DONGXIANG

China Dongxiang (Group) Co., Ltd.

中國動向（集團）有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 3818

Interim Report 2009

VIDI · VICI · VENI

- VISION

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

- MISSION

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

- CORE VALUE

Innovation,
Practice and Confidence

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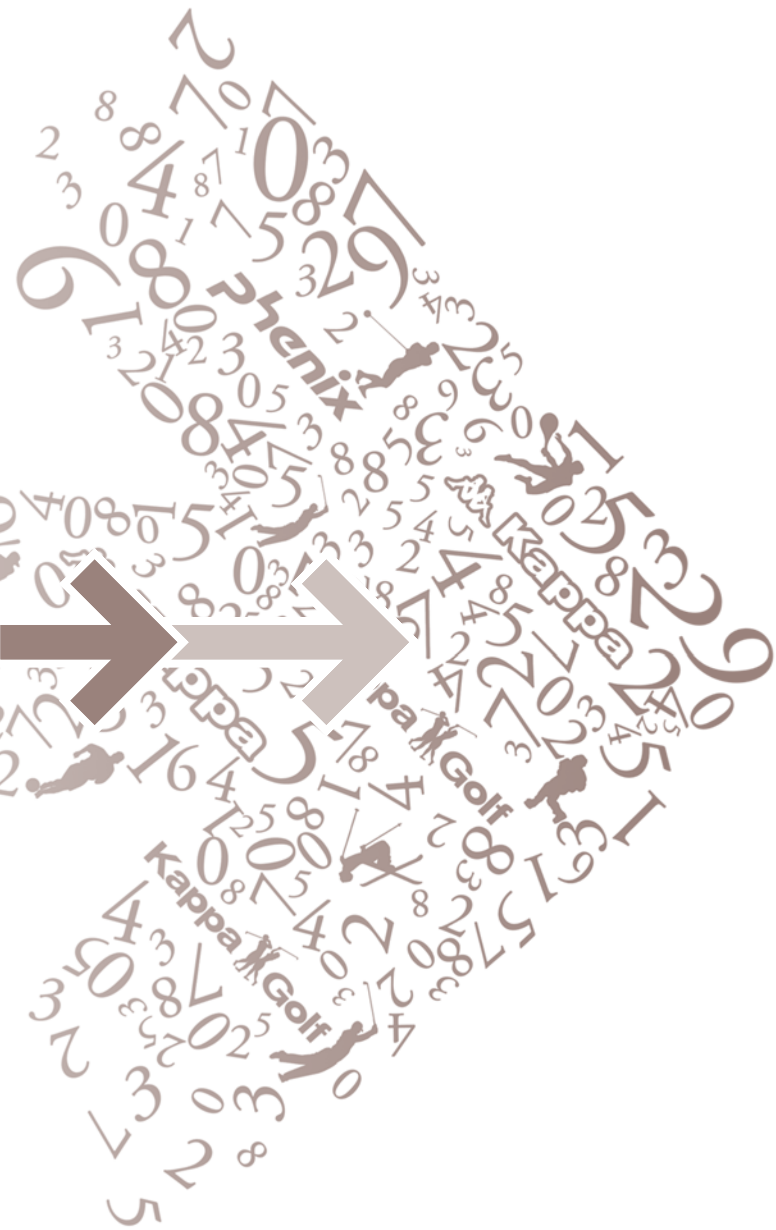


CORPORATE INFORMATION

THE BOARD

- Executive Directors — Mr. Chen Yihong, Mr. Qin Dazhong
- Non-executive Director — Mr. Gao Yu
- Independent non-executive Directors — Mr. Mak Kin Kwong, Dr. Xiang Bing, Mr. Xu Yudi

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

Hong Kong branch share registrar and transfer office

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
Hylands Law Firm

Auditor

PricewaterhouseCoopers
Certified Public Accountants

Investor relations consultant

Porda International (Finance) PR Group

INFORMATION FOR INVESTORS

OTHER IMPORTANT INFORMATION

1. Share information

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

Stock code: 3818

Number of ordinary shares issued as at 30 June 2009: 5,666,286,000

2. Important dates

Announcement of 2009 interim results: 9 September 2009

Book closure date: 29 September 2009 to 2 October 2009

3. 2009 Interim Dividend and Interim Special Dividend

Interim dividend: RMB3.82 cents per share

Interim special dividend: RMB1.27 cents per share

Payment date: on or around 9 October 2009

4. IR Contact

IR 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

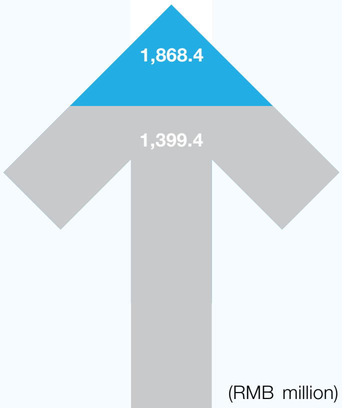
5. Website

http://www.dxsport.com

RESULTS HIGHLIGHTS

Sales

+33.5%



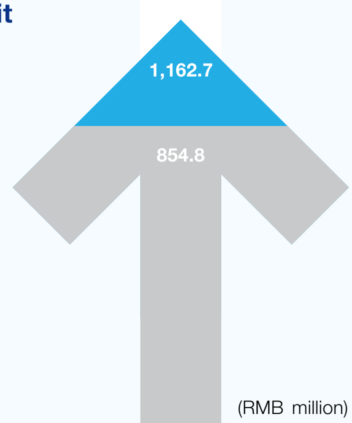
1H 09

1H 08

(RMB million)

Gross profit

+36.0%



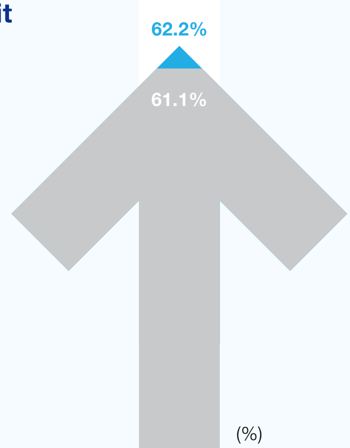
1H 09

1H 08

(RMB million)

Gross profit margin

+1.1% pts



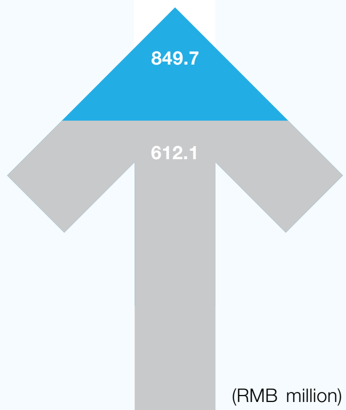
1H 09

1H 08

(%)

Operating profit

+38.8%



1H 09

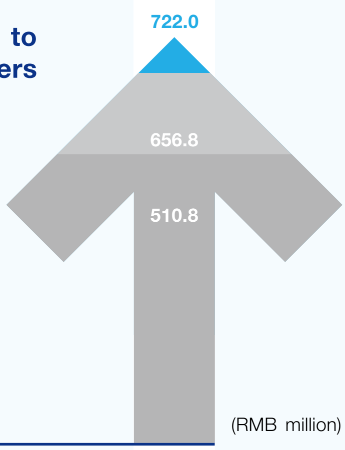
1H 08

(RMB million)

Profit attributable to equity holders

+9.9%

+41.3%



1H 09

1H 08

after one-off gain
before one-off gain

(RMB million)

Basic earnings per share

+10.1%

+41.6%

1H 09

1H 08

after one-off gain
before one-off gain

(RMB cents)

OPERATIONAL HIGHLIGHTS

Solid & sustainable growth	• Sales and profit attributable to equity holders (excluding one-off gain) increased by 33.5% and 41.3% respectively, propelled by strong brand equity and good management execution during economic turmoil
Enhanced gross margin	• Gross margin increased to 62.2% mainly due to termination of low margin business segments
Fast-growing retail network	• The number of Kappa Brand retail outlets in China segment directly and indirectly operated by the Group's distributors increased by 507 to 3,315
International product design and R&D teams	• Strong design and R&D teams with totally 149 experts in China and Japan
Substantive volume growth	• Apparel and footwear sales volume of Kappa Brand products in China segment rose 28.2% and 26.9% respectively to 9.8 million pieces and 2.2 million pairs
Efficient working capital management	• Inventory turnover days and trade receivables turnover days of China segment maintained at healthy level of 38 days and 22 days respectively

"...The key to on-going success of the Group is our distinctive differentiation and growth strategies..."

CHEN Yihong
Chairman

Dear Shareholders,

During the first half of 2009, we operated in a very challenging market which is fraught with worries and uncertainties. It is believed that our experience and the economic events that occured during the period will be written in the textbook of economic history for lesson learning.

We believe that crisis brings opportunities. During the period under review, China Dongxiang (Group) Co., Ltd. ("China Dongxiang" or the "Company") and its subsidiaries (collectively the "Group") initiated and executed various positive measures to combat the adverse impact brought by the economic tsunami. We had also adopted a cautious approach when assessing potential about business opportunities. We endeavoured to maintain a secured financial and operational management policy. In addition, we took advantage of the opportunities arising from the financial crisis to foster our team spirit by implementing internal integration and optimising operation systems. All of these will pave the way for us to achieve outstanding performance in the next growth cycle. We believe that this innovation will become a new milestone in China Dongxiang's corporate history.

As a result of our prudent yet positive approach, the Group achieved outstanding financial results during the first half of 2009. Total sales of the Group reached RMB1,868.4 million, a year-on-year increase of 33.5%. Profit attributable to equity holders increased by 9.9% to RMB722.0 million compared to the same period in 2008 (excluding a one-off gain from the acquisition of Phenix in 2008, the growth rate in profit attributable to equity holder actually reached 41.3%). Basic earnings per share was RMB12.74 cents. We pursued a policy of strong and healthy capital management which is reflected in our highly efficient accounts receivable and inventory management. Accounts receivable turnover days and inventory turnover days for our China segment were 22 days and 38 days respectively.

In view of the Group's outstanding achievements and as a way to reward our shareholders for their support, the board of directors ("Board") had proposed to distribute 30.0% and 10.0% of profit attributable to equity holders for the six months ended 30 June 2009 (equivalent to RMB3.82 cents per share and RMB1.27 cents per share) as interim dividend and interim special dividend, respectively.

During the period under review, our Kappa Brand business in the China segment achieved outstanding results with sales rising 30.2% to RMB1,674.4 million and which accounted for 89.6% of the Group's total sales. In particular, we outperformed our peers in terms of gross profit margin, which was 64.1% during the period under review, an increase of 0.4% points year-on-year (consolidated gross profit margin of the Group grew by 1.1% points year-on-year to 62.2%). This was achieved by our high-end fashion sportswear brand positioning, differentiated sportswear product lines and efficient supply chain management.

Our Kappa Brand business in the China segment grew steadily during the period under review. We opened 507 (net) retail outlets, bringing the total number of Kappa Brand retail outlets to 3,315 as of 30 June 2009. The Group also paid careful attention to and closely monitored the operational performance of retail channels by cooperating with our distributors to launch a series of channel management enhancements and other effective measures. We also believe that our long-term strategy for maintaining product and price positioning are essential for us to preserve the strengths and image of Kappa Brand.

During the period, we launched a series of marketing campaigns which have successfully strengthened and enhanced the positioning of Kappa Brand as a fashionable sportswear brand. These campaigns have also increased our brand awareness among customers and successfully attracted greater numbers of potential customers.

Sporting feature is one of the fundamental elements of Kappa Brand. In 2009, Kappa Brand in China will continue to actively participate in sponsorships for various sporting events, including top tennis competition — China Open as well as the World Golf Championships — HSBC Champions. We believe such athletic events will help infuse the Kappa Brand with a greater sense of fashion, taste and glamour.

Despite the severe recession in Japan, Phenix which had been operated by the Group since its acquisition, was able to maintain a stable market share and achieve significant improvements in gross profit margin and net results compared with its results prior to the Group's acquisition of Phenix.

During the period under review, we relocated Phenix's headquarters from Shinagawa, Tokyo, to a new office located in Shinjuku, Tokyo. The relocation arrangement not only enhanced our image among our peers and business partners, but has been also beneficial to our design team for being inspired by getting updated with the latest fashion trends from time to time. We hope that through such a move, our colleagues in Japan will be inspired to strengthen their determination and passion to re-build the brand image of Phenix, which will in turn contribute to the continued success of the Group.

We believe the key to the on-going success of the Group is our distinctive differentiation and growth strategies that comprise of product innovation, technological knowhow and a host of integrated capabilities. Although changes in the macro-economic environment have led to a general slowdown in growth pace of the industry, we are determined to make use of this opportunity to enhance our fundamental strengths and lift our self-efficacy.

We have been collaborating with a number of internationally renowned consulting firms on several projects which were related to human resources and organisational efficiency management. The findings of these projects, together with effective implementation of recommendations will significantly strengthen our Group in terms of recruitment, training and development as well as improving efficient management of our staff.

Integration between the resources of China and Japan segments along with our internal process restructuring have entered the final stage. Detailed communications and analyses carried out during the processes have enabled the Group and individual staff members to better understand their own strengths and weaknesses. Our Phenix team has 50 years of experience in clothing industry with core competencies in product planning, design and technological development. Their capabilities in these specialised areas will greatly enhance the Group's competitiveness in a short period of time. Currently, certain aspects of product innovation for the China segment are being carried out by our team in Japan. Our China segment has directly imported or selectively reproduced designs as well as newly developed product series from Japan, which further enriched the product offerings in China.

The sharing of resources and the shift of our manufacturing and processing operations from Japan to China have enabled us to effectively manage the production and management costs of Japan operations. This also means that there is room for further improvement in the future. This is consistent with our goal for Phenix — to learn from each other's strengths and mitigate our own weaknesses, to form strategic synergies and optimise the overall efficiency of the Group in order to strengthen our long-term core competitiveness.

The second half of 2009 will indeed be a memorable period in our corporate history. While the world's economy stabilise, we expect that economic growth will likely see a revival in the near future. Despite uncertainties in our current operating environment and delays in rebound of retail consumption, we maintain a positive perspective on the outlook of sportswear industry in the PRC. We are committed to delivering outstanding performance, based on our pragmatic, innovative and confident corporate mission.

On behalf of the Board, I would like to express my sincere gratitude to our shareholders and business partners for their continuous support and trust. I would like to extend my heartfelt appreciation to our management team and staff who have contributed significantly to the Group's success.

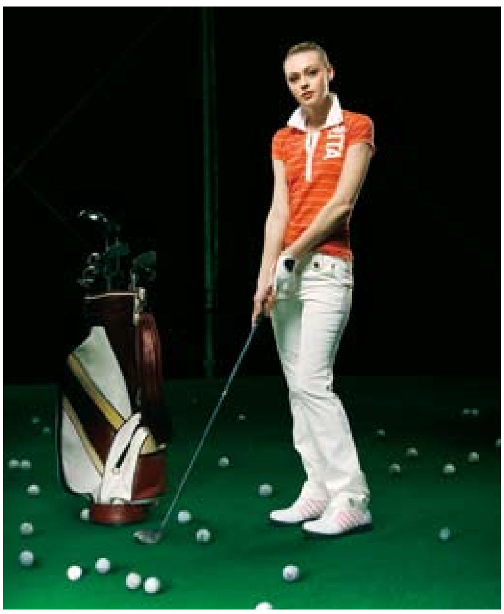
CHEN Yihong
Chairman

Hong Kong, 9 September 2009

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

Despite the slowdown in China's economy since the global financial crisis which occurred in September 2008, the Group was able to achieve a 33.5% growth in sales from RMB1,399.4 million for the six months ended 30 June 2008 to RMB1,868.4 million for the six months ended 30 June 2009. Profit attributable to equity holders reached RMB722.0 million for the six months ended 30 June 2009, representing a 9.9% growth compared to RMB656.8 million for the six months ended 30 June 2008. In 2008, the Group recorded a one-off gain of RMB146.0 million from the acquisition of Phenix. Should the one-off gain be excluded, our core operations would in fact enjoy a high growth in profit attributable to equity holders of 41.3%.

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FINANCIAL REVIEW

Key Financial Performance

	Note	Group (Note 3) Six months ended 30 June 2009 RMB'000	2008 RMB'000	change	China Segment (Note 1) Six months ended 30 June 2009 RMB'000	2008 RMB'000	change	Japan Segment (Note 2) Six months ended 30 June 2009 RMB'000	2008 RMB'000
Key items of condensed consolidated income statement									
Sales		**1,868,421**	1,399,406	**33.5%**	**1,678,346**	1,343,691	**24.9%**	**190,075**	55,715
Gross profit		**1,162,686**	854,809	**36.0%**	**1,074,905**	828,781	**29.7%**	**87,781**	26,028
Operating profit	3	**849,695**	612,102	**38.8%**	**891,434**	614,164	**45.1%**	**-4,393**	-2,062
Profit attributable to equity holders of the company	3, 4	**721,975**	656,789	**9.9%**	**737,841**	463,477	**59.2%**	**-3,178**	143,650
		RMB cents	RMB cents						
Basic earnings per share	4	**12.74**	11.57	**10.1%**					
Diluted earnings per share	4	**12.74**	11.53	**10.5%**					
Profitability ratios									
Gross profit margin		**62.2%**	61.1%	**1.1% pts**	**64.0%**	61.7%	**2.3% pts**	**46.2%**	46.7%
Operating profit margin		**45.5%**	43.7%	**1.8% pts**	**53.1%**	45.7%	**7.4% pts**	**-2.3%**	-3.7%
Effective tax rate	4	**20.1%**	19.5%	**0.6% pts**	**19.7%**	25.6%	**-5.9% pts**	**N/A**	N/A
Net profit margin	4	**38.6%**	46.9%	**-8.3% pts**	**44.0%**	34.5%	**9.5% pts**	**-1.7%**	257.8%
Key operating expenses ratios (as percentage of sales)									
Advertising and marketing expenses		**5.8%**	7.7%	**-1.9% pts**	**5.4%**	7.7%	**-2.3% pts**	**9.4%**	7.4%
Employee salary and benefit expenses		**4.5%**	3.9%	**0.6% pts**	**2.8%**	3.2%	**-0.4% pts**	**19.6%**	20.4%
Design and products development expenses	3	**2.0%**	1.4%	**0.6% pts**	**N/A**	1.2%	**N/A**	**N/A**	5.5%
		In days	In days	**In days**	**In days**	In days	**In days**	**In days**	In days
Working capital efficiency ratios									
Average trade receivable turnover days	5, 8	**31**	N/A	**N/A**	**22**	19	**3**	**109**	N/A
Average trade payables turnover days	6, 8	**74**	N/A	**N/A**	**60**	64	**-4**	**154**	N/A
Average inventory turnover days	7, 8	**66**	N/A	**N/A**	**38**	33	**5**	**231**	N/A
Asset ratios									
Current ratio	9	**12.4 times**	11.1 times		**8.8 times**	6.2 times		**1.9 times**	1.6 times

Notes:

1. The China segment is mainly engaged in the wholesale of sport-related products under Kappa Brand in the PRC and Macau. In 2008, it was also engaged in international sourcing business as well as distribution of sport-related products under Rukka Brand in the PRC. Since mid/late 2008, the Group has decided to terminate the international sourcing and Rukka distribution businesses, thus, both businesses have been maintaining a minimal scale of operation to clear the remaining inventories and orderings before their total termination.

2. The Japan segment is engaged in sales of sport-related products under Kappa, Phenix and other brands in Japan. For the six months ended 30 June 2008, the Japan segment represented 2 months' results of Phenix since its acquisition on 1 May 2008. Hence, it is not meaningful to compare the results of this period to the results of the full six months ended 30 June 2009.

3. The Group results represent the aggregation of the results of China segment and Japan segment. The financial income, net derived from bank deposits in Hong Kong, being the unallocated part, is only included in the group results instead of China segment or Japan segment. In addition, the Group commenced to combine the design and product development functions of Japan segment with China segment in order to form a common platform for the whole group during the six months ended 30 June 2009, therefore, the segmental results (i.e. operating profit and profit attributable to equity holders) of China segment and Japan segment do not include the corresponding expenses (but the group results included) during this period.

4. Excluding the one-off gain of RMB146.0 million from the acquisition of Phenix in 2008, the key items of the consolidated income statement would be as follows:

	Six months ended 30 June		
	2009	2008	**Change**
	RMB'000	RMB'000	
Key items of condensed consolidated income statement			
Profits attributable to equity holders	**721,975**	510,839	**41.3%**
	RMB cents	RMB cents	
Basic earnings per share	**12.74**	9.00	**41.6%**
Diluted earnings per share	**12.74**	8.97	**42.0%**
Profitability ratios			
Effective tax rate	**20.1%**	23.8%	**-3.7% pts**
Net profit margin	**38.6%**	36.5%	**2.1% pts**

5. 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.

6. 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.

7. 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.

8. For Japan segment and the whole group, the calculations of working capital efficiency ratios for the six months ended 30 June 2008 are not meaningful as the period only included two months results of Phenix since its acquisition on 1 May 2008.

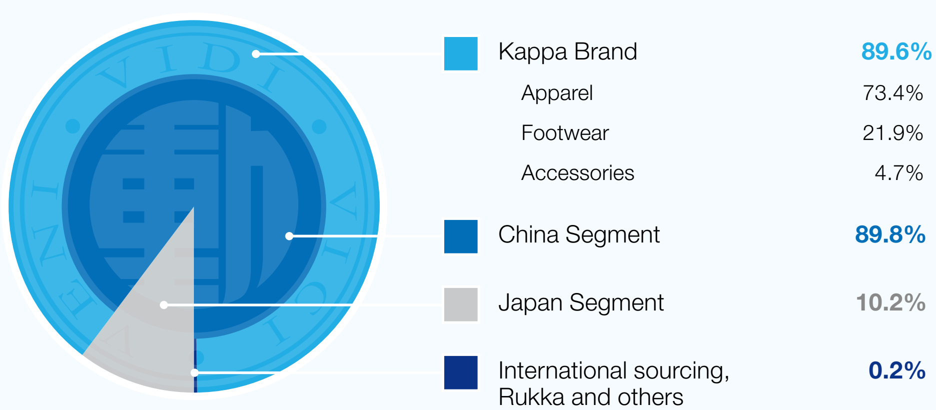
9. Current ratio equals to the closing current assets divided by the closing current liabilities.

Sales

Sales analyzed by geographical segments, business segments and product categories

	Six months ended 30 June						
	2009			2008			
	RMB'000	% of product/ brand mix	% of Group sales	RMB'000	% of product/ brand mix	% of Group sales	Change
CHINA SEGMENT							
Kappa Brand							
Apparel	**1,228,374**	**73.4%**	**65.7%**	926,291	72.1%	66.2%	**32.6%**
Footwear	**367,434**	**21.9%**	**19.7%**	299,913	23.3%	21.4%	**22.5%**
Accessories	**78,552**	**4.7%**	**4.2%**	59,497	4.6%	4.3%	**32.0%**
Kappa Brand total	**1,674,360**	**100%**	**89.6%**	1,285,701	100%	91.9%	**30.2%**
International sourcing, Rukka and others	**3,986**		**0.2%**	57,990		4.1%	**-93.1%**
CHINA SEGMENT TOTAL	**1,678,346**		**89.8%**	1,343,691		96.0%	**24.9%**
JAPAN SEGMENT							
Phenix Brand	**74,236**	**39.1%**	**4.0%**	24,636	44.2%	1.8%	**N/A**
Kappa Brand	**114,660**	**60.3%**	**6.1%**	30,065	54.0%	2.1%	**N/A**
others	**1,179**	**0.6%**	**0.1%**	1,014	1.8%	0.1%	**N/A**
JAPAN SEGMENT TOTAL	**190,075**	**100%**	**10.2%**	55,715	100%	4.0%	**N/A**
THE GROUP TOTAL	**1,868,421**		**100%**	1,399,406		100%	**33.5%**

SALES ANALYSIS — THE GROUP



China Segment

Kappa Brand

The Kappa Brand business, the major business of the Group, accounted for 89.6% (2008: 91.9%) of the total Group's sales for the six months ended 30 June 2009. Although the China economy has been affected by the global financial crisis, sales of Kappa Brand products experienced strong growth and increased by RMB388.7 million (or 30.2%) compared to the six months ended 30 June 2008. Such growth was mainly attributable to our on-going efforts to position and market the brand. The Kappa Brand has been successfully positioned at the forefront of sportswear fashion in China market. It conveys an active, fashionable and youthful image that appeals to a fast-growing customer base. The Kappa Brand products have a widespread acceptance from the targeted customer group in China. Driven by strong demand, the number of Kappa Brand retail outlets directly or indirectly operated by the Group's distributors increased from 2,808 as of 31 December 2008 to 3,315 as of 30 June 2009, a net increase of 507.

Apparel was the major product of Kappa Brand in China and its sales represented 73.4% (2008: 72.1%) of the brand's total sales. The proportions of footwear and accessories were 21.9% (2008: 23.3%) and 4.7% (2008: 4.6%) respectively. The product mix remained fairly steady in both six months periods. The results were matched with the Group's secured policy on a stable product mix in 2009 in order to minimize the risk brought by the global financial crisis.

International Sourcing, Rukka and others

Since the acquisition of Phenix, the Group has decided to terminate the international sourcing and Rukka distribution businesses due to similarities with the business of Phenix. Both businesses have been maintaining a minimal scale of operation since mid/late 2008 in order to clear the remaining inventories and orderings before their total termination. In 2009, the Group also commenced to sell Phenix Brand products in the PRC on a trial basis.

Japan Segment

phenix Kappa XNIX inhabitant.

On 1 May 2008, the Group completed the acquisition of 91% shareholdings of Phenix, a company primarily engaged in the design, development, marketing and sales of its owned branded products in Japan. These brands include two major brands: "Phenix" in the ski and outdoor sportswear markets and "Kappa" in the football, athletic and golf wear markets. Other small brands include "X-NIX" in the snowboard sportswear market and "Inhabitant" in the casual wear market. The sales in Japan segment for the six months ended 30 June 2008 represented two months sales of Phenix from 1 May to 30 June 2008 and which are not comparable with the sales for the full six months ended 30 June 2009.

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

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

	Six months ended 30 June					
	2009		2008		**Change**	
	ASP RMB	**total unit sold in '000**	ASP RMB	total unit sold in '000	**ASP**	**total unit sold**
Apparel	**126**	**9,784**	121	7,631	**4.1%**	**28.2%**
Footwear	**170**	**2,167**	176	1,708	**–3.4%**	**26.9%**

Notes:

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

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

It is the Group's policy to maintain a stable ASP for similar products during the period of high uncertainty about economic environment after the global financial crisis, however, the overall ASP during a short period is easily be affected by seasonal mix as well as product mix during that period.

The increase in ASP of apparel products by 4.1% for the six months ended 30 June 2009 as compared with the same period in 2008 was mainly due to seasonal mix effect. For the six months ended 30 June 2008, the proportion of winter and spring product sales was low whilst the proportion of summer product sales was high attributable to weather issue. This resulted in a lower ASP for that period because the ASP of summer products is generally lower than spring and winter products.

The decrease in ASP of footwear products by 3.4% for the six months ended 30 June 2009 as compared with the same period in 2008 was largely owing to change of product mix. We have received a higher ordering of basic style footwear products and slippers in our 2009 summer collection. The ASP of simple footwear products and slippers is generally lower though their unit average cost is low as well, therefore, the change of product mix would not necessarily has an unfavorable impact on the gross profit margin.

Total apparel and footwear product units sold increased by 28.2% and 26.9% respectively for the six months ended 30 June 2009 compared with the six months ended 30 June 2008. The growth in sales volume was in line with the growth in sales.

Cost of Goods Sold and Gross Profit

For the six months ended 30 June 2009, the cost of goods sold by the Group amounted to RMB705,735,000 (2008: RMB544,597,000), which represented an increase of RMB161,138,000 (or 29.6%). This trend was in line with the overall increase in sales. The gross profit of the Group amounted to RMB1,162,686,000 (2008: RMB854,809,000), which represented an increase of RMB307,877,000 (or 36.0%). The overall gross profit margin of the Group for the six months ended 30 June 2009 was 62.2%, which represented an increase of 1.1% as compared to the overall gross margin 61.1% for the six months ended 30 June 2008. The gross profit margin analyzed by geographical and business segments are detailed as follows:

	Six months ended 30 June		
	2009 Gross profit margin	2008 Gross profit margin	**Change**
China segment			
Kappa Brand	**64.1%**	63.7%	**0.4% pts**
International sourcing, Rukka and others	**23.7%**	17.8%	**5.9% pts**
China segment overall	**64.0%**	61.7%	**2.3% pts**
Japan segment	**46.2%**	46.7%	**–0.5% pts**
Group overall	**62.2%**	61.1%	**1.1% pts**

The gross profit margin of Kappa Brand in China segment remained fairly stable at the level of 64.1% and 63.7% for the six months ended 30 June 2009 and 2008 respectively mainly due to stable discount policy to distributors during the periods.

The gross profit margin in Japan segment for the six months ended 30 June 2009 was 46.2%. It was relatively lower than the gross profit margin 64.1% of Kappa Brand products in China segment due to keen competition and higher production cost in Japan. In order to lower the production cost and enhance the gross profit margin of Japan segment, the Group has been integrating the production function of Japan segment with the Group's extensive production network in the PRC since the acquisition of Phenix. The gross profit margin of 46.7% for the six months ended 30 June 2008 represented two months' sales of Phenix since its acquisition on 1 May 2008, the gross profit margin was relatively high due to high volume of new product sales in these 2 months, should the first 4 months of January to April 2008 be included, the gross profit margin should be much lower during the 6 months ended 30 June 2008. Therefore, the gross profit margin of 46.2% for the 6 months ended 30 June 2009 already reflected an enhancement in gross profit margin because of the production integration plan.

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

	Six months ended 30 June		
	2009 Gross profit margin	2008 Gross profit margin	**Change**
Apparel	**67.6%**	68.2%	**–0.6% pts**
Footwear	**53.2%**	50.2%	**3.0% pts**
Accessories	**62.1%**	60.7%	**1.4% pts**
Overall	**64.1%**	63.7%	**0.4% pts**

For apparel products, the gross profit margin for summer products is generally higher than the winter and spring products. Because of the higher proportion summer product sales during the six months ended 30 June 2008, apparel products achieved a record high gross profit margin of 68.2% for that period. The gross profit margin of 67.6% for the six months ended 30 June 2009 just represented a more normal gross profit margin level under a normal seasonal mix.

For footwear products and accessories, better product development process has helped to enhance the gross profit margin from 50.2% and 60.7% respectively for the six months ended 30 June 2008 to 53.2% and 62.1% respectively for the six months ended 30 June 2009. In particular, the shift of product mix to higher gross profit margin basic style products and slippers during the six months ended 30 June 2009 also raised up the gross profit margin of footwear products.

Other Gains, Net

Other gains for the six months ended 30 June 2009 and 2008 mainly represented subsidy income from the government amounted to RMB22,011,000 and RMB11,403,000 respectively.

Distribution Costs and Administrative Expenses

Distribution costs and administrative expenses mainly comprised advertising and marketing expenses, employee salaries and benefit expenses, design and product development expenses, legal and consulting fees as well as logistic fees. For the six months ended 30 June 2009, total distribution costs and administrative expenses amounted to RMB337,415,000 (2008: RMB258,040,000), accounted for 18.1% of the Group's total sales. This represented a decrease of 0.3% against 18.4% for the six months ended 30 June 2008. The decrease was mainly due to the decrease in advertising and marketing expenses as a percentage of sales by 1.9% from 7.7% for the six months ended 30 June 2008 to 5.8% for the same period in 2009. During the first half year of 2008, the Group had strategically increased spending on promotional activities surrounding the Beijing Olympics Games and opening of flagship stores. On the contrary, the Group decided to postpone certain non-core promotional activities due to the uncertainty about the economy in the first half year of 2009. On the other hand, the Group's employee salaries and benefit expenses as a percentage of the Group's sales increased from 3.9% for six months ended 30

June 2008 to 4.5% for the same period in 2009. This was mainly attributable to the inclusion of Japan segment's salaries and benefit expenses in the six months ended 30 June 2009 which accounted for 19.6% of Japan segment's sales. For the China segment, the salaries and benefit expenses only accounted for 2.8% of the sales of China segment in the six months ended 30 June 2009. For design and products development expenses as a percentage of sales, it increased from 1.4% for the six months ended 30 June 2008 to 2.0% for the same period in 2009. Since the acquisition of Phenix, the Group has endeavored to expand and integrate the product development function of Phenix which resulted in a higher design and products development expenses.

Operating Profit

For the six months ended 30 June 2009, operating profit of the Group was RMB849,696,000, an increase of RMB237,594,000 (or 38.8%) compared with RMB612,102,000 for the six months ended 30 June 2008. The operating profit margin was 45.5% for the six months ended 30 June 2009 compared with 43.7% for the six months ended 30 June 2008. The increase in the operating profit margin by 1.8% from 43.7% to 45.5% was mainly driven by the increase in gross profit margin of 1.1% and decrease of total distribution costs and administrative expenses as a percentage of sales by 0.3%.

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 a one-off gain in the consolidated income statement.

Finance Income, Net

For the six months ended 30 June 2009, finance income mainly comprised interest income of RMB57,354,000 (2008: RMB62,280,000) and foreign exchange gains of RMB2,101,000 (2008: exchange losses of RMB3,042,000).

The interest income mainly comprised interest income from unutilised Global Offering proceeds and cash generated from operating activities deposited into licenced banks and financial institutions in Hong Kong and the PRC. The decrease in interest income for the six months ended 30 June 2009 as compared with the same period in 2008 was mainly attributable to reductions of bank interest rates in Hong Kong and the PRC since the global financial crisis.

Taxation

For the six months ended 30 June 2009, income tax expense of the Group amounted to RMB181,700,000 (2008: RMB159,508,000). The effective tax rate was 20.1% (2008: 19.5%). If the one-off gain from the acquisition of Phenix in 2008 was excluded, the effective tax rate for the six months ended 30 June 2008 would amount to 23.8%.

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

The major operating subsidiaries of the Company in the Shanghai Pudong New Area are entitled to preferential income tax rate of 20% in 2009. Although the preferential income tax rate was 18% in 2008, it has not been informed by the relevant authorities until late 2008. For prudence sake, the group had applied 25% tax rate for making tax provision in the 2008 interim financial statements and resulted in a higher effective tax rate of 23.8% (excluding the one-off gain effect from acquisition of Phenix) for the six months ended 30 June 2008.

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

Profit attributable to equity holders of the Company for the six months ended 30 June 2009 was RMB721,975,000, representing an increase of 9.9% from RMB656,789,000 for the six months ended 30 June 2008. Net profit margin for the six months ended 30 June 2009 was 38.6%, representing a decrease of 8.3% against 46.9% for the six months ended 30 June 2008. If the one-off gain from the acquisition of Phenix amounting to RMB145,950,000 was excluded in 2008, the net profit and net profit margin for the six months ended 30 June 2008 would come to RMB510,839,000 and 36.5% respectively. This represented a 41.3% increase in profit attributable to equity holders and 2.1% increase in net profit margin instead. The increase of net profit margin by 2.1% from 36.5% to 38.6% was mainly due to increase of operating profit margin by 1.8% and decrease of effective tax rate from 23.8% to 20.1%.

Earnings Per Share

The basic and diluted earnings per share were RMB12.74 cents and RMB12.74 cents respectively for the six months ended 30 June 2009, a rise of 10.1% and 10.5% against the basic and diluted earnings per share of 11.57 cents and 11.53 cents respectively for the six months ended 30 June 2008. If the one-off gain from the acquisition of Phenix was excluded in 2008, 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, thus, it represented a growth of 41.6% and 42.0% for the basic and diluted earnings per share respectively instead.

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.

Interim Dividend and Interim Special Dividend

The Board of the Company recommends the distribution of an interim dividend and interim special dividend of RMB3.82 cents and RMB1.27 cents respectively per ordinary share (totaling RMB5.09 cents per ordinary share) for the six months ended 30 June 2009. The interim dividend and interim special dividend amounted to approximately RMB216,452,000 and RMB71,962,000 respectively (totaling RMB288,414,000) which are equivalent to around 30.0% and 10.0% respectively of the Group's net profits available for distribution for the period.

The Company's normal dividend policy is distribution of 30.0% of the Group's net profits available for distribution for the relevant period. After taking into consideration the Group's outstanding financial performance for the six months ended 30 June 2009 and strong cash position, we would like to distribute an additional 10.0% in order to reward our shareholders.

The interim dividend and interim special dividend will be paid in Hong Kong Dollars ("HK Dollars") based on the rate of HK$1.00 = RMB0.8813 being the official exchange rate of Renminbi against HK Dollars as quoted by the People's Bank of China at 8 September 2009. The dividends will be paid on or around 9 October 2009 to shareholders whose names appear on the register of members of the Company on 2 October 2009.

BUSINESS REVIEW

Effective Marketing Strategy

In 2009, the Group continued to adopt a distinct and coherent marketing and promotion strategy for its brands. This included securing strategic alliance and sponsorships as well as implementing a promotion strategy through the most effective media and advertising channels. The Group enhanced its visibility and promoted the brands through sponsorships of sport teams, sport events, entertainment figures and publicity events. In addition, the Group primarily focused on print media and placed advertisements in leading sports and fashion magazines. The Group also utilized indoor and outdoor advertisements, internet, electronic billboards and word of mouth to publicize the Group's brands and products.

The key marketing and promotion events conducted in the PRC and Japan market during the six months ended 30 June 2009 are summarized as below:

PRC Market

Sports

- The appointment as official partner for the provision of sportswear for Norwegian Olympics teams in the 2010 Winter Olympics and the 2012 Summer Olympics Games;

- Co-sponsorship of top German soccer team — Borussia Dortmund, a new series of Dortmund products will be launched in the 4th quarter of 2009;

- A series of golf sponsorship activities includes Buick China Golf Club League, Kappa Cup Celebrities Golf Game and golf programmes at Travel Channel, the new Kappa Golf apparel series was launched at early 2009; and

- The exclusive uniform provider for the World Cyber Games (WCG), a global electronic game competition event.

SPORTS

1. Golf programmes at Travel Channel
2. Kappa Cup Celebrities Golf Game
3. Buick China Golf Club League

1. 3.
2.

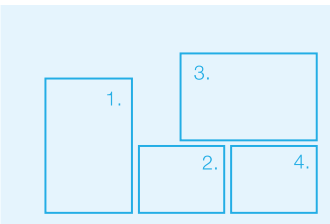
Fashion

- Strategic alliance with Huayi Brothers Media Group, one of the most successful film makers and entertainment media groups in China. The Group will co-operate with Huayi Brothers Media Group in a wide range of marketing and promotion activities;

- Kappa Omini's 40th anniversary celebration activities. Omini is the Italian name of the Kappa back-to-back logo and 2009 is the 40th anniversary of the usage of Omini as Kappa's logo. The activities included hosting Omini's 40th birthday party in Beijing, rolling out a series of celebrities' product with entertainers Shin, Miao Pu, Chen Buolin and other celebrities with Huayi Brothers Media Group; and

- Kappa X YOHO! Trendy Festivities. Collaborate with YOHO, one of the most professional and popular fashion magazines in China, to promote the fashion elements of Kappa Brand image through trendy T-shirt design competition, store design competition and awards presentation ceremony.

FASHION



1, 2. Kappa Omini's 40th anniversary celebration activities

3. Strategic alliance with Huayi Brothers Media Group

4. Kappa X YOHO! Trendy Festivities

Charity

- Hosting charity event "2009 Sharing Love — Kindness Travels Thousand Miles" with Dream Boat Soccer Team; and
- Sponsoring the "Hope for Children — Golden Cradle" charity event for disabled children and children in poverty.

CHARITY

1, 2. 2009 Sharing Love — Kindness Travels Thousand Miles

3, 4. Hope for Children — Golden Cradle charity event

Japan Market

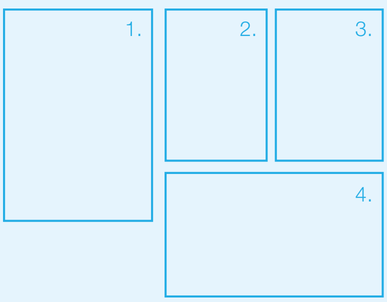
Phenix Brand

- Sponsorship of Japan National Ski Team.

Kappa Japan

- Sponsor for three J-1 soccer teams in Japan, namely Consadole Sapporo, Tokyo Verdy, and JEF United.

PHENIX BRAND & KAPPA JAPAN



1. Japan National Ski Team
2. Consadole Sapporo
3. Tokyo Verdy
4. JEF United

Innovative design and development capabilities

The Group adapted to ever-changing market trends by offering products with active, fashionable and youthful designs. These were realized 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 2009, the Group had design teams of 60 people, including PRC nationals, Japanese, Korean and Italians.

The acquisition of Phenix greatly enhanced the design and development capabilities of the Group. Phenix has a technical centre near Tokyo, which has a team of 63 talented and knowledgeable specialists who are skillful in the sophisticated process of conversion of product designs into high quality product samples. The Japanese team together with technical staff in the PRC (totalling 89 experts) formed a strong product development platform for the Group.

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 or third party design houses such as Michael Michalsky. 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. In July 2009, the Group entered into an agreement with Michael Michalsky, the former global creative director of Adidas, for the development and launch of a new collection under the Kappa Brand. This collaboration will definitely help to broaden the Group's product line and strengthen the fashion elements of its merchandise.

Extensive distribution and retail network

In China segment, 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. We hope that such policy will effectively motivate our distributors and enhance their loyalty. As of 30 June 2009, the Group had 43 distributors who directly or indirectly operated 3,315 retail outlets selling Kappa Brand products in China segment. This represented a net increase of 507 retail outlets compared with the 2,808 retail outlets as of 31 December 2008. The distribution of retail outlets covered all major provincial capital cities and many other large urban areas and towns in China. The Group believes that the renovation and display of our retail outlets is instrumental to our brand image. Accordingly, the Group co-operated with its distributors to renovate 125 retail outlets during the six months period ended 30 June 2009. This included expansion of retail outlet areas and conversion of retail outlets into third generation stores. In July 2009, the fourth generation store plan was launched and the first fourth generation store was opened at Shenyang.

Since the second half of 2007, the Group had been launching its flagship stores plan by co-operating with its distributors to open flagship stores in prime shopping locations of first-tier cities in China segment. As of 30 June 2009, 10 flagship stores were opened in Beijing, Guangzhou, Tianjin, Hangzhou, Suzhou, Harbin, Jinan and Changsha.

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 period ended 30 June 2009:

	As at 30 June 2009 (No. of retail outlets)	As at 31 December 2008 (No. of retail outlets)	**Net increase (No. of retail outlets)**
Total	**3,315**	2,808	**507**

The following diagram illustrates the geographic distribution of the retail outlets of Kappa Brand as at 30 June 2009:

Anhui	**128**	Hebei	**150**	Liaoning	**189**	Sichuan	**187**
Beijing	**126**	Henan	**89**	Inner Mogolia	**46**	Tianjin	**66**
Fujian	**143**	Heilongjiang	**155**	Ningxia	**6**	Tibet	**4**
Gansu	**17**	Hubei	**160**	Qinghai	**5**	Xinjiang	**36**
Guangdong	**245**	Hunan	**112**	Shandong	**191**	Yunnan	**82**
Guangxi	**49**	Jilin	**113**	Shanxi	**75**	Zhejiang	**291**
Guizhou	**56**	Jiangsu	**249**	Shaanxi	**60**	Chongqing	**84**
Hainan	**21**	Jiangxi	**71**	Shanghai	**105**	Macau	**4**

In January 2009, the Group formed five joint ventures with its five key distributors in Hangzhou, Shanxi, Shenyang, Tianjin and Nanjing respectively. The Group has a 30% minority stake in each of the joint ventures. The Group sees the investments as a way to monitor and influence the distribution network operations, direction and execution of business strategies as well as financial controls of its key distributors. The Group considers that the joint ventures will further strengthen the Group's retail network in China.

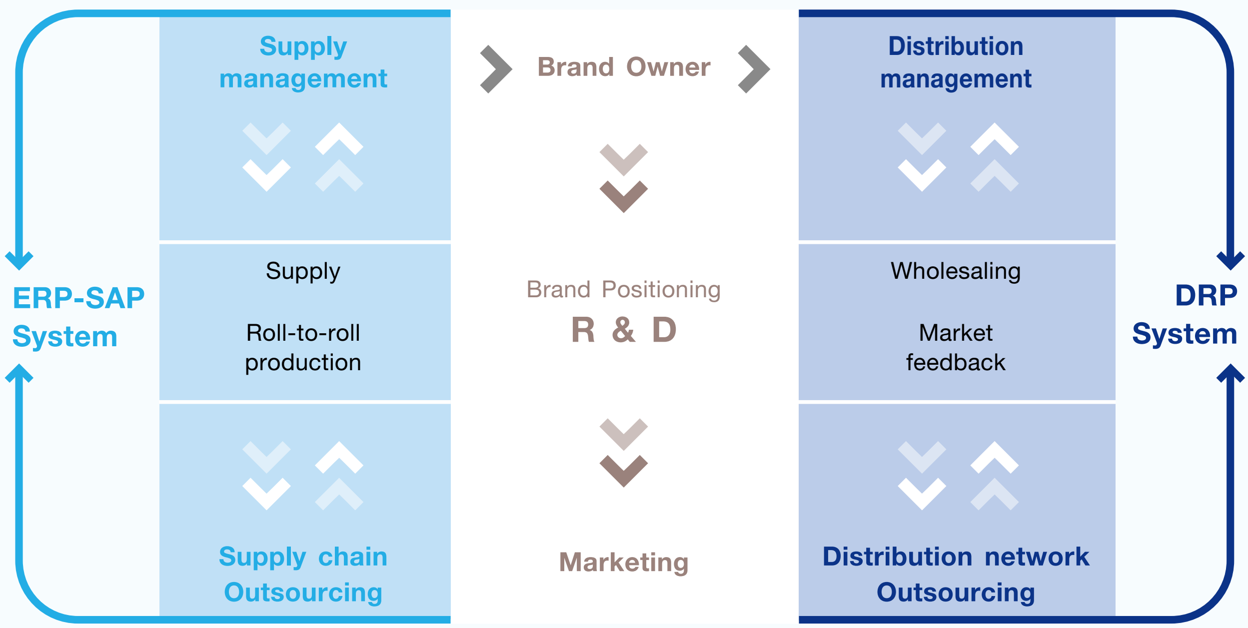
The distribution channels of Phenix in Japan include major sport shops, specialty sport shops, distributors, department stores, the Internet as well as its own outlets and direct stores. As of 30 June 2009, the points of sales for "Phenix" and "Kappa" numbered approximately 1,100 and 2,600 respectively.

Comprehensive supply chain management

In the PRC market, the Group has applied a comprehensive supply chain management approach in 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 2009, the Group selectively engaged and actively supervised approximately 84 manufacturers in processing and manufacturing products in China segment.

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 three distribution centers with a total area of 21,621 sq.m located in Beijing, Kunshan of Jiangsu Province and Guangzhou, respectively. The well coverage of the locations of distribution centres from South to North ensures the Group's response capabilities and timeliness 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 our own inventories, the Group also closely monitors the inventories of its distributors. The Group also has 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 to procure raw materials in Japan and the PRC as well as to arrange production in the PRC. It also oversees 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. Since the acquisition of Phenix, the Group has been endeavoring to integrate Phenix's production function into the Group's extensive production network in the PRC in order to enjoy the reduction in production cost for Phenix.

FINANCIAL POSITION

Working capital efficiency ratios

China Segment

The average trade receivables turnover days for the six months ended 30 June 2009 and 2008 were 22 days and 19 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 2009 and 2008 were 60 days and 64 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 2009 and 2008 were 38 days and 33 days respectively.

Owing to the Group's secured credit and inventory control policies, despite the slowdown of China economy and deterioration of retail environment since the global financial crisis, the Group was still able to maintain healthy and relatively low trade receivables and inventory turnover days.

Japan Segment

The average trade receivables turnover days, average trade payables turnover days and average inventory turnover days were 109 days, 154 days and 231 days respectively for the six months ended 30 June 2009. The calculations of working capital efficiency ratios for the six months ended 30 June2008 are not meaningful as the period only included two months results of Phenix since its acquisition on 1 May 2008.

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

Liquidity and financial resources

As at 30 June 2009, cash and bank balances (including long term bank deposits) of the Group amounted to RMB6,239,698,000, an increase of RMB175,997,000 compared with a balance of RMB6,063,701,000 as of 31 December 2008. This increase mainly represents net cash generated from operating activities of RMB822,682,000 less investments in associates of RMB110,210,000 and dividends paid of RMB529,752,000.

As at 30 June 2009, the Group's net asset value was RMB6,898,125,000 (31 December 2008: RMB6,719,363,000). The Group's current assets exceeded current liabilities by RMB6,081,086,000 (31 December 2008: RMB6,180,564,000). The Group also had a very strong liquidity position. The current ratio as of 30 June 2009 was 12.4 times (31 December 2008: 11.8 times). As of 30 June 2009, the Group had no outstanding bank loans or other borrowings.

Pledge of assets

As at 30 June 2009, the Group had bank deposits of RMB32,955,000 (31 December 2008: RMB32,719,000) to secure advertising costs payable to a third party business partner and approximately RMB34,646,000 (31 December 2008: RMB38,375,000) were held in banks as guarantee deposit for the issue of letters of credit.

Capital commitments and contingencies

As at 30 June 2009, 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 business is transacted in US Dollars. During the Global Offering in October 2007, the Company received its proceeds in HK Dollars. The proceeds were either deposited in bank accounts denominated in HK Dollars or converted into US Dollars and deposited in bank accounts denominated in US Dollars. As a result, the exchange differences arising from appreciation or depreciation of the US Dollar against the Company's HK Dollars bank deposits, were recognized as exchange gains or losses in the Company's income statement. The exchange gains or losses were not significant because HK Dollars are pegged to US Dollars. The Company's financial statements expressed in US Dollars were translated into Renminbi for the Group's reporting and consolidation purposes. The foreign exchange 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 HK Dollars or US Dollars, the exchange rate risk of the Group was not significant. The Group will closely monitor the unutilized Global Offering proceeds and will use appropriate hedging solutions if necessary.

Significant investments and acquisitions

For the six months ended 30 June 2009, the Group acquired a 30% equity interest in each of the five joint ventures in the PRC for a total consideration of RMB130,402,000, of which RMB19,390,000 were paid by 31 December 2008. The joint ventures were set up by the Group's five major distributors in Hangzhou, Shanxi, Shenyang, Tianjin and Nanjing. The joint ventures are mainly engaged in distribution and retailing of sport-related apparel, footwear and accessories of various brands including Kappa of the Group in the PRC. The Group originally planned to set up joint ventures with six of its main distributors, however, one of the distributors in Ningbo decided not to pursue the transaction.

Apart from above, the Group has made no significant investment or any material acquisition or disposal of subsidiaries during the six months ended 30 June 2009.

HUMAN RESOURCES

As of 30 June 2009, the Group had approximately 432 employees throughout the PRC region (As of 31 December 2008: 429 employees). We also have approximately 237 employees in Japan (As of 31 December 2008: 238 employees) 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 business expansion.

The Group deployed a performance based remuneration scheme to its employees under which quarterly/semi-annual KPI and annual bonuses were awarded to high performance employees on top of their basic salary. The Group also implemented long-term cash-settled performance based employees benefit plan (also known as Performance Unit Plan) with key employees to reward long-term contribution from employees.

SUBSEQUENT EVENTS

On 24 August 2009, the Group entered into a conditional cooperation agreement pursuant to which the Group, through a wholly owned subsidiary, agreed to acquire 30% equity interest in a joint venture company at cash consideration of RMB38,321,400. The Group's distributor will inject its business into the joint venture, which principally operates the markets in Beijing and nearby areas, Shandong, Shaanxi and Ningxia. The distributor is a connected party of the Company and therefore the transaction constitutes a connected transaction of the Company under the Rules Governing the Listing of Securities (the "Listing Rules") of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"). The cooperation agreement shall take effect subject to the Company obtaining independent shareholders' approval at an extraordinary general meeting the Company to be convened on 25 September 2009.

This transaction represents the Group's sixth investment in its key distributors following its recent equity cooperation with 5 other third party key distributors in Hangzhou, Nanjing, Tianjin, Shanxi and Shenyang, under each of which the Group also acquired a 30% equity interest.

OUTLOOK

Since the second quarter of 2009, it seems that the global economy has begun to bottom out. Wall Street, the centre of the global financial tsunami, has stopped to deliver any more heart attacked news to the globe. The US and Europe economies have reported more positive economic data. Moreover, China has shown a set of turnaround GDP and economic figures after the government's bundle of economic stimulating plans. The stock and property markets in China have demonstrated strong rebound ahead of the overall economy. Nevertheless, we still believe that the global and China overall economies require a long time to have a total recovery though China should be faster. For the retail environment in China, we have seen better sentiment of the end-consumers as well as the industry participants, however, their confidences are still weak and vulnerable. We expect the rebound of the retail market in China will be slow and highly volatile during the remaining months of 2009 and the whole year of 2010. The sportswear market in China will follow the similar trend. We will continue to adopt an optimistic yet prudent approach to ensure a secure and healthy business growth during this period.

Despite the short-term pain, we are confidence of the long-term prospects of sportswear market in China. Compared to developed countries in US, Europe and Asia, the spending on sportswear in China is still extremely low, it means a huge potential for the market players. The competition in the industry will be more keen than before where only the best performers will be survived notwithstanding the opportunities. With this in mind, the Group will continue to pursue its long-term business development in four ways: brand building, retail network expansion, internal operations enhancement and multi-brand strategy, in order to outperform its peers and create the highest value to its shareholders.

Brand building

The Group considers product design and development as the main drivers leading the market and creating demand for its products and will accordingly continue to enhance its capabilities in this area. The acquisition of Phenix was an important milestone for the Group as Phenix has strong design and development capabilities and its technical centre is able to develop highly sophisticated apparel. The total 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. In July 2009, the Group entered into

Shenyang, the forth generation store

Jinan, the flagship store

Changsha, the flagship store

an agreement with Michael Michalsky, the former global creative director of Adidas, for the development and launch of a new collection under the Kappa Brand. This is a new milestone for the Group and the Group will continue to seek for the opportunities to engage other reputable international designers to broaden the Group's product line and enhance the fashion elements of its merchandise.

The Group will also continue to sponsor a number of selective fashion and sport activities which fit closely with the image of the Kappa Brand. In August 2009, Kappa Golf was appointed as the official partner for the provision of golf apparel in the World Golf Champions (WGC) — HSBC Champions, one of the top 10 golf tournaments in the world, in 2009 to 2011. The WGC — HSBC Champions will make its first foray into the China market at Shanghai in November 2009. Top ranked golfer Tiger Woods and 2008 Champion Sergio Garcia have both confirmed their attendance in this tournament. This world-class event will definitely strengthen the brand image of Kappa and Kappa Golf.

We also believe that the flagship store plan is a very effective mean to build and promote the brand. We will continue to co-operate 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, we believe that there is room for the number of Kappa Brand retail outlets and the retail network to expand. 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.

In January 2009, the Group formed five joint ventures with its five key distributors in Hangzhou, Shanxi, Shenyang, Tianjin and Nanjing. The sixth joint venture will also be formed in the second half year of 2009 with a distributor for the markets of Beijing and nearby areas, Shandong, Shaanxi and Ningxia. The Group has a 30% minority stake in each of the joint ventures. The Group sees the investments as a way to monitor and exercise influence to enhance distribution network operations, direction and execution of business strategies as well as financial controls of its key distributors. The Group considers that the joint ventures will further strengthen the Group's retail network in China.

In August 2009, the Group formed a strategic partnership with Taobao.com, the leading e-commerce platform in the PRC. Kappa's first official online flagship store was opened for business at the Taobao Mall on 1 September 2009. Consumers in China can now shop for Kappa products at home via the Internet. Kappa will benefit from the huge membership base and the extensive online resources advantages of the Taobao.com e-platform to further increase the awareness and influence of the Kappa Brand. The Kappa online flagship store will become a brand new sales and marketing channel of the Group.

Internal operations enhancement

The Group invests and places considerable emphasis on management information systems to improve its 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 in order to further integrate our operations with the Group's manufacturers and distributors and enhance their retail network. The Group's joint ventures with key distributors will help to speed up the integration.

Subsequent to the Global Offering in October 2007, the Group has been engaging reputable international consulting firms to conduct a series of organizational restructuring and staff development plans to prepare for the future development. In 2008, as a first step, the Group adjusted its basic organizational structure to streamline major business segments and administrative functions in order to align them with its future development strategies. In 2009, the Group focused on integration of the design, research and development as well as production functions of Phenix with the China operation. Once the integration is completed, it will provide a strong common platform for the Group to deploy its multi-brand strategy.

We will also continue to provide comprehensive training programmes to our employees for enhancement of their professional and management skills and will also continuously recruit the best people in the industry to prepare for future growth and expansion.

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. In 2009, the Group launched Phenix's "Kappa Golf" brand and "Phenix" brand products in the PRC market. The Group is also planning to launch the sub-brand of Kappa Brand, Robe Di Kappa ("RDK") in the PRC market soon 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.

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

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

Movements in the number of share options outstanding under the Pre-IPO Share Options Scheme for the six months ended 30 June 2009 are as follows:

				Number of share options		
	Date of grant	Average exercise price per Share HK$	as at 01/01/2009	exercised during the period	cancelled during the period	as at 30/06/2009
Independent non-executive directors						
Mak Kin Kwong	17 September 2007	2.786	200,000	200,000	—	—
Xiang Bing	17 September 2007	2.786	200,000	85,000	—	115,000
Xu Yudi	17 September 2007	2.786	200,000	200,000	—	—

Notes:

During the six months ended 30 June 2009, options to acquire 485,000 shares of the Company were exercised at the exercise price of HK$2.786 each. The weighted average fair value of the 18,700,000 pre-IPO share options granted in 2007 as determined using the Black-Scholes valuation model was HK$1.55 per option as at the date of grant.

No options granted lapsed during the six months ended 30 June 2009.

2. DISCLOSURE OF INTERESTS

(a) Interests of directors

As at 30 June 2009, 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 Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which the directors and chief executive of the Company are taken or deemed to have under such provisions of the SFO, or which were required to be and are recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise required to be notified to the Company and the Hong Kong

Stock Exchange pursuant to the Model Code for Securities Transactions by directors of Listed Companies ("Model Code") contained in the Listing Rules on the Hong Kong Stock Exchange, were as follows:

Name of Director(s)	Nature of interest	Long position	Short position	Approximate % of the issued share capital
Mr. Chen Yihong	Interest of a controlled corporation (1)	2,587,081,000	—	45.66%
	Deemed interest (2)	345,520,000	—	6.10%
Mr. Qin Dazhong	Interest of a controlled corporation (3)	241,864,000	—	4.27%
Dr. Xiang Bing	Personal Interest (4)	115,000	—	0.002%

Notes:

1. Mr. Chen Yihong, Harvest Luck Development Limited and Talent Rainbow Far East Limited are deemed to be interested in the shares held by Poseidon Sports Limited ("Poseidon") by virtue of Harvest Luck Development Limited and Talent Rainbow Far East Limited being entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of Poseidon. Both Harvest Luck Development Limited and Talent Rainbow Far East Limited are in turn wholly-owned and controlled by Mr. Chen Yihong.

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

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

4. 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 2009, none of the directors or the chief executive of the Company had under Divisions 7 and 8 of Part XV of the SFO, or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), or any interests which were required to be recorded in the register maintained by the Company pursuant to section 352 of the SFO or any interests which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) Interests of Substantial Shareholders

As at 30 June 2009, so far as is known to the directors or chief executive of the Company other than the interests and short positions of the directors or chief executive of the Company as disclosed above, the following persons had interests or short positions in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Part XV section 336 of the SFO, as otherwise notified to the Company and the Hong Kong Stock Exchange:

Name of shareholder(s)	Nature of interest	Long position	Short position	Approximate % of the issued share capital
Poseidon Sports Limited	Corporate interest	2,587,081,000	–	45.66%
Talent Rainbow Far East Limited (1)	Interest in a controlled corporation	2,587,081,000	–	45.66%
Harvest Luck Development Limited (1)	Interest in a controlled corporation	2,587,081,000	–	45.66%
Colour Billion Limited (2)	Corporate interest	345,520,000	–	6.10%
Ms. Liu Peiying (2)	Interest in a controlled corporation, deemed interest	2,932,601,000	–	51.76%

Notes:

1. Mr. Chen Yihong, Harvest Luck Development Limited and Talent Rainbow Far East Limited are deemed to be interested in the shares held by Poseidon 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. Both Harvest Luck Development Limited and Talent Rainbow Far East Limited are in turn wholly-owned and controlled by Mr. Chen Yihong. Mr. Chen Yihong, an executive director of the Company, is the sole director of each of Poseidon, Harvest Luck Development Limited and Talent Rainbow Far East Limited.

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

Save as disclosed above, as at 30 June 2009, the directors are not aware of any other persons or corporation (other than the directors and chief executive of the Company) having an interest or short position in the shares and underlying shares of the Company which were required to be recorded in the register required to be kept under section 336 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange.

3. CHANGES IN DIRECTORSHIP

Mr. Mak Kin Kwong, an independent non-executive director of the Company was on 29 September 2008 appointed to the board of directors of 361 Degrees International Limited, a company listed on the main board of the Hong Kong Stock Exchange, as its independent non-executive director.

4. PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2009, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

5. CORPORATE GOVERNANCE

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

During the period under review, the 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 on the Hong Kong Stock Exchange. 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 2008.

The Company has adopted a set of code of practice prescribed in the Model Code as set out in Appendix 10 to the Listing Rules on The Hong Kong Stock Exchange. Having made specific enquiry by the Company, all the directors of the Company confirmed that they had complied with the required standard regarding securities transactions by the directors as set out in the Model Code during the period under review.

6. AUDIT COMMITTEE

The Audit Committee of the Company, comprising the three independent non-executive directors, has reviewed the interim financial information, financial reporting system and internal control of the Company, including the interim results for the six months ended 30 June 2009.

The unaudited condensed consolidated interim financial information for the six months ended 30 June 2009 of the Group has also been reviewed by PricewaterhouseCoopers, the auditor of the Company, in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", whose unmodified review report is included in the interim report to be sent to shareholders.

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 the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 38 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 2009 and the related condensed consolidated statements of income, comprehensive 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, 9 September 2009

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

	Note	30 June 2009 Unaudited	31 December 2008 Audited
ASSETS			
Non-current assets			
Property, plant and equipment	7	**119,839**	121,283
Lease prepayments	8	**49,325**	42,063
Intangible assets	9	**300,659**	307,129
Investments in jointly controlled entities		**19,703**	25,926
Investments in associates	10	**126,069**	—
Prepayment of considerations for investments in associates		**—**	19,390
Deferred income tax assets		**22,441**	3,547
Prepayments, deposits and other receivables			
— non-current portion		**33,237**	23,638
Long term bank deposits	12	**150,000**	—
		821,273	542,976
Current assets			
Inventories		**201,037**	232,166
Trade receivables	11	**235,178**	367,880
Prepayments, deposits and other receivables		**88,997**	86,736
Cash and bank balances	12	**6,089,698**	6,063,701
		6,614,910	6,750,483
Total assets		**7,436,183**	7,293,459
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	13	**54,809**	54,805
Share premium account	13	**4,382,299**	4,910,138
Reserves	14	**2,461,017**	1,754,420
Total equity		**6,898,125**	6,719,363

(All amounts in Renminbi thousands unless otherwise stated)

	Note	30 June 2009 Unaudited	31 December 2008 Audited
LIABILITIES			
Non-current liabilities			
Financial liability at fair value through profit or loss	10	**132**	—
Deferred income tax liabilities		**4,102**	4,177
		4,234	4,177
Current liabilities			
Trade payables	15	**282,506**	292,068
Accruals and other payables		**131,063**	190,927
Provisions	16	**19,909**	49,364
Current income tax liabilities		**100,346**	37,560
		533,824	569,919
Total liabilities		**538,058**	574,096
Total equity and liabilities		**7,436,183**	7,293,459
Net current assets		**6,081,086**	6,180,564
Total assets less current liabilities		**6,902,359**	6,723,540

The notes on pages 44 to 64 are an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Unaudited Six months ended 30 June 2009	2008
Sales	6	**1,868,421**	1,399,406
Cost of goods sold	18	**(705,735)**	(544,597)
Gross profit		**1,162,686**	854,809
Other gains, net	17	**24,424**	15,333
Distribution costs	18	**(258,888)**	(194,507)
Administrative expenses	18	**(78,527)**	(63,533)
Operating profit		**849,695**	612,102
Negative goodwill on acquisition of a subsidiary	19	**—**	145,950
Finance income, net	20	**58,874**	58,335
Share of losses of jointly controlled entities and associates		**(4,894)**	(90)
Profit before income tax		**903,675**	816,297
Income tax expense	21	**(181,700)**	(159,508)
Profit attributable to equity holders of the Company		**721,975**	656,789
Earnings per share for profit attributable to equity holders of the Company (expressed in RMB cents per share)			
— Basic	22	**12.74**	11.57
— Diluted	22	**12.74**	11.53
Dividends	23	**288,414**	203,402

The notes on pages 44 to 64 are an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

(All amounts in Renminbi thousands unless otherwise stated)

		Unaudited Six months ended 30 June	
	Note	**2009**	2008
Profit for the period		**721,975**	656,789
Other comprehensive income, net of tax			
— Foreign currency translation differences	14	**(14,653)**	(293,773)
Total comprehensive income for the period		**707,322**	363,016
Total comprehensive income attributable to equity holders of the Company		**707,322**	363,016

The notes on pages 44 to 64 are an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

(All amounts in Renminbi thousands unless otherwise stated)

		Unaudited Attributable to equity holders of the Company				
	Note	Share capital	Share premium account	Other reserves	Retained earnings	Total
Balance at 1 January 2008		54,904	5,000,710	193,808	652,409	5,901,831
Profit for the period		—	—	—	656,789	656,789
Other comprehensive income:						
— Foreign currency translation differences		—	—	(293,773)	—	(293,773)
Total comprehensive income for the period ended 30 June 2008		—	—	(293,773)	656,789	363,016
Shares repurchased and cancelled	13	(45)	(14,430)	—	—	(14,475)
Exercise of pre-IPO share options	13	11	5,136	(1,947)	—	3,200
Share-based compensation	14	—	—	13,735	—	13,735
Dividends paid	23	—	(61,881)	—	—	(61,881)
Balance at 30 June 2008		54,870	4,929,535	(88,177)	1,309,198	6,205,426
Balance at 1 January 2009		**54,805**	**4,910,138**	**(62,275)**	**1,816,695**	**6,719,363**
Profit for the period		**—**	**—**	**—**	**721,975**	**721,975**
Other comprehensive income:						
— Foreign currency translation differences		**—**	**—**	**(14,653)**	**—**	**(14,653)**
Total comprehensive income for the period ended 30 June 2009		**—**	**—**	**(14,653)**	**721,975**	**707,322**
Exercise of pre-IPO share options	13	**4**	**1,913**	**(725)**	**—**	**1,192**
Dividends paid	23	**—**	**(529,752)**	**—**	**—**	**(529,752)**
Balance at 30 June 2009		**54,809**	**4,382,299**	**(77,653)**	**2,538,670**	**6,898,125**

The notes on pages 44 to 64 are an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Unaudited Six months ended 30 June 2009	2008
Operating activities			
Cash generated from operations		**920,528**	516,615
Interest received		**40,037**	62,280
Income tax paid		**(137,883)**	(65,634)
Net cash generated from operating activities		**822,682**	513,261
Investing activities			
Cash inflow on acquisition of a subsidiary		**—**	22,487
Investments in associates	10	**(110,210)**	—
Purchase of property, plant and equipment	7	**(8,244)**	(6,353)
Purchase of intangible assets	9	**(2,087)**	(5,662)
Increase in term deposits with initial terms of over three months		**(4,834,469)**	—
Decrease/(Increase) in restricted bank deposit		**54,052**	(7,577)
Sale of financial assets at fair value through profit or loss		**—**	170,607
Net cash (used in)/generated from investing activities		**(4,900,958)**	173,502
Financing activities			
Repurchase of shares	13	**—**	(14,475)
Proceeds from exercise of pre-IPO share options	13	**1,192**	3,200
Capital injection from a minority shareholder of a subsidiary		**—**	4,235
Dividends paid	23	**(529,752)**	(61,881)
Net cash used in financing activities		**(528,560)**	(68,921)
Net (decrease)/increase in cash and cash equivalents		**(4,606,836)**	617,842
Cash and cash equivalents at beginning of the period		**5,942,048**	5,311,060
Effect of exchange rate changes on cash and cash equivalents		**2,416**	(249,037)
Cash and cash equivalents at end of the period		**1,337,628**	5,679,865

The notes on pages 44 to 64 are an integral part of this condensed consolidated interim financial information.

1 GENERAL INFORMATION

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

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

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

This condensed consolidated interim financial information is presented in RMB, unless otherwise stated. This condensed consolidated interim financial information has been authorised for issue by the Board of Directors on 9 September 2009.

This condensed consolidated interim financial information has not been audited.

Key events

On 1 January 2009, the Group acquired 30% equity interests in each of five equity joint venture companies in the PRC. The companies were set up by the Group's five major distributor customers of the Group in Hangzhou, Shanxi, Shenyang, Tianjin and Nanjing, and are engaged in the distribution and retailing of sport-related apparel, footwear and accessories of various brands including Kappa of the Group and other brands in the PRC. The Group originally planned to set up joint ventures with six of its major distributors, however, the distributor in Ningbo decided not to pursue the transaction. Further details are set out in Note 10.

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2009 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 2008, which have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

3 ACCOUNTING POLICIES

As mentioned in note 1 above, on 1 January 2009, the Group completed the acquisitions of 30% equity interests in each of five equity joint venture companies set up by the Group's five major distributor customers and engaging in the business of distribution and retailing of sport-related products in the PRC. These companies are regarded as associated companies of the Group. Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss. Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired associates at the date of acquisition. Goodwill is tested for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an associate include the carrying amount of goodwill relating to the associate sold.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

Except as described below, the accounting policies applied are consistent with those of the annual financial statements of the Company for the year ended 31 December 2008, as described in those annual financial statements.

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning on 1 January 2009:

Currently relevant to the Group's operations:

- IAS 1 (revised), 'Presentation of financial statements'. The revised standard prohibits the presentation of items of income and expenses (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All 'non-owner changes in equity' are required to be shown in a performance statement.

  Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The Group has elected to present two statements: an income statement and a statement of comprehensive income. The interim financial statements have been prepared under the revised disclosure requirements.

- IFRS 8, 'Operating segments'. IFRS 8 replaces IAS 14, 'Segment reporting'. It requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes.

  Operating segments in this interim financial information are presented in a manner consistent with the internal reporting provided to the chief operating decision-maker.

3 ACCOUNTING POLICIES (CONTINUED)

Currently relevant to the Group's operations (continued):

- Amendment to IFRS7, 'Financial instruments: disclosures'. The amendment increases the disclosure requirements about fair value measurement and amends the disclosure about liquidity risk. The amendment introduces a three-level hierarchy for fair value measurement disclosures about financial instruments and requires some specific quantitative disclosures for those instruments classified in the lowest level in the hierarchy. These disclosures will help to improve comparability between entities about the effects of fair value measurements. In addition, the amendment clarifies and enhances the existing requirements for the disclosure of liquidity risk primarily requiring a separate liquidity risk analysis for derivative and non-derivative financial liabilities. It also requires a maturity analysis for financial assets where the information is needed to understand the nature and context of liquidity risk. The Group will make additional relevant disclosures in its financial statements ending 31 December 2009.

Not currently relevant to the Group's operations:

- IAS 23 (amendment), 'Borrowing costs'.

- IAS 32 (amendment), 'Financial instruments: presentation'.

- IAS 39 (amendment), 'Financial instruments: Recognition and measurement'.

- IFRIC 9 (amendment), 'Reassessment of embedded derivatives' and IAS 39 (amendment), 'Financial instruments: Recognition and measurement'.

- IFRIC 13, 'Customer loyalty programmes'.

- IFRIC 15, 'Agreements for the construction of real estate'.

- IFRIC 16, 'Hedges of a net investment in a foreign operation'.

- IFRS 7 (amendment), 'Financial instruments: disclosures'.

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning on 1 January 2009 and have not been early adopted by the Group:

- IFRS 3 (revised), 'Business combinations' and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates' and IAS 31, 'Interests in joint ventures', 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.

- IFRIC 17, 'Distributions of non-cash assets to owners', effective for annual periods beginning on or after 1 July 2009.

- IFRIC 18, 'Transfers of assets from customers', effective for transfer of assets received on or after 1 July 2009.

(All amounts in Renminbi thousands unless otherwise stated)

3 ACCOUNTING POLICIES (CONTINUED)

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning on 1 January 2009 and have not been early adopted by the Group (continued):

- IASB's annual improvements project published in April 2009:

  — Amendment to IFRS 2 'Share-based payments', effective for periods beginning on or after 1 July 2009.

  — Amendment to IFRS 5 'Non-current assets held for sale and discontinued operations', effective for periods beginning on or after 1 January 2010.

  — Amendment to IFRS 8 'Operating segments', effective for periods beginning on or after 1 January 2010.

  — Amendment to IAS 1 'Presentation of financial statements', effective for periods beginning on or after 1 January 2010.

  — Amendment to IAS 7 'Statement of cash flows', effective for periods beginning on or after 1 January 2010.

  — Amendment to IAS 17 'Leases', effective for periods beginning on or after 1 January 2010.

  — Amendment to IAS 36 'Impairment of assets', effective for periods beginning on or after 1 January 2010.

  — Amendment to IAS 38 'Intangible assets', effective for periods beginning on or after 1 July 2009.

  — Amendment to IAS 39 'Financial instruments: recognition and measurement', effective for periods beginning on or after 1 January 2010.

  — Amendment to IFRIC 9 'Reassessment of embedded derivatives', effective for periods beginning on or after 1 July 2009.

  — Amendment to IFRIC 16 'Hedges of a net investment in a foreign operation', effective for periods beginning on or after 1 July 2009.

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 2008.

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 2008.

(All amounts in Renminbi thousands unless otherwise stated)

6 SEGMENT INFORMATION

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

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

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 other countries.

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

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

	Unaudited Six month ended 30 June 2009			
	China	Japan	Unallocated	Total
Total revenue before inter-segment elimination	1,679,337	190,986	—	1,870,323
Inter-segment revenue	(991)	(911)	—	(1,902)
Revenue from external customers	1,678,346	190,075	—	1,868,421
Cost of goods sold	(603,441)	(102,294)	—	(705,735)
Segment gross profit	1,074,905	87,781	—	1,162,686
Segment operating profit	891,434	(4,393)	(37,346)	849,695
Interest income	28,140	17	29,197	57,354
Interest expenses and others, net	3,727	2,332	(4,539)	1,520
Share of losses of jointly controlled entities and associates	(4,333)	(561)	—	(4,894)
Profit before income tax	918,968	(2,605)	(12,688)	903,675
Income tax expense	(181,127)	(573)	—	(181,700)
Profit attributable to equity holders of the Company	737,841	(3,178)	(12,688)	721,975
Material items of income and expense				
Depreciation and amortization	10,353	2,534		12,887
Provision for impairment losses of inventories	330	6,155		6,485
Reversal of impairment losses of trade and other receivables	—	(14,545)		(14,545)
Advertising and marketing expenses	90,886	17,955		108,841
Employee salary and benefit expenses	47,676	37,280		84,956
Design and product development expenses	—	—	37,346	37,346
Operating lease in respect of buildings	4,199	13,848		18,047
Logistic fees	16,000	11,680		27,680

(All amounts in Renminbi thousands unless otherwise stated)

6 SEGMENT INFORMATION (CONTINUED)

	Unaudited Six month ended 30 June 2008			
	China	Japan	Unallocated	Total
Total revenue before inter-segment elimination	1,343,691	55,715	—	1,399,406
Inter-segment revenue	—	—	—	—
Revenue from external customers	1,343,691	55,715	—	1,399,406
Cost of goods sold	(514,910)	(29,687)	—	(544,597)
Segment gross profit	828,781	26,028	—	854,809
Segment operating profit	614,164	(2,062)	—	612,102
Negative goodwill on an acquisition	—	145,950	—	145,950
Interest income	12,045	15	50,220	62,280
Interest expenses and others, net	(3,392)	5	(558)	(3,945)
Share of losses of jointly controlled entities	—	(90)	—	(90)
Profit before income tax	622,817	143,818	49,662	816,297
Income tax expense	(159,340)	(168)	—	(159,508)
Profit attributable to equity holders of the Company	463,477	143,650	49,662	656,789
Material items of income and expense				
Depreciation and amortization	9,624	656		10,280
Reversal of impairment losses of inventories	(822)	(5,715)		(6,537)
Provision for impairment losses of trade and other receivables	—	209		209
Advertising and marketing expenses	103,920	4,116		108,036
Employee salary and benefit expenses	42,552	11,384		53,936
Design and product development expenses	16,728	3,047		19,775
Operating lease in respect of buildings	784	3,538		4,322
Logistic fees	12,683	4,297		16,980

(All amounts in Renminbi thousands unless otherwise stated)

6 SEGMENT INFORMATION (CONTINUED)

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

	Unaudited Six months ended 30 June	
	2009	2008
China		
— Distribution of Kappa Brand products	**1,674,360**	1,285,701
— International sourcing, Rukka and others	**3,986**	57,990
	1,678,346	1,343,691
Japan		
— Distribution and retailing of Kappa Brand products	**114,660**	30,065
— Distribution and retailing of Phenix Brand products	**74,236**	24,636
— Distribution and retailing of products of other Brands	**1,179**	1,014
	190,075	55,715
	1,868,421	1,399,406

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

	Unaudited As at 30 June 2009			
	China	**Japan**	**Unallocated**	**Total**
Total assets before inter-segment elimination	**4,161,123**	**370,464**	**2,999,689**	**7,531,276**
Inter-segment elimination	**(736)**	**—**	**(94,357)**	**(95,093)**
Total assets	**4,160,387**	**370,464**	**2,905,332**	**7,436,183**
Deferred income tax assets	**(22,441)**	**—**	**—**	**(22,441)**
Investments in jointly controlled entities	**—**	**(19,703)**	**—**	**(19,703)**
Investment in associates	**(126,069)**	**—**	**—**	**(126,069)**
Segment assets	**4,011,877**	**350,761**	**2,905,332**	**7,267,970**
Total liabilities before inter-segment elimination	**(391,923)**	**(146,135)**	**(85,969)**	**(624,027)**
Inter-segment elimination	**—**	**—**	**85,969**	**85,969**
Total liabilities	**(391,923)**	**(146,135)**	**—**	**(538,058)**
Deferred income tax liabilities	**—**	**4,102**	**—**	**4,102**
Current income tax liabilities	**99,224**	**1,122**	**—**	**100,346**
Segment liabilities	**(292,699)**	**(140,911)**	**—**	**(433,610)**

(All amounts in Renminbi thousands unless otherwise stated)

6 SEGMENT INFORMATION (CONTINUED)

	Audited As at 31 December 2008			
	China	Japan	Unallocated	Total
Total assets before inter-segment elimination	3,439,715	430,655	3,516,160	7,386,530
Inter-segment elimination	(2,330)	—	(90,741)	(93,071)
Total assets	3,437,385	430,655	3,425,419	7,293,459
Deferred income tax assets	(3,547)	—	—	(3,547)
Investments in jointly controlled entities	—	(25,926)	—	(25,926)
Segment assets	3,433,838	404,729	3,425,419	7,263,986
Total liabilities before inter-segment elimination	(400,389)	(176,037)	(90,102)	(666,528)
Inter-segment elimination	—	2,330	90,102	92,432
Total liabilities	(400,389)	(173,707)	—	(574,096)
Deferred income tax liabilities	—	4,177	—	4,177
Current income tax liabilities	36,007	1,553	—	37,560
Segment liabilities	(364,382)	(167,977)	—	(532,359)

As at 30 June 2009, the total non-current assets other than deferred tax assets located in the PRC is RMB440,826,000 (31 December 2008: RMB178,100,000) and the total of these non-current assets located in other countries and areas are of RMB358,006,000 (31 December 2008: RMB361,329,000).

For the six months ended 30 June 2009, additions to total non-current assets other than deferred tax in China and Japan segments are of RMB319,963,000 and RMB14,117,000 (2008: RMB53,519,000 and RMB82,706,000), respectively.

During the six months ended 30 June 2009, there was no customer the revenue from which amounted to 10% or more of the Group's revenue (2008: nil).

(All amounts in Renminbi thousands unless otherwise stated)

7 PROPERTY, PLANT AND EQUIPMENT

	Unaudited
Six months ended 30 June 2009	
Opening net book amount as at 1 January 2009	**121,283**
Additions	**8,244**
Disposals	
— Cost	**(5,271)**
— Depreciation	**3,133**
Impairment reversal	**31**
Depreciation (Note 18)	**(5,936)**
Exchange difference	**(1,645)**
Closing net book amount as at 30 June 2009	**119,839**
Six months ended 30 June 2008	
Opening net book amount as at 1 January 2008	94,474
Acquisition of a subsidiary	
— Cost	29,602
— Accumulated depreciation	(6,198)
— Accumulated impairment	(1,328)
Additions	6,353
Disposals	
— Cost	(1,386)
— Depreciation	807
Depreciation (Note 18)	(4,214)
Exchange difference	(900)
Closing net book amount as at 30 June 2008	117,210

8 LEASE PREPAYMENTS

	Unaudited		
	Lease prepayments for land use rights	Lease prepayments for stores	Total
Six months ended 30 June 2009			
Opening net book amount as at 1 January 2009	**13,436**	**28,627**	**42,063**
Additions	**—**	**38,082**	**38,082**
Amortization (Note 18)	**(143)**	**(30,677)**	**(30,820)**
Closing net book amount as at 30 June 2009	**13,293**	**36,032**	**49,325**
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
Amortization (Note 18)	(137)	(18,722)	(18,859)
Closing net book amount as at 30 June 2008	13,584	41,427	55,011

(All amounts in Renminbi thousands unless otherwise stated)

9 INTANGIBLE ASSETS

	Unaudited			
	Trademarks	License rights	Computer software	Total
Six months ended 30 June 2009				
Opening net book amount as at 1 January 2009	**290,963**	**—**	**16,166**	**307,129**
Additions	**—**	**—**	**2,087**	**2,087**
Disposals	**—**	**—**	**(96)**	**(96)**
Exchange difference	**(1,347)**	**—**	**(306)**	**(1,653)**
Amortization (Note 18)	**(3,921)**	**—**	**(2,887)**	**(6,808)**
Closing net book amount as at 30 June 2009	**285,695**	**—**	**14,964**	**300,659**
Six months ended 30 June 2008				
Opening net book amount as at 1 January 2008	266,945	4,095	8,711	279,751
Acquisition of a subsidiary				
— Cost	125,180	—	4,140	129,320
— Amortization	(96,137)	—	(1,326)	(97,463)
Additions	—	—	5,662	5,662
Amortization (Note 18)	(3,638)	(512)	(1,779)	(5,929)
Exchange difference	(838)	—	(147)	(985)
Closing net book amount as at 30 June 2008	291,512	3,583	15,261	310,356

10 INVESTMENTS IN ASSOCIATES

	Unaudited 30 June 2009	Audited 31 December 2008
Cost of investment on date of acquisition	**130,402**	—
Share of losses during the period	**(4,333)**	—
Share of net assets	**126,069**	—

As mentioned in note 1, on 1 January 2009, the Group completed the acquisitions of 30% equity interests in each of five joint venture companies set up by the Group's five major distributor customers and engaging in the business of distribution and retailing of sport-related products in Hangzhou, Shanxi, Shenyang, Tianjin and Nanjing. In accordance with the investment agreements, certain profit targets till year 2010 are set on the joint ventures. In the event that the profit targets can be met, the Group will be required to pay additional consideration to the original shareholders of the joint ventures, while on the reverse, the Group will be entitled to additional equity interests from the owners of the joint ventures. A financial liability at fair value through profit or loss of RMB132,000 was accordingly recognised for the contingent considerations to be payable by the Group, with reference to the profit forecast of the joint ventures.

(All amounts in Renminbi thousands unless otherwise stated)

10 INVESTMENTS IN ASSOCIATES (CONTINUED)

The cost of investment at date of acquisition on 1 January 2009 of RMB130,402,000 was determined mainly based on the considerations payable by the Group by way of capital contributions to the joint ventures amounting to RMB130,270,000 and the contingent consideration payable at fair value of RMB132,000.

There was no goodwill derived from the acquisition of the associates.

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

	Unaudited 30 June 2009	31 December 2008
Total assets	**169,353**	—
Total liabilities	**(43,284)**	—

	Unaudited Six months ended 30 June	
	2009	2008
Revenue	**123,704**	—
Profit after income tax for the period	**8,491**	—
Less: amortization of intangible assets recognised at fair value and other fair value adjustments on date of acquisition	**(12,824)**	—
Loss after fair value adjustments	**(4,333)**	—

(All amounts in Renminbi thousands unless otherwise stated)

10 INVESTMENTS IN ASSOCIATES (CONTINUED)

The particulars of the Group's indirectly held associates as at 30 June 2009 are set out below:

Company name	Place of incorporation	Particulars of issued/ registered capital	Interest held	Principal activities	Major place of operation
上海熙沐雅體育用品有限公司 *Shanghai Ximuya Sporting Goods Co., Ltd.	Shanghai, the PRC	RMB7,150,000	30%	Distribution and retailing of sport-related apparel, footwear and accessories	Nanjing
上海鵬賽服飾有限公司 *Shanghai Pengsai Apparel Co., Ltd.	Shanghai, the PRC	RMB7,150,000	30%	Same as above	Shenyang
上海超鋭服飾有限公司 *Shanghai Chaorui Apparel Co., Ltd.	Shanghai, the PRC	RMB20,000,000	30%	Same as above	Hangzhou
上海欣越家赫服飾有限公司 *Shanghai Xinyuejiahe Apparel Co., Ltd.	Shanghai, the PRC	RMB7,150,000	30%	Same as above	Tianjin
上海標欣貿易有限公司 *Shanghai Biaoxin Trading Co., Ltd.	Shanghai, the PRC	RMB7,150,000	30%	Same as above	Shanxi

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

11 TRADE RECEIVABLES

	Unaudited 30 June 2009	Audited 31 December 2008
Trade receivables		
— Third parties	**191,658**	366,789
— Related parties (Note 25)	**51,782**	24,742
	243,440	391,531
Less: provision for impairment	**(8,262)**	(23,651)
Trade receivables, net	**235,178**	367,880

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

(All amounts in Renminbi thousands unless otherwise stated)

11 TRADE RECEIVABLES (CONTINUED)

The ageing analysis of trade receivables is as follows:

	Unaudited 30 June 2009	Audited 31 December 2008
Current	**191,116**	320,988
Overdue by:		
1 to 30 days	**43,603**	58,227
31 to 120 days	**7,656**	10,541
Over 120 days	**1,065**	1,775
	243,440	391,531

12 CASH AND BANK BALANCES

	Unaudited 30 June 2009	Audited 31 December 2008
Restricted bank deposits (Note (a))	**67,601**	121,653
Term deposits with initial terms over three months	**4,684,469**	—
Cash and cash equivalents	**1,337,628**	5,942,048
	6,089,698	6,063,701
Long term bank deposits	**150,000**	—
Total cash and bank balances	**6,239,698**	6,063,701

Notes:

(a) The restricted bank deposits as at 30 June 2009 comprised deposits held in bank accounts as guarantee deposits for advertising fees payable and for issue of letters of credit for certain subsidiaries of the Group. The restricted bank deposits as at 31 December 2008 also included approximately RMB50,559,000 deposits restricted for capital injection into a subsidiary to be set up. The restriction on the deposits was released in June 2009 when the subsidiary was set up.

(b) As at 30 June 2009 and 31 December 2008, the Group's cash and bank balances, excluding the restricted bank deposits, were denominated in the following currencies:

	30 June 2009	31 December 2008
RMB	**2,883,990**	2,134,511
USD	**1,685,525**	947,041
HKD	**1,527,096**	2,788,950
JPY	**75,254**	71,439
Other	**232**	107
	6,172,097	5,942,048

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.

As at 30 June 2009, the cash and bank balances are held in high quality financial institutions in Hong Kong and PRC without significant credit risk to management's best knowledge.

(All amounts in Renminbi thousands unless otherwise stated)

13 SHARE CAPITAL AND SHARE PREMIUM ACCOUNT

	Authorized capital Number of ordinary shares of par value HK$0.01	Authorized capital Nominal value of ordinary shares HKD'000
At 31 December 2008 and 30 June 2009	10,000,000,000	100,000

	Number of ordinary shares of par value HKD0.01	Issued capital Nominal value of issued ordinary shares HKD'000	Issued capital Equivalent nominal value of ordinary shares RMB'000	Share premium account RMB'000	Total RMB'000
At 1 January 2008	5,677,150,000	56,772	54,904	5,000,710	5,055,614
Shares repurchased and cancelled (Note (a))	(5,165,000)	(52)	(45)	(14,430)	(14,475)
Exercise of pre-IPO share options (Note (b))	1,300,000	13	11	5,136	5,147
Dividends paid (Notes (c) and 23)	—	—	—	(61,881)	(61,881)
At 30 June 2008	5,673,285,000	56,733	54,870	4,929,535	4,984,405
At 1 January 2009	**5,665,801,000**	**56,659**	**54,805**	**4,910,138**	**4,964,943**
Exercise of pre-IPO share options (Note (b))	**485,000**	**5**	**4**	**1,913**	**1,917**
Dividends paid (Notes (c) and 23)	**—**	**—**	**—**	**(529,752)**	**(529,752)**
At 30 June 2009	**5,666,286,000**	**56,664**	**54,809**	**4,382,299**	**4,437,108**

Notes:

(a) During the six months ended 30 June 2008, the Company repurchased a total of 5,165,000 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. No share repurchases were made during the six months ended 30 June 2009.

(b) The Company adopted a Pre-IPO share option scheme and a share option scheme on 12 September 2007. Pre-IPO share options were granted under the pre-IPO share option scheme and no options from the share option scheme have been granted up to 30 June 2009. During the six months ended 30 June 2009, options to acquire 485,000 shares (2008: 1,300,000 shares) of the Company were exercised at the exercise price of HKD2.786 each, with exercise proceeds of RMB1,192,000 (2008: RMB3,200,000) received by the Company.

(c) Under the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company is in a position to pay off its debts as they fall due in the ordinary course of business.

(All amounts in Renminbi thousands unless otherwise stated)

14 RESERVES

	Unaudited					
	Capital reserves	Share-based compensation reserve	Statutory reserves	Exchange reserve	Retained earnings	Total
Balance at 1 January 2008	269,833	14,279	15,892	(106,196)	652,409	846,217
Share-based compensation	–	13,735	–	–	–	13,735
Exercise of pre-IPO share options (Note 13 (b))	–	(1,947)	–	–	–	(1,947)
Foreign currency translation reserve	–	–	–	(293,773)	–	(293,773)
Profit for the period	–	–	–	–	656,789	656,789
At 30 June 2008	269,833	26,067	15,892	(399,969)	1,309,198	1,221,021
Balance at 1 January 2009	**295,001**	**899**	**15,926**	**(374,101)**	**1,816,695**	**1,754,420**
Exercise of pre-IPO share options (Note 13 (b))	**–**	**(725)**	**–**	**–**	**–**	**(725)**
Foreign currency translation reserve	**–**	**–**	**–**	**(14,653)**	**–**	**(14,653)**
Profit for the period	**–**	**–**	**–**	**–**	**721,975**	**721,975**
At 30 June 2009	**295,001**	**174**	**15,926**	**(388,754)**	**2,538,670**	**2,461,017**

15 TRADE PAYABLES

The ageing analysis of trade payables is as follows:

	Unaudited 30 June 2009	Audited 31 December 2008
Current	**280,721**	251,535
Overdue by:		
1 to 30 days	**452**	38,613
31 to 120 days	**121**	809
Over 120 days	**1,212**	1,111
	282,506	292,068

16 PROVISIONS

These provisions represent provision for sales returns and sales discount of Phenix, the Group's subsidiary operating in Japan.

17 OTHER GAINS, NET

	Unaudited Six months ended 30 June	
	2009	2008
Government subsidy income	**22,011**	11,403
Others	**2,413**	3,930
	24,424	15,333

(All amounts in Renminbi thousands unless otherwise stated)

18 EXPENSES BY NATURE

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

	Unaudited Six months ended 30 June	
	2009	2008
Cost of inventories recognised as cost of goods sold and distribution costs	**684,348**	529,059
Depreciation/amortization of property, plant and equipment, lease prepayments and intangible assets (Notes 7, 8 and 9)	**12,887**	10,280
Loss on disposal of property, plant and equipment	**2,138**	579
Advertising and marketing expenses	**108,841**	108,036
Employee salary and benefit expenses	**84,956**	53,936
Withholding business tax on licence fees payable for an overseas subsidiary	**6,237**	6,853
Design and product development expenses	**37,346**	19,775
Legal and consulting expenses	**10,597**	3,939
Operating lease in respect of buildings	**18,047**	4,322
Logistic fees	**27,680**	16,980
Provision for/(reversal of) impairment losses of inventories	**6,485**	(6,537)
(Reversal of)/provision for impairment losses of trade and other receivables	**(14,545)**	209
Auditors' remuneration	**1,120**	1,000
Others	**57,013**	54,206
Total of cost of goods sold, distribution costs and administrative expenses	**1,043,150**	802,637

During the six months ended 30 June 2009, the Group adopted and implemented a cash-settled performance based employee benefit plan (the "Performance Unit Plan") for the middle to senior management of the Group. Under the Performance Unit Plan, the eligible employees are granted performance units, each of which represents an entitlement to receive cash payments when the Group's performance outperforms a pre-set benchmark in a period of 3 years starting from 1 January 2009, at a cap of RMB2 per unit.

A total of 15,990,000 performance units were granted during the six months ended 30 June 2009. Management has determined the fair value of the performance units granted during the period using a valuation model, based on which, approximately RMB3,590,000 was charged as employee benefit expenses to the condensed consolidated interim income statement for the 6 months ended 30 June 2009.

19 NEGATIVE GOODWILL ON ACQUISITION OF A SUBSIDIARY

In April 2008, the Group acquired 91% equity interests in Phenix Co., Ltd., at a cost of acquisition of RMB47,601,000 and derived a negative goodwill of RMB145,950,000 which is recognised as a gain in the condensed consolidated interim income statement of the Group for the six months ended 30 June 2008. Phenix Co., Ltd. is a company incorporated in 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.

(All amounts in Renminbi thousands unless otherwise stated)

20 FINANCE INCOME, NET

	Unaudited Six months ended 30 June	
	2009	2008
Interest income	**57,354**	62,280
Interest expense on license fees payable	**—**	(197)
Foreign exchange gains/(losses), net	**2,101**	(3,042)
Others	**(581)**	(706)
	1,520	(3,945)
	58,874	58,335

21 INCOME TAX EXPENSE

	Unaudited Six months ended 30 June	
	2009	2008
Current income tax		
— PRC enterprise income tax ("EIT")	**200,022**	175,206
— Taxation in Japan	**646**	97
Deferred income tax	**(18,968)**	(15,795)
	181,700	159,508

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

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

Hong Kong and Singapore profits tax have not been provided as there are no estimated assessable profits arising in or derived from Hong Kong and Singapore during the six months ended 30 June 2009 (2008: nil).

Effective from 1 January 2008, the subsidiaries of the Company incorporated in the PRC are subject to corporate income tax at the rate of 25% in accordance with the Corporate Income Tax Law of the PRC (the "New EIT Law") as approved by the National People's Congress on 16 March 2007. The EIT rate applicable to subsidiaries of the Group established in the PRC is reduced to 25% for those with original applicable EIT rates higher than 25%, or gradually increase to 25% over a 5–year period from 2008 to 2012 for those with original applicable EIT rates lower than 25%, where appropriate. During the six months ended 30 June 2009, the subsidiaries of the Group incorporated in the PRC are subject to income tax at the applicable rates ranging from 20% to 25% (2008: from 18% to 25%). Shanghai Taitan Sporting Goods Co., Ltd, and Shanghai Kappa Sporting Goods Co., Ltd, subsidiaries of the Group are entitled to preferential income tax at a rate of 20% as residents in Shanghai Pudong New Area.

21 INCOME TAX EXPENSE (CONTINUED)

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 and Singapore, 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 month ended 30 June 2009 (2008: Nil) since the Group has no plan to distribute such profits in the foreseeable future.

The subsidiary incorporated in Japan is subject to income tax and local inhabitant tax. The corporate income tax rate for the six month ended 30 June 2009 applicable to the subsidiary is 30% based on the assessable profit. The inhabitant tax is determined based on rates (determined by the prefecture and city where the company maintains its operations) on the income tax payable, subject to a certain minimum payment. As there was no assessable profit derived during the six month ended 30 June 2009, the subsidiary was subject to the minimum inhabitant tax payments.

22 EARNINGS PER SHARE

(a) Basic

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

	Unaudited Six months ended 30 June	
	2009	2008
Profit attributable to equity holders of the Company (RMB'000)	**721,975**	656,789
Weighted average number of ordinary shares in issue (thousands)	**5,665,835**	5,677,047
Basic earnings per share (RMB cents per share)	**12.74**	11.57

(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 outstanding pre-IPO share options for the subscription of 115,000 shares (2008: 17,400,000 shares) which are the potential dilutive ordinary shares as at 30 June 2009.

	Unaudited Six months ended 30 June	
	2009	2008
Profit attributable to equity holders of the Company (RMB'000)	**721,975**	656,789
Weighted average number of ordinary shares in issue (thousands)	**5,665,835**	5,677,047
Adjustment for pre-IPO share options (thousands)	**115**	17,400
Weighted average number of ordinary shares in issue for diluted earnings per share (thousands)	**5,665,950**	5,694,447
Diluted earnings per share (RMB cents per share)	**12.74**	11.53

(All amounts in Renminbi thousands unless otherwise stated)

23 DIVIDENDS

	Unaudited Six months ended 30 June	
	2009	2008
Interim dividend of RMB3.82 cents per share (2008: 2.71 cents per share)	**216,452**	153,543
Interim special dividend of RMB1.27 cents per share (2008: 0.88 cents per share)	**71,962**	49,859
	288,414	203,402

Pursuant to a resolution passed on 9 September 2009, the board of directors proposed an interim dividend and an interim special dividend of RMB3.82 cents and RMB1.27 cents per share (2008: 2.71 cents and 0.88 cents per share), totalling RMB5.09 cents per share, to be distributed from the share premium account (2008: from retained earnings) of the Company. The interim dividend and interim special dividend, amounting to RMB288,414,000 (2008: RMB203,402,000) have not been reflected as dividends payable in this interim financial information. They will be recognised in shareholders' equity in the year ending 31 December 2009.

During the six months ended 30 June 2009, dividends that relates to the year ended 31 December 2008 amounting to RMB529,752,000 was paid in May 2009 (2008: RMB61,881,000 paid in May 2008).

24 COMMITMENTS

(a) Operating lease commitments

The Group leases certain of its office premises, retail flagship stores (for onward leasing to distributors) 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 2009	31 December 2008
No later than 1 year	**91,259**	91,072
Later than 1 year and no later than 5 years	**129,556**	116,999
Over 5 years	**282**	1,940
	221,097	210,011

(All amounts in Renminbi thousands unless otherwise stated)

24 COMMITMENTS (CONTINUED)

(b) 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 2009	31 December 2008
No later than 1 year	**30,332**	25,471
Later than 1 year and no later than 5 years	**13,189**	8,765
	43,521	34,236

25 RELATED PARTY TRANSACTIONS

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

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

(a) Transactions with related parties

	Six months ended 30 June	
	2009	2008
Sales of goods		
— Beijing Dong Gan Jing Ji Company Limited* ("Dong Gan Jing Ji")	**172,441**	127,796
— Associates of the Group	**353,353**	—
	525,794	127,796
Purchase of goods from jointly controlled entities	**8,325**	2,040
Lease income of flagship stores		
— Dong Gan Jing Ji	**3,992**	1,395
— Associates of the Group	**3,120**	—
	7,112	1,395

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

(All amounts in Renminbi thousands unless otherwise stated)

25 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Balances with related parties

	30 June 2009	31 December 2008
Trade receivables (Note 11)		
— Dong Gan Jing Ji	**22,389**	24,742
— Associates of the Group	**29,393**	—
	51,782	24,742
Trade payables due to jointly controlled entities	**237**	489
Other receivables		
— Dong Gan Jing Ji	**2,015**	1,395
— Associates of the Group	**1,250**	—
	3,265	1,395
Other Payables		
— Dong Gan Jing Ji	**—**	300

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

(c) Key management compensation

	Six months ended 30 June	
	2009	2008
Salaries, bonus and other welfares	**4,646**	5,360
Pension — defined contribution plans	**51**	428
	4,697	5,788

26 EVENTS AFTER THE BALANCE SHEET DATE

Save as disclosed elsewhere in this report, the following significant event took place subsequent to 30 June 2009:

On 24 August 2009, the Group entered into a conditional cooperation agreement pursuant to which the Group, through a wholly owned subsidiary, agreed to acquire 30% equity interests in a joint venture company set up by one of the Group's distributors at a cash consideration of RMB38,321,400. The distributor will inject its business into the joint venture, which principally operates the markets in Beijing and the nearby areas, Shandong, Shaanxi and Ningxia.

The transaction constitutes a connected transaction and the cooperation agreement shall take effect subject to the Company obtaining independent shareholders' approval at an extraordinary general meeting the Company to be convened on 25 September 2009. Upon the completion of this transaction, it will represent the Group's sixth investment in its major distributors following the Group's investment in five distribution joint venture companies on 1 January 2009 (Notes 1 and 10).

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