accordingly.

4. CORPORATE GOVERNANCE

The board of directors and the management of the Company are committed to maintenance of 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 Board has complied with all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules. 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 2007.

The Company has adopted a set of code of practice with standards not lower than those prescribed in the Model Code as set out in Appendix 10 to the Listing Rules regarding 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.

5. AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors of the Company, has reviewed financial information, financial reporting system and internal control of the Company, including the review the interim results for the six months ended 30 June 2008, together with the management and external auditor.

The unaudited condensed consolidated interim financial information for the six months ended 30 June 2008 of the Group has been reviewed by the Audit Committee of the Company and PricewaterhouseCoopers, the auditors of the Company, in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", whose unmodified review report is included in the interim report to be sent to shareholders.


ITALIA

Independent Review Report of the Auditors

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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

Report on review of interim financial information
To the board of directors of China Dongxiang (Group) Co., Ltd.
(incorporated in Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 39 to 64, which comprises the condensed consolidated balance sheet of China Dongxiang (Group) Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2008 and the related condensed consolidated statements of income, changes in equity and cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 10 September 2008

Condensed Consolidated Interim Balance Sheet

(All amounts in Renminbi thousands unless otherwise stated)

	Note	30 June 2008 Unaudited	31 December 2007 Audited
ASSETS			
Non-current assets			
Property, plant and equipment	7	**117,210**	94,474
Lease prepayments	8	**55,011**	30,080
Intangible assets	9	**310,356**	279,751
Investments in jointly controlled entities		**26,487**	—
Deferred income tax assets		**19,044**	3,308
		528,108	407,613
Current assets			
Inventories	10	**190,110**	88,173
Financial assets	11	**34,296**	201,505
Trade receivables	12	**206,889**	138,319
Prepayments, deposits and other receivables		**102,786**	46,764
Cash and bank balances			
— Restricted bank balances	13	**37,098**	29,521
— Cash and cash equivalents	13	**5,679,865**	5,311,060
		6,251,044	5,815,342
Total assets		**6,779,152**	6,222,955
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	14	**54,870**	54,904
Share premium	14	**4,929,535**	5,000,710
Reserves	16	**1,221,021**	846,217
Total equity		**6,205,426**	5,901,831
LIABILITIES			
Non-current liabilities			
Licence fees payable		**5,154**	5,906
Deferred income tax liabilities		**4,646**	—
		9,800	5,906
Current liabilities			
Trade payables	17	**289,660**	177,619
Accruals and other payables	18	**129,769**	112,804
Licence fees payable – current portion		**1,668**	1,557
Provisions		**9,557**	—
Current income tax liabilities		**133,272**	23,238
		563,926	315,218
Total liabilities		**573,726**	321,124
Total equity and liabilities		**6,779,152**	6,222,955
Net current assets		**5,687,118**	5,500,124
Total assets less current liabilities		**6,215,226**	5,907,737

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

Condensed Consolidated Interim Income Statement

(All amounts in Renminbi thousands unless otherwise stated)

		Unaudited	
		Six months ended 30 June	
	Note	**2008**	2007
Sales	6	**1,399,406**	770,263
Cost of goods sold	20	**(544,597)**	(302,231)
Gross profit		**854,809**	468,032
Other income	19	**15,333**	9,849
Distribution costs	20	**(194,507)**	(86,184)
Administrative expenses	20	**(63,533)**	(30,146)
Operating profit		**612,102**	361,551
Gain from negative goodwill on acquisition	25	**145,950**	—
Finance income	21	**62,280**	5,385
Finance cost	21	**(3,945)**	(66)
Finance income, net		**58,335**	5,319
Share of losses of jointly controlled entities		**(90)**	—
Profit before income tax		**816,297**	366,870
Income tax expense	22	**(159,508)**	(31,090)
Profit attributable to equity holders of the Company		**656,789**	335,780
Earnings per share for profit attributable to equity holders of the Company (expressed in RMB cents per share)			
— Basic	23	**11.57**	7.77
— Diluted	23	**11.53**	7.74
Dividends	24	**203,402**	150,000

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

Condensed Consolidated Interim Statement of Changes in Equity

(All amounts in Renminbi thousands unless otherwise stated)

		Unaudited				
	Note	Share capital	Share premium	Other reserves	Retained earnings	Total
Balance at 1 January 2007		—	—	(1,337)	308,841	307,504
Contribution by investors		—	—	23,203	—	23,203
Derecognition of a financial liability		—	—	295,514	—	295,514
Profit for the period		—	—	—	335,780	335,780
Dividend declared	24	—	—	—	(150,000)	(150,000)
Balance at 30 June 2007		—	—	317,380	494,621	812,001
Balance at 1 January 2008		**54,904**	**5,000,710**	**193,808**	**652,409**	**5,901,831**
Exercise of pre-IPO share options	14,15	**11**	**5,136**	**(1,947)**	**—**	**3,200**
Share-based compensation	15	**—**	**—**	**13,735**	**—**	**13,735**
Shares repurchased and cancelled	14	**(45)**	**(14,430)**	**—**	**—**	**(14,475)**
Foreign currency translation differences		**—**	**—**	**(293,773)**	**—**	**(293,773)**
Profit for the period		**—**	**—**	**—**	**656,789**	**656,789**
Dividends paid	24	**—**	**(61,881)**	**—**	**—**	**(61,881)**
Balance at 30 June 2008		**54,870**	**4,929,535**	**(88,177)**	**1,309,198**	**6,205,426**

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

Condensed Consolidated Interim Cash Flow Statement

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Unaudited Six months ended 30 June 2008	2007
Operating activities			
Cash generated from operations		**560,405**	406,376
Interest received	21	**62,280**	5,385
Interest paid		**—**	(149)
Income tax paid		**(65,634)**	(59,106)
Net cash generated from operating activities		**557,051**	352,506
Investing activities			
Cash inflow on acquisition of a subsidiary	25	**22,487**	—
Purchase of property, plant and equipment		**(6,353)**	(28,827)
Payments of lease prepayments		**(43,790)**	—
Purchases of intangible assets		**(5,662)**	(24,987)
Increase in restricted bank deposit		**(7,577)**	20,000
Proceeds from disposal of/(purchase of) financial assets		**170,607**	(29,735)
Net cash generated from/(used in) investing activities		**129,712**	(63,549)
Financing activities			
Proceeds from exercise of pre-IPO share option	15	**3,200**	—
Capital injections to a subsidiary from investor	25	**4,235**	—
Repayments of bank borrowings		**—**	(5,190)
Borrowing from directors		**—**	6,200
Repayment of borrowings from directors		**—**	(6,927)
Purchase of treasury shares	14	**(14,475)**	—
Contribution by investors		**—**	23,203
Dividends paid	24	**(61,881)**	—
Net cash (used in)/generated from financing activities		**(68,921)**	17,286
Net increase in cash and cash equivalents		**617,842**	306,243
Cash and cash equivalents at beginning of the period		**5,311,060**	274,749
Effect of exchange rate changes on cash and cash equivalents		**(249,037)**	(1,885)
Cash and cash equivalents at end of the period		**5,679,865**	579,107

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

Notes to the Condensed Consolidated Interim Financial Information

(All amounts in Renminbi thousands unless otherwise stated)

1 GENERAL INFORMATION OF THE GROUP

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

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

Pursuant to a group reorganisation (the "Reorganisation") which was completed on 29 June 2007, the Company became the holding company of the companies comprising the Group as at the completion of the Reorganisation.

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

In April 2008, the Company, Orix Corporation ("Orix")(a company incorporated under the laws of Japan and whose shares listed on the stock exchanges in Tokyo, Osaka and New York) and OPI2002 Toushi Jigyou Kumiai ("OPI") (a partnership established under the laws of Japan), entered into several agreements whereby the Company, through a wholly owned subsidiary, agreed to acquire from Orix and OPI the entire equity interest in Phenix Co., Ltd. ("Phenix"), and to receive the assignment of the outstanding balance of a loan of Japanese Yen ("YEN") 5,937,000,000 provided by Orix to Phenix. Phenix is a limited liability company established under the laws of Japan and principally engaged in brand development, design and sales of sport-related products under the brand names of Kappa, Phenix and other brands in Japan. On 30 April 2008, the Company, through a wholly owned subsidiary, and Orix further agreed to subscribe new shares in Phenix. Upon completion of the acquisition and the subscription of new shares, on 1 May 2008, Phenix became a 91% indirectly owned subsidiary of the Company (the "Acquisition"). Further details are set out in Note 25.

This condensed consolidated interim financial information has been authorised for issue by the Board of Directors on 10 September 2008.

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2008 has been prepared in accordance with International Accounting Standards ("IAS") 34, 'Interim financial reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2007, which have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and the circular of major transaction in relation to the acquisition of Phenix dated 30 June 2008.

Notes to the Condensed Consolidated Interim Financial Information

(All amounts in Renminbi thousands unless otherwise stated)

3 ACCOUNTING POLICIES

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2007, as described in those annual financial statements.

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

The following new interpretations are mandatory for the first time for the financial year of the Group beginning on or after 1 January 2008.

Relevant to the Group:

- IFRIC — Int 11, 'IFRS 2 — Group and treasury share transactions', has been early adopted by the Group in 2007. IFRIC — Int 11 provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies.

Not currently relevant to the Group:

- IFRIC — Int 12, 'Service concession arrangements'

- IFRIC — Int 14, 'IAS 19 — the limit on a defined benefit asset, minimum funding requirements and their interaction'

The following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year beginning on or after 1 January 2008 and have not been early adopted by the Group:

- IAS 1 (amendment), 'Presentation of financial statements', effective for annual periods beginning on or after 1 January 2009.

- IAS 23 (amendment), 'Borrowing costs', effective for annual periods beginning on or after 1 January 2009.

- IAS 32 (amendment), 'Financial instruments: presentation', and consequential amendments to IAS 1, 'Presentation of financial statements', effective for annual periods beginning on or after 1 January 2009. This is not relevant to the Group as the Group does not have any puttable instruments.

- IFRS 1 and IAS 27 (amendment) 'Cost of an investment in a subsidiary, jointly controlled entity or associate', and consequential amendments to IAS 18 'Revenue', IAS 21 'The Effects of Changes in Foreign Exchange Rates' and IAS 36 'Impairment of Assets', effective for annual periods beginning on or after 1 January 2009. This amendment is not relevant to the Group as the Group is not a first-time adopter of IFRS.

- IFRS 2 (amendment) 'Share-based payment', effective for annual periods beginning on or after 1 January 2009.

Notes to the Condensed Consolidated Interim Financial Information

(All amounts in Renminbi thousands unless otherwise stated)

3 ACCOUNTING POLICIES (CONTINUED)

- IFRS 3 (amendment), 'Business combinations' and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates' and IAS 31, 'Interests in joint ventures', effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. Management is assessing the impact of the new requirements regarding acquisition accounting, consolidation and associated companies on the Group.

- IFRS 8, 'Operating segments', effective for annual periods beginning on or after 1 January 2009. IFRS 8 replaces IAS 14, 'Segment reporting', and requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. The expected impact is still being assessed in detail.

- IFRIC — Int 13, 'Customer loyalty programmers', effective for annual periods beginning on or after 1 July 2008. Management is evaluating the impact of this interpretation on its revenue recognition.

4 FINANCIAL RISK MANAGEMENT

All aspects of the Group's financial risk management objectives and policies are consistent with those disclosed in the annual financial statements for the year ended 31 December 2007.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The critical accounting estimates and judgments made by management are consistent with those disclosed in the annual financial statements for the year ended 31 December 2007.

6 SEGMENT INFORMATION

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment, which are subject to risks and returns that are different from those of segments operating in other economic environments.

During the six months ended 30 June 2008, the Group acquired Phenix in Japan and accordingly the Group determined that its primary format for reporting segment information is geographical segments, with business segments reported as secondary format.

Notes to the Condensed Consolidated Interim Financial Information

(All amounts in Renminbi thousands unless otherwise stated)

6 SEGMENT INFORMATION (CONTINUED)

(a) Primary reporting format — geographical segments

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

The sales of the Group in China and Japan comprise the following:

China — distribution of sport-related products under Kappa and Rukka Brands and international sourcing which includes the provision of Kappa Brand products for other Kappa licensees in overseas countries.

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

The segment results, other segment items included in the income statements and capital expenditures for the six months ended 30 June 2008 and 2007 were as follows:

	Six months ended 30 June 2008				Six months ended 30 June 2007		
	China	**Japan**	**Unallocated**	**Total**	China	Japan	Total
Segment revenue	**1,343,691**	**55,715**	**—**	**1,399,406**	770,263	—	770,263
Segment results/ operating profit	**614,164**	**(2,062)**	**—**	**612,102**	361,551	—	361,551
Gain from negative goodwill on acquisition	**—**	**145,950**	**—**	**145,950**	—	—	—
Finance income, net	**8,095**	**20**	**50,220**	**58,335**	5,319	—	5,319
Share of losses of jointly controlled entities	**—**	**(90)**	**—**	**(90)**	—	—	—
Profit before income tax	**622,259**	**143,818**	**50,220**	**816,297**	366,870	—	366,870
Income tax expense	**(159,340)**	**(168)**	**—**	**(159,508)**	(31,090)	—	(31,090)
Profit attributable to equity holder of the Company	**462,919**	**143,650**	**50,220**	**656,789**	335,780	—	335,780
Other items in income statement							
Depreciation	**3,823**	**391**	**—**	**4,214**	1,845	—	1,845
Amortisation	**24,522**	**266**	**—**	**24,788**	4,355	—	4,355
(Reversal of)/provision for impairment losses of inventories	**(822)**	**(5,715)**	**—**	**(6,537)**	3,410	—	3,410
Provision for/(reversal of) impairment losses of trade and other receivables	**—**	**209**	**—**	**209**	(608)	—	(608)
Capital expenditures	**53,519**	**56,219**	**—**	**109,738**	30,611	—	30,611

Notes to the Condensed Consolidated Interim Financial Information

(All amounts in Renminbi thousands unless otherwise stated)

6 SEGMENT INFORMATION (CONTINUED)

(a) Primary reporting format — geographical segments (continued)

The segment assets and liabilities as at 30 June 2008 and 31 December 2007 were as follows:

	As at 30 June 2008				
	China	**Japan**	**Unallocated**	**Inter-segment elimination**	**Total**
Segment assets	**2,991,574**	**301,475**	**3,481,287**	**(40,715)**	**6,733,621**
Deferred income tax assets	**19,044**	**—**	**—**	**—**	**19,044**
Investments in jointly controlled entities	**—**	**26,487**	**—**	**—**	**26,487**
Total assets	**3,010,618**	**327,962**	**3,481,287**	**(40,715)**	**6,779,152**
Segment liabilities	**(283,532)**	**(152,276)**	**(40,466)**	**40,466**	**(435,808)**
Deferred income tax liabilities	**—**	**(4,646)**	**—**	**—**	**(4,646)**
Current income tax liabilities	**(132,634)**	**(638)**	**—**	**—**	**(133,272)**
Total liabilities	**(416,166)**	**(157,560)**	**(40,466)**	**40,466**	**(573,726)**

	As at 31 December 2007				
	China	Japan	Unallocated	Inter-segment elimination	Total
Segment assets	1,509,424	—	4,710,223	—	6,219,647
Deferred income tax assets	3,308	—	—	—	3,308
Total assets	1,512,732	—	4,710,223	—	6,222,955
Segment liabilities	(297,886)	—	—	—	(297,886)
Current income tax liabilities	(23,238)	—	—	—	(23,238)
Total liabilities	(321,124)	—	—	—	(321,124)

Notes to the Condensed Consolidated Interim Financial Information

(All amounts in Renminbi thousands unless otherwise stated)

6 SEGMENT INFORMATION (CONTINUED)

(b) Secondary reporting format — business segments

The Group operates three business segments:

Distribution of sport-related products of Kappa and Rukka Brands — including brand development, design and sales of sport-related footwear, apparel and accessories in China.

Distribution of sport-related products of Kappa, Phenix and other brands — including brand development, design and sales of sport-related footwear, apparel and accessories in Japan.

International sourcing — including the provision of Kappa Brand products for Kappa licensees in other countries.

The Group's sales are generated from the following business segments:

	Six months ended 30 June	
	2008	2007
Distribution of sport-related products in China		
Kappa Brand	**1,285,701**	740,883
Rukka Brand	**4,596**	2,953
	1,290,297	743,836
Distribution of sport-related products in Japan		
Kappa Brand	**30,065**	—
Phenix Brand	**24,636**	—
Other brands	**1,014**	—
	55,715	—
International sourcing	**53,394**	26,427
Total sales	**1,399,406**	770,263

The Group's total assets by business segments were as follows:

	30 June 2008	31 December 2007
Distribution of sport-related products in China	**2,788,828**	1,458,931
Distribution of sport-related products in Japan	**327,962**	—
International sourcing	**109,070**	50,493
Unallocated assets	**3,594,007**	4,713,531
Inter-segment elimination	**(40,715)**	—
Total assets	**6,779,152**	6,222,955

Notes to the Condensed Consolidated Interim Financial Information

(All amounts in Renminbi thousands unless otherwise stated)

6 SEGMENT INFORMATION (CONTINUED)

(b) Secondary reporting format — business segments (continued)

The Group's capital expenditures by business segment are as follows:

	Six months ended 30 June	
	2008	2007
Distribution of sport-related products in China	**53,519**	30,611
Distribution of sport-related products in Japan	**56,219**	—
International sourcing	**—**	—
Total capital expenditures	**109,738**	30,611

Segment assets consist primarily of tangible and intangible assets, other non-current assets, financial assets, inventories, receivables and operating cash. They exclude deferred income tax assets and cash and bank balances held by the Company. Unallocated assets represent intercompany financing assets.

Segment liabilities comprise operating liabilities including licence fees payable, provision and other payables. They exclude taxation liabilities. Unallocated liabilities represent intercompany financing liabilities

Capital expenditure comprises additions to property plant and equipment, intangible assets and lease prepayments, and additions resulting from acquisition through business combinations (Note 25).

Notes to the Condensed Consolidated Interim Financial Information

(All amounts in Renminbi thousands unless otherwise stated)

7 PROPERTY, PLANT AND EQUIPMENT

	Unaudited
Six months ended 30 June 2008	
Opening net book amount as at 1 January 2008	**94,474**
Acquisition of Subsidiary (Note 25)	
— Cost	**29,602**
— Accumulated depreciation	**(6,198)**
— Accumulated Impairment	**(1,328)**
Additions	**6,353**
Disposals	
— Cost	**(1,386)**
— Depreciation	**807**
Depreciation charge (Note 20)	**(4,214)**
Foreign currency exchange difference	**(900)**
Closing net book amount as at 30 June 2008	**117,210**
At 30 June 2008	
Cost	**137,486**
Accumulated depreciation and impairment losses	**(19,376)**
Foreign currency exchange difference	**(900)**
Net book amount	**117,210**
Six months ended 30 June 2007	
Opening net book amount as at 1 January 2007	42,835
Additions	28,827
Disposals	
— Cost	—
— Depreciation	—
Depreciation charge (Note 20)	(1,845)
Closing net book amount as at 30 June 2007	69,817
At 30 June 2007	
Cost	74,424
Accumulated depreciation and impairment losses	(4,607)
Net book amount	69,817

Property, plant and equipment include mainly buildings, vehicles and office equipments.

Notes to the Condensed Consolidated Interim Financial Information

(All amounts in Renminbi thousands unless otherwise stated)

8 LEASE PREPAYMENTS

	Lease prepayments for land use rights	Lease prepayments for flagship stores	Total
Six months ended 30 June 2008			
Opening net book amount as at 1 January 2008	**13,721**	**16,359**	**30,080**
Additions	**—**	**43,790**	**43,790**
Amortisation (Note 20)	**(137)**	**(18,722)**	**(18,859)**
Closing net book amount as at 30 June 2008	**13,584**	**41,427**	**55,011**
At 30 June 2008			
Cost	**14,262**	**63,420**	**77,682**
Accumulated amortisation	**(678)**	**(21,993)**	**(22,671)**
Net book amount	**13,584**	**41,427**	**55,011**
Six months ended 30 June 2007			
Opening net book amount as at 1 January 2007	14,001	—	14,001
Additions	—	—	—
Amortisation (Note 20)	(137)	—	(137)
Closing net book amount as at 30 June 2007	13,864	—	13,864
At 30 June 2007			
Cost	14,262	—	14,262
Accumulated amortisation	(398)	—	(398)
Net book amount	13,864	—	13,864

Notes to the Condensed Consolidated Interim Financial Information

(All amounts in Renminbi thousands unless otherwise stated)

9 INTANGIBLE ASSETS

	Licence rights	Trademarks	Computer software	Total
Six months ended 30 June 2008				
Opening net book amount as at 1 January 2008	**4,095**	**266,945**	**8,711**	**279,751**
Acquisition of a subsidiary (Note 25)				
— Cost	**—**	**125,180**	**4,140**	**129,320**
— Amortisation	**—**	**(96,137)**	**(1,326)**	**(97,463)**
Additions	**—**	**—**	**5,662**	**5,662**
Amortisation (Note 20)	**(512)**	**(3,638)**	**(1,779)**	**(5,929)**
Foreign currency exchange difference	**—**	**(838)**	**(147)**	**(985)**
Closing net book amount as at 30 June 2008	**3,583**	**291,512**	**15,261**	**310,356**
At 30 June 2008				
Cost	**6,314**	**406,174**	**21,280**	**433,768**
Accumulated amortisation	**(2,731)**	**(113,824)**	**(5,872)**	**(122,427)**
Foreign currency exchange difference	**—**	**(838)**	**(147)**	**(985)**
Net book amount	**3,583**	**291,512**	**15,261**	**310,356**
Six months ended 30 June 2007				
Opening net book amount as at 1 January 2007	5,120	273,969	7,198	286,287
Additions	—	—	1,785	1,785
Amortisation (Note 20)	(512)	(3,512)	(194)	(4,218)
Closing net book amount as at 30 June 2007	4,608	270,457	8,789	283,854
At 30 June 2007				
Cost	6,314	280,994	10,140	297,448
Accumulated amortisation	(1,707)	(10,536)	(1,351)	(13,594)
Net book amount	4,607	270,458	8,789	283,854

10 INVENTORIES

	30 June 2008	31 December 2007
Finished goods		
— Carried at cost	**68,927**	68,855
— Carried at net realizable value	**63,654**	18,590
Raw materials, work in progress and others		
— Carried at cost	**56,640**	230
— Carried at net realizable value	**889**	498
	190,110	88,173

For the six months ended 30 June 2008, the cost of inventories recognised as cost of goods sold amounted to approximately RMB529,059,000 (2007: RMB296,270,000), respectively (Note 20).

Notes to the Condensed Consolidated Interim Financial Information

(All amounts in Renminbi thousands unless otherwise stated)

11 FINANCIAL ASSETS

	30 June 2008	31 December 2007
Financial assets at fair value through profit or loss		
— Denominated in RMB	**—**	201,505
— Denominated in USD	**34,296**	—
	34,296	201,505

The financial assets at fair value through profit or loss represented investments in un-listed interest bearing financial instruments issued and managed by commercial banks in Hong Kong and the PRC. The investment as at 30 June 2008 was principal protected. The interest rates of the instruments were determined based on the fluctuations of exchange rates or returns of the underlying investments of the instruments.

12 TRADE RECEIVABLES

	30 June 2008	31 December 2007
Trade receivables		
— third parties	**200,415**	113,755
— a related party (Note 28)	**17,390**	25,108
	217,805	138,863
Less: provision for impairment	**(10,916)**	(544)
Trade receivables, net	**206,889**	138,319

The Group's sales are mainly made on credit terms ranging from 30 to 60 days.

The ageing analysis of trade receivables as at 30 June 2008 and 31 December 2007 was as follows:

	30 June 2008	31 December 2007
Current	**192,991**	129,054
Overdue by:		
1 to 30 days	**16,880**	6,804
31 to 120 days	**6,812**	1,447
Over 120 days	**1,122**	1,558
	217,805	138,863

As at 30 June 2008, certain trade receivables of Phenix totaling approximately YEN 301,909,000 (equivalent to approximately RMB19,463,000) were secured to banks as guarantee deposit for the issue of letters of credit.

The trade receivables were mainly denominated in RMB and YEN. Their carrying amounts approximated their fair values as at the balance sheet dates.

Notes to the Condensed Consolidated Interim Financial Information

(All amounts in Renminbi thousands unless otherwise stated)

13 CASH AND BANK BALANCES

	30 June 2008	31 December 2007
Restricted bank deposits (Note (a))	**37,098**	29,521
Cash and cash equivalents (Note (b))	**5,679,865**	5,311,060
	5,716,963	5,340,581

Notes:

(a) The restricted bank deposits as at 30 June 2008 and 31 December 2007 of approximately RMB27,428,000 and RMB29,521,000, respectively, were held in a commercial bank account as guarantee deposit for the advertising fee payable to a third party. The restriction will be released when the advertising fee is paid. The remaining restricted bank deposits as at 30 June 2008 of approximately RMB9,670,000 were held in a commercial bank as guarantee deposit for the issue of letters of credit.

As at 30 June 2008, all the bank deposits are deposited in the high quality financial institutions without significant credit risk.

(b) The cash and cash equivalents represent cash at bank and in hand. As at 30 June 2008 and 31 December 2007, cash and cash equivalents were denominated in the following currencies:

	30 June 2008	31 December 2007
RMB	**1,339,582**	599,701
HKD	**4,175,658**	4,710,287
USD	**138,628**	1,072
JPY	**25,997**	—
	5,679,865	5,311,060

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

14 SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares of par value HKD0.01	Nominal value of ordinary shares HKD'000	Equivalent nominal value of ordinary shares RMB'000	Share premium account RMB'000	Total RMB'000
At incorporation on 23 March 2007	—	—	—	—	—
Issued HKD Shares (Note (a)(i))	10,000,000	100	97	—	97
At 30 June 2007	10,000,000	100	97	—	97
Issued HKD Shares pursuant to the Capitalisation Issue (Note (a)(ii))	4,309,000,000	43,090	41,655	—	41,655
Issue of new shares upon initial public offering (Note (a)(iii))	1,358,150,000	13,582	13,152	5,000,710	5,013,862
At 31 December 2007	5,677,150,000	56,772	54,904	5,000,710	5,055,614
Exercise of pre-IPO share options (Note 15)	1,300,000	13	11	5,136	5,147
Share repurchased and cancelled (Note (b))	(5,165,000)	(52)	(45)	(14,430)	(14,475)
Dividends paid	—	—	—	(61,881)	(61,881)
At 30 June 2008	5,673,285,000	56,733	54,870	4,929,535	4,984,405

Notes to the Condensed Consolidated Interim Financial Information

(All amounts in Renminbi thousands unless otherwise stated)

14 SHARE CAPITAL AND SHARE PREMIUM (CONTINUED)

Notes:

(a) The movements in issued share capital of the Company during the year ended 31 December 2007 were as follows:

(i) At the date of incorporation of the Company on 23 March 2007, the authorised share capital of the Company was USD 50,000 divided into 5,000,000 shares of par value USD 0.01 ("USD Share"), of which one share of par value USD 0.01 was allotted and issued as fully paid. On 27 March 2007, the USD Shares were re-denomination to shares in HKD by the creation of 390,000 shares of par value HKD 1 ("HKD Share"), of which one HKD Share was issued in exchange for the one share of USD Share previously issued. On 5 April 2007, a further nine HKD Shares were issued as fully paid. On 9 May 2007, upon shareholders' resolutions passed to approve the subdivision of each HKD Share of par value HKD 1 to 100 shares of par value HKD 0.01, the share capital of the Company became HKD 10 divided into 1,000 HKD Shares of par value HKD 0.01. On 29 June 2007, further 9,999,000 HKD Shares of the Company were allotted and issued to the then shareholders, credited as fully paid, in exchange for the transfer of companies now comprising the Group from the then shareholders. As of 30 June 2007, the issued share capital of the Company had become HKD 100,000 divided into 10,000,000 shares of par value HKD 0.01.

(ii) On 12 September 2007, the Company allotted and issued a total of 4,309,000,000 shares credited as fully paid at par to the then shareholders of the Company by way of capitalisation of a sum of HKD43,090,000 (approximately RMB41,655,000) standing to the credit of the capital reserve account of the Company (the "Capitalisation Issue").

(iii) The Company's shares were listed on The Main Board of The Stock Exchange of Hong Kong Limited on 10 October 2007 and 1,358,150,000 new shares with par value of HKD0.01 were issued at HKD3.98 per share to investors in Hong Kong and overseas by way of global initial public offering and upon the exercise of an over-allotment option.

(b) During the six months ended 30 June 2008, the Company repurchased some of its own shares listed on the Main Board of The Stock Exchange of Hong Kong Limited. These repurchased shares were cancelled upon repurchase and, accordingly, the issued share capital of the Company was reduced by the nominal value of these shares. The premium paid on repurchase was deducted from share premium. The details of the shares repurchased are as follows:

Date of repurchase	Number of shares of HKD0.01 each	Price per share Highest	Lowest	Aggregate consideration paid	Equivalent aggregate consideration paid
		HKD	HKD	HKD'000	RMB'000
17 June 2008	2,479,000	3.19	3.12	7,831	6,950
30 June 2008	2,686,000	3.22	3.12	8,530	7,525
	5,165,000			16,361	14,475

15 SHARE OPTIONS AND SHARE OPTION SCHEMES

(a) Pre-IPO Share Option scheme

Pursuant to a shareholders' resolution passed on 12 September 2007, the Company adopted a share option scheme prior to its initial public offering ("IPO") (the "Pre-IPO Share Option Scheme") and granted a total of 18,700,000 pre-IPO share options to independent non-executive directors and employees at a subscription price representing a discount of 30% to the global initial public offering price. All options granted under the Pre-IPO Share Option Scheme are subject to a vesting period of six months commencing from the date of listing of the Company's shares on The Stock Exchange of Hong Kong Limited. These options are exercisable during a period of two years ending 9 April 2010. The Group has no legal and constructive obligation to repurchase or settle these options in cash. No further options can be granted under the Pre-IPO Share Option Scheme.

Notes to the Condensed Consolidated Interim Financial Information

(All amounts in Renminbi thousands unless otherwise stated)

15 SHARE OPTIONS AND SHARE OPTION SCHEMES (CONTINUED)

(a) Pre-IPO Share Option scheme (continued)

The movements in the number of pre-IPO share options outstanding and their related average exercise prices during the six months ended 30 June 2008 are as follows:

	Average exercise price per share HKD	Granted to Non-executive directors	Granted to Employees	Total
At 1 January 2008	2.786	600,000	18,100,000	18,700,000
Exercise of share options	2.786	—	(1,300,000)	(1,300,000)
Outstanding options at 30 June 2008				17,400,000

All of the outstanding options are exercisable. Options exercised in the six months ended 30 June 2008 resulted in 1,300,000 shares being issued at HKD2.786 each.

All the options outstanding have a vesting period of six months commencing from the date of listing of the Company's shares on 10 October 2007 and the options are exercisable during a period of two years ending 9 April 2010.

The weighted average fair value of the pre-IPO share options granted in 2007 as determined using the Black-Scholes valuation model was HKD 1.55 per option. The significant inputs into the model were spot price of HKD 3.76, exercise price as shown above, volatility of 50%, option life of 2.5 years, and annual risk-free interest rate of 3.9%.

Based on the above, the fair value of the pre-IPO share options was approximately HKD 29,000,000, of which the attributable amount charged to the consolidated income statement of the Group as employee benefit expenses during the six months ended 30 June 2008 was approximately RMB13,735,000 (2007: nil).

(b) Share option schemes

The Company adopted a share option scheme (the "Share Option Scheme") on 12 September 2007, the purpose of which is to provide an incentive for employees of and persons contributing to the Group.

The Share Option Scheme shall be valid and effective for 10 years from the date of listing of the Company on 10 October 2007, after which time no further option may be granted but the provisions of the Share Option Scheme shall remain in full force and effect in all other respects. The maximum number of shares that may be granted under the Share Option Scheme and other share option schemes of the Group shall not exceed 10% of the number of issued shares of the Company.

No share options have been granted under the Share Option Scheme during the six months ended 30 June 2008 and up to the date of this report.

Notes to the Condensed Consolidated Interim Financial Information

(All amounts in Renminbi thousands unless otherwise stated)

16 RESERVES

	Capital reserves	Share-based compensation reserve	Special reserve	Statutory reserves	Exchange reserve	Retained earnings	Total
Balance at 1 January 2007	272,840	—	(280,069)	5,892	—	308,841	307,504
Contribution by investors	23,203	—	—	—	—	—	23,203
Profit for the period	—	—	—	—	—	335,780	335,780
Derecognition of a financial liability	15,445	—	280,069	—	—	—	295,514
Dividend declared (Note 24)	—	—	—	—	—	(150,000)	(150,000)
At 30 June 2007	311,488	—	—	5,892	—	494,621	812,001
Balance at 1 January 2008	**269,833**	**14,279**	**—**	**15,892**	**(106,196)**	**652,409**	**846,217**
Exercise of pre-IPO share options (Note 15(a))	**—**	**(1,947)**	**—**	**—**	**—**	**—**	**(1,947)**
Share-based compensation (Note 15(a))	**—**	**13,735**	**—**	**—**	**—**	**—**	**13,735**
Profit for the period	**—**	**—**	**—**	**—**	**—**	**656,789**	**656,789**
Foreign currency translation difference	**—**	**—**	**—**	**—**	**(293,773)**	**—**	**(293,773)**
At 30 June 2008	**269,833**	**26,067**	**—**	**15,892**	**(399,969)**	**1,309,198**	**1,221,021**

17 TRADE PAYABLES

The ageing analysis of trade payables as at 30 June 2008 and 31 December 2007 was as follows:

	30 June 2008	31 December 2007
Current	**241,976**	136,281
Overdue by		
1 to 30 days	**41,471**	35,334
31 to 120 days	**5,254**	3,768
Over 120 days	**959**	2,236
	289,660	177,619

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

18 ACCRUALS AND OTHER PAYABLES

	30 June 2008	31 December 2007
Advance from customers	**28,288**	30,442
Other taxes and levies payable	**26,716**	20,171
Listing expenses payables	**—**	22,905
Salary and welfare payables	**16,882**	12,645
Advertising fee payables	**7,918**	5,600
Payable for acquisition of a subsidiary (Note 25)	**14,000**	—
Accruals and other payables	**35,965**	21,041
	129,769	112,804

The carrying amounts of accruals and other payables approximated their fair values as at the balance sheet dates.

Notes to the Condensed Consolidated Interim Financial Information

(All amounts in Renminbi thousands unless otherwise stated)

19 OTHER INCOME

	Six months ended 30 June	
	2008	2007
Subsidy income from government	**11,403**	9,584
Others	**3,930**	265
	15,333	9,849

20 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	
	2008	2007
Cost of inventories recognised as expenses included in cost of goods sold (Note 10)	**529,059**	296,270
Depreciation/amortisation of property, plant and equipment, lease prepayments and intangible assets (Notes 7, 8 and 9)	**10,280**	6,200
Loss on disposal of property, plant and equipment (Note 7)	**579**	—
Advertising and marketing expenses	**108,036**	44,027
Employee salary and benefit expense	**53,936**	15,115
Withholding business tax on licence fees payable to a overseas subsidiary	**6,853**	4,026
Design and product development expense	**19,775**	15,637
Legal and consulting expense	**3,939**	6,702
Operating lease in respect of buildings	**4,322**	1,095
Logistic fees	**16,980**	7,027
(Reversal of)/provision for impairment losses of inventories (Note 6)	**(6,537)**	3,410
Provision for/(reversal of) impairment of trade and other receivables (Note 6)	**209**	(608)
Auditors' remuneration	**1,000**	—
Others	**54,206**	19,660
Total of cost of goods sold, distribution costs and administrative expenses	**802,637**	418,561

21 FINANCE INCOME, NET

	Six months ended 30 June	
	2008	2007
Interest income from bank deposits	**62,280**	5,385
Interest expenses on bank borrowings repayable within five years	**—**	(149)
Interest expense on licence fees payable	**(197)**	(195)
Foreign exchange (losses)/gains, net	**(3,042)**	287
Others	**(706)**	(9)
	(3,945)	(66)
	58,335	5,319

Notes to the Condensed Consolidated Interim Financial Information

(All amounts in Renminbi thousands unless otherwise stated)

22 INCOME TAX EXPENSE

	Six months ended 30 June	
	2008	2007
Current income tax		
— PRC enterprise income tax ("EIT")	**175,303**	31,491
Deferred income tax	**(15,795)**	(401)
	159,508	31,090

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 are no income, estate, corporation, capital gains or other taxes payable by the Company.

Hong Kong profits tax 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 2008 (2007: nil).

During the six months ended 30 June 2007, the subsidiaries of the Group incorporated in the PRC were subject to EIT at rates ranging from 15% to 33%. Certain subsidiaries of the Group established in Shanghai Pudong New Area were entitled to preferential EIT rate of 15% and full exemption from EIT for the first profit making year ended 31 December 2007.

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. In respect of subsidiaries of the Group established in Shanghai Pudong New Area, the applicable EIT rate for the six months ended 30 June 2008 is 25%, which may be further adjusted subject to further notice issued by the relevant authorities.

According to the New EIT Law, the profits of the PRC subsidiaries of the Group derived since 1 January 2008 will be subject to withholding tax at a rate of 5% upon the distribution of such profits to foreign investors incorporated in Hong Kong, or at a rate of 10% for other foreign investors. The Group determined that no deferred withholding tax liabilities shall be recognised in respect of the profits of the PRC subsidiaries for the six months ended 30 June 2008 since the Group has no plan to distribute such profits in the foreseeable future.

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23 EARNINGS PER SHARE

(a) Basic

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period. The comparative basic earnings per share for the six months ended 30 June 2007 is calculated based on the profit attributable to equity holders of the Company, and on the assumption that the total of 4,319,000,000 shares (Note 14) issued since the incorporation of the Company on 23 March 2007 till the completion of the Reorganisation and the Capitalisation Issue had been in issue since 1 January 2007.

	Six months ended 30 June	
	2008	2007
Profit attributable to equity holders of the Company (RMB'000)	**656,789**	335,780
Weighted average number of ordinary shares in issue (thousands)	**5,677,047**	4,319,000
Basic earnings per share (RMB cents per share)	**11.57**	7.77

(b) Diluted

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has pre-IPO share options outstanding of 17,400,000 shares of the Company which are the potential dilutive ordinary shares as at 30 June 2008. The comparative diluted earnings per share for the six months ended 30 June 2007 is calculated based on the profit attributable to the equity holders of the Company and on the assumption that the total 4,319,000,000 shares (Note14) issued since the incorporation of the Company on 23 March 2007 till the completion of the Reorganisation and the Capitalization Issue, and 18,700,000 shares in relation to the pre-IPO share options had been in issue since 1 January 2007.

	Six months ended 30 June	
	2008	2007
Profit attributable to equity holders of the Company (RMB'000)	**656,789**	335,780
Weighted average number of ordinary shares in issue (thousands)	**5,677,047**	4,319,000
Adjustment for pre-IPO share options outstanding at each balance sheet dates (thousands)	**17,400**	18,700
Weighted average number of ordinary shares in issue for diluted earnings per share (thousands)	**5,694,447**	4,337,700
Diluted earnings per share (RMB cents per share)	**11.53**	7.74

Notes to the Condensed Consolidated Interim Financial Information

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24 DIVIDENDS

Pursuant to a resolution passed on 10 September 2008, the board of directors of the Company recommended the distribution of an interim dividend and special dividend of RMB2.71 cents and RMB0.88 cents respectively per ordinary share (totaling RMB3.59 cents per ordinary share) for the six months ended 30 June 2008, amounting to RMB153,543,000 and RMB49,859,000 respectively, from the retained earnings of the Company. This proposed dividend is not reflected as a dividend payable in these condensed consolidated interim financial information, and will be reflected as an appropriation of the Company's retained earnings in the financial statements for the year ending 31 December 2008.

Pursuant to a resolution passed on 1 April 2008, the Company proposed a final dividend of RMB1.09 cents per ordinary share for the year ended 31 December 2007, totaling RMB61,881,000, from the share premium account. The dividend was reflected as an appropriation of the share premium account during the six month period ended 30 June 2008 and was paid in May 2008.

The Company was incorporated on 23 March 2007 and became the holding company of the companies now comprising the Group on 29 June 2007. The interim dividend of RMB150,000,000 for the six months ended 30 June 2007 represented dividend declared by a subsidiary of the Group on 28 May 2007 to its then shareholders. The dividend was paid in August 2007.

25 BUSINESS COMBINATIONS

As mentioned in Note 1, in April 2008, the Company, Orix and OPI, entered into several agreements whereby the Company, through a wholly owned subsidiary, agreed to acquire from Orix and OPI the entire equity interest in Phenix and receive the assignment of the outstanding balance of a loan of YEN 5,937,000,000 provided by Orix to Phenix for a cash consideration of YEN 1 respectively. On 30 April 2008, the Company, through a wholly owned subsidiary, and Orix further agreed to subscribe certain new shares in Phenix for a subscription price of the YEN 499,799,993 (representing 71,399,999 shares, equivalent to approximately RMB33,601,000) and YEN 63,000,000 (representing 9,000,000 shares, equivalent to approximately RMB4,235,000), respectively. Upon completion of the acquisition and the subscriptions of new shares, on 1 May 2008, Phenix became a 91% indirectly owned subsidiary of the Company.

The acquired business contributed revenues of RMB55,715,000 and net loss of RMB3,933,000 (excluding gain from negative goodwill) to the Group for the period from date of acquisition on 1 May 2008 to 30 June 2008. If the acquisition had occurred on 1 January 2008, consolidated revenue and consolidated profit attributable to equity holders of the Company for the six months ended 30 June 2008 would have been RMB1,614,928,000 and RMB585,046,000 respectively.

Details of the goodwill arising from the Acquisition are as follows:

Cost of acquisition:	
— Cash consideration paid	33,601
— Direct costs attributable to the acquisition	14,000
	47,601
Fair value of net assets acquired:	
— Fair value of net identifiable liabilities of Phenix	(205,588)
— Shareholder's loan assigned	399,139
	193,551
Negative goodwill	(145,950)

Notes to the Condensed Consolidated Interim Financial Information

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25 BUSINESS COMBINATIONS (CONTINUED)

The identifiable assets and liabilities of Phenix as at 30 April 2008 were as follows:

	Acquiree's carrying amount	Provisional fair value
Cash and bank	70,088	70,088
Property, plant and equipment	19,766	22,076
Intangible assets	23,251	31,857
Investments in jointly controlled entities	27,668	27,668
Inventories	91,414	93,629
Trade receivables	74,288	74,288
Prepayments, deposits and other receivables	48,202	48,202
Trade payables	(119,440)	(119,440)
Accruals and other payables	(50,112)	(50,112)
Loan from a shareholder	(399,139)	(399,139)
Deferred income tax liabilities	(766)	(4,705)
Net identifiable liabilities acquired	(214,780)	(205,588)

Cash paid for the acquisition, net of cash acquired is set out below:

Costs of acquisition, in cash	(47,601)
Cash and cash equivalents in the subsidiary acquired	70,088
Cash inflow on acquisition	22,487

26 CONTINGENCIES

The Group had no significant contingent liabilities as at 30 June 2008 and 31 December 2007.

27 COMMITMENTS

(a) Capital commitments

The Group had capital commitment in relating to the purchase of computer software amounting to RMB1,692,000 as at 30 June 2008 (31 December 2007: nil).

(b) Operating lease commitments

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

	30 June 2008	31 December 2007
Not later than 1 year	**58,009**	17,980
Later than 1 year and not later than 5 years	**101,609**	57,892
Over 5 years	**643**	—
	160,261	75,872

Notes to the Condensed Consolidated Interim Financial Information

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27 COMMITMENTS (CONTINUED)

(c) Other commitments

The Group provides sponsorship to certain sports teams, including cash payments as well as provision of sports apparel for free. The commitments as at the balance sheet dates were as follows:

	30 June 2008	31 December 2007
No later than 1 year	**19,662**	—
Later than 1 year and no later than 5 years	**8,968**	—
	28,630	—

28 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control. The ultimate controlling party of the Group is Mr. Chen Yihong, the Chairman and Executive director of the Company.

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

(a) Transactions with related parties

	Six months ended 30 June	
	2008	2007
Sales of goods		
— Beijing Dong Gan Jing Ji Company Limited ("Dong Gan Jing Ji")	**127,796**	74,995
Purchase of goods from jointly controlled entities	**2,040**	—
Lease income of flagship store		
— Dong Gan Jing Ji	**1,395**	—

Dong Gan Jing Ji is a company beneficially owned by Mr. Chen Yihong's family members.

Notes to the Condensed Consolidated Interim Financial Information

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28 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Balances with related parties

	30 June 2008	31 December 2007
Trade receivables (Note 12)		
— Dong Gan Jing Ji	**17,390**	25,108
Trade payables due to jointly controlled entities	**954**	—
Other receivables		
— Dong Gan Jing Ji	**925**	—

The above balances with related parties were unsecured, non-interest bearing and had no fixed repayment terms.

(c) Key management compensation

	Six months ended 30 June	
	2008	2007
Salaries, bonus and other welfares	**5,360**	2,823
Pension — defined contribution plans	**428**	62
	5,788	2,885

29 EVENTS AFTER THE BALANCE SHEET DATE

Save as disclosed elsewhere in this report, the following significant event took place subsequent to 30 June 2008:

In July 2008, the Company repurchased 7,484,000 shares of its own shares listed on the Main Board of The Stock Exchange of Hong Kong Limited at prices ranging from HKD2.86 to HKD3.03 per share. These repurchased shares were cancelled upon repurchase and, accordingly, the issued share capital and share premium of the Company were reduced.

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