

DONGXIANG

China Dongxiang (Group) Co., Ltd.
中國動向(集團)有限公司



Acquisition of Phenix July 2008

Stock Code: 3818.HK

<http://www.dxsport.com>

AGENDA

- ◆ Overview of the Acquisition
- ◆ Benefits of the Acquisition
- ◆ Outlook and Future Strategies



DONGXIANG

China Dongxiang (Group) Co., Ltd.
中國動向(集團)有限公司

Overview of the Acquisition



Acquisition Background

Overview of the transaction

- ◆ Entered into Share Purchase Agreement and Transaction Documents for the acquisition of Phenix Co., Ltd. ("Phenix")
- ◆ With effective from 1 May 2008, Phenix became a 91% subsidiary of China Dongxiang Group



About Phenix

- ◆ Operation commenced in 1952, Phenix is a renowned sporting apparel company with core operations in design, development and sales of high performance winter sports apparel
- ◆ Owner of various renowned brands including PHENIX, X-NIX and Inhabitant. PHENIX brand holds the No.1 market share of ski sportswear in Japan now
- ◆ One of the three Kappa brand owners in the world, possession of Kappa brand in Japan
- ◆ Excellent design and R&D capabilities
- ◆ Adopts light assets business model which is similar to China Dongxiang Group with manufacturing and most of distribution outsourced



Key Transaction Terms

1 Acquisition of equity interest of Phenix

- ◆ Acquire the 100% equity interest of Phenix for ¥1 (equivalent to approx. HK\$0.0769)

2 Acquisition of sale loan of Phenix

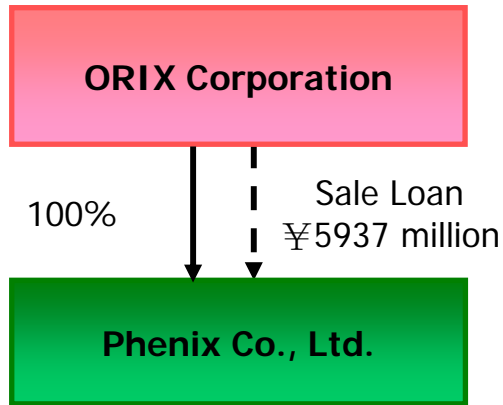
- ◆ Acquire the benefit of the Sale Loan (including principal amount and interest thereof) of ORIX to Phenix amounting to approx. ¥ 5,937,000,000 (equivalent to approx. HK\$456,604,499) for ¥1 (equivalent to approx. HK\$0.0769)

3 New shares subscription of Phenix

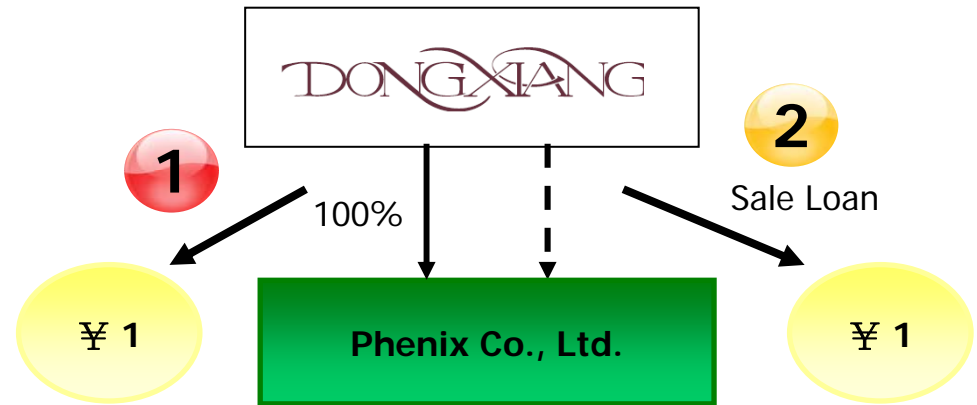
- ◆ China Dongxiang subscribed for 71,399,999 newly issued shares of Phenix for ¥ 499,799,993 (equivalent to approx. HK\$ 38,438,761)
- ◆ ORIX subscribed for 9,000,000 newly issued shares of Phenix for ¥ 63,000,000 (equivalent to approx. HK\$ 4,845,222)

Acquisition Structure

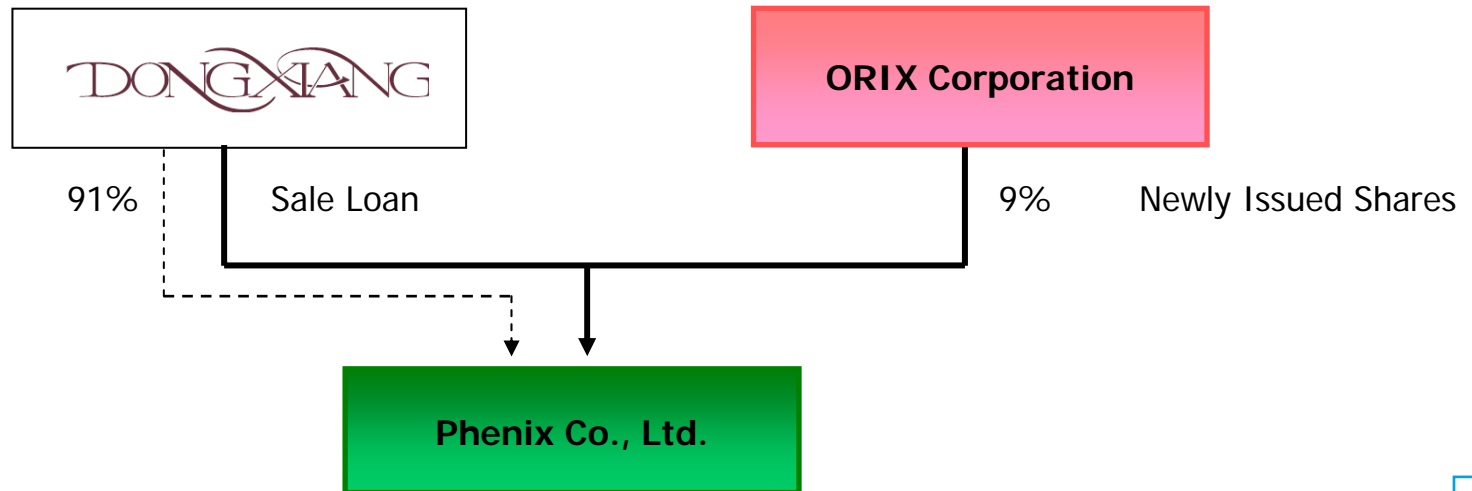
Before Acquisition



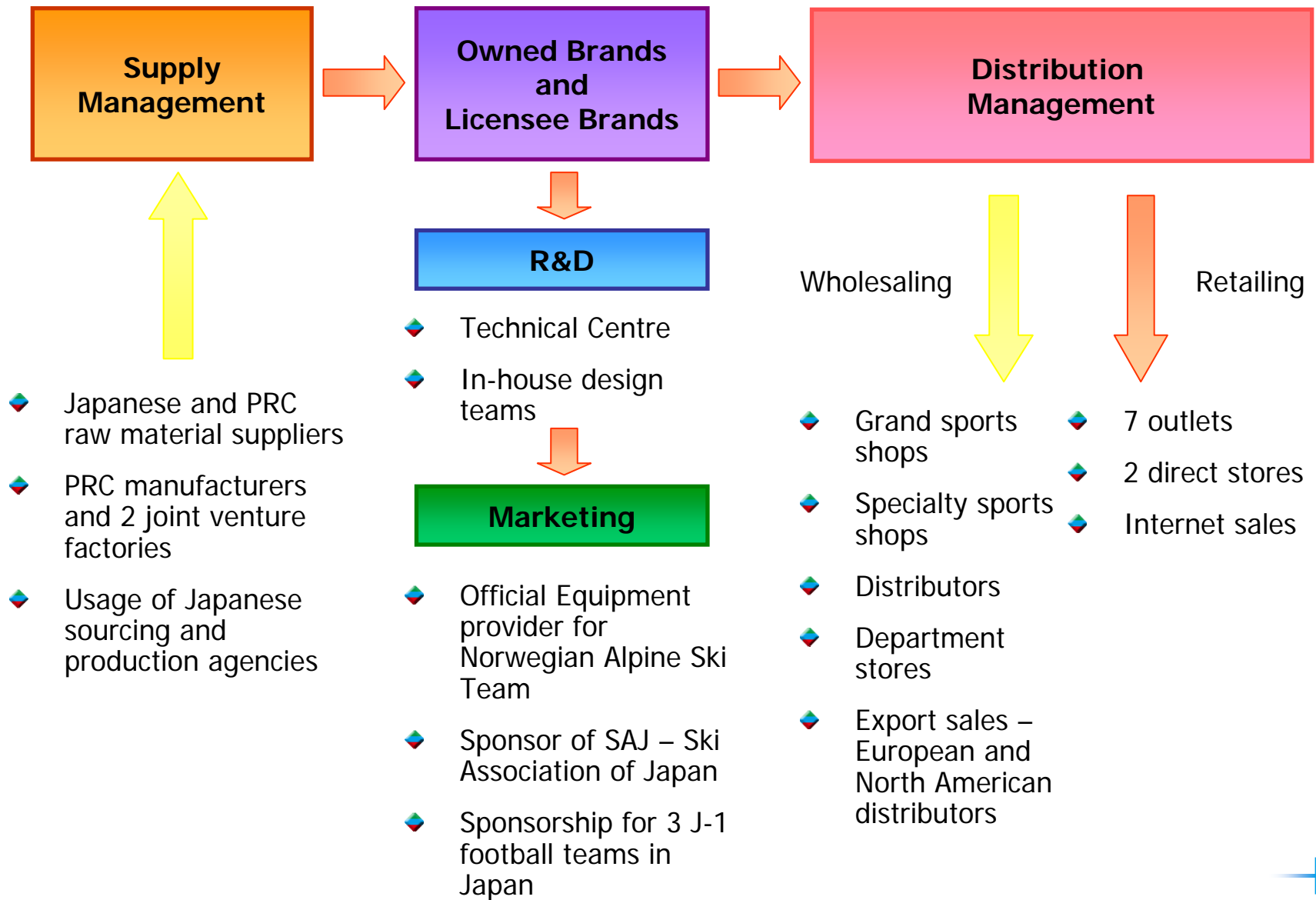
After Completion of Share Purchase Agreement and Loan Assignment Agreement



3 After Completion of Share Subscription Agreements for Issuances of New Shares to China Dongxiang and ORIX



Business Model of Phenix



Financial Highlights of Phenix

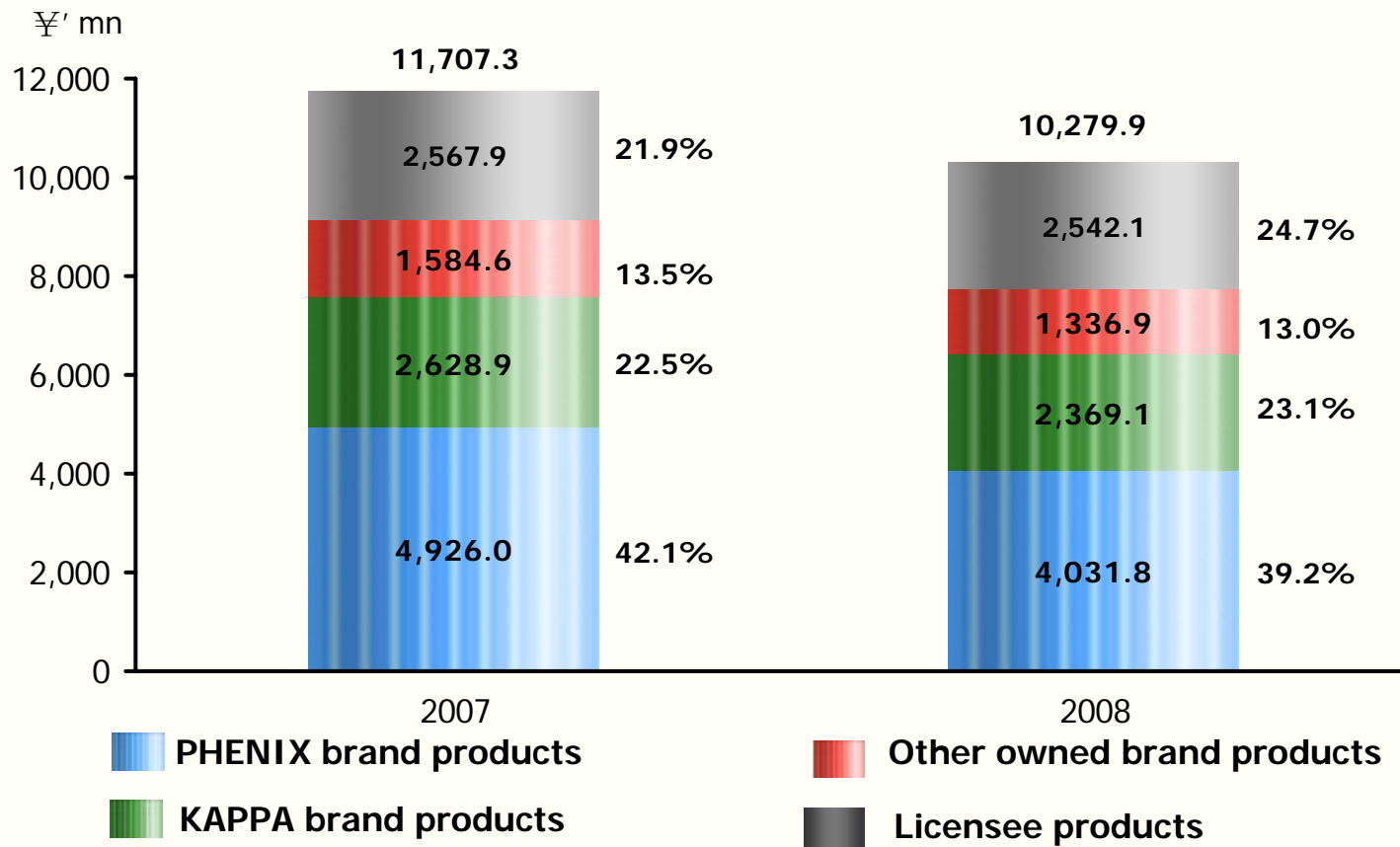
For the year ended 28 or 29 February

	2007 (¥ 'mn)	2008 (¥ 'mn)	Change
Profit and loss			
Sales	11,707 (equivalent to approx HK\$ 900 mn)	10,280 (equivalent to approx HK\$ 791 mn)	-1,427
Gross Profit	5,234	4,133	-1,101
Gross Margin	44.7%	40.2%	-4.5pt
Operating Profit/(loss)	(160)	(2,817)	-2,657
Profit/(Loss) Attributable to Equity Holders	(379) (equivalent to approx HK\$ (29 mn))	(2,921) (equivalent to approx HK\$ (225 mn))	-2,542

◆ The increase in loss is mainly attributable to:

- One-off impairment provision of KAPPA trademark amounted to ¥1,302.3 million made in 2008
- Decrease in total sales of 12.2% and drop of overall gross profit from 44.7% to 40.2% has brought to a decrease in gross profit amounted to ¥1,101.7 million

Sales Breakdown – by Products



Overall sales decreased by 12.2% due to:

- Declining market size and highly competitive winter sportswear sector
- Fierce competition of branded sportswear in Japan

Gross Profit Margin – By Products

For the year ended 28 or 29 February

	2007	2008
PHENIX Brand Products	42.7%	41.8%
KAPPA Brand Products	40.7%	37.8%
Other Owned Brand Products	46.0%	47.1%
Licensee Products	51.9%	36.2%
Overall	44.7%	40.2%

- ◆ The decrease in GP margin mainly attributable to:
 - Sales at higher discounts to cope with fierce market competition
 - Licensee business will be terminated soon and remaining inventories were sold at higher discounts

Selling, General and Administrative Expenses

For the year ended 28 or 29 February

	2007	2008	Change
Advertising & marketing (as a % of sales)	6.1%	7.9%	+1.8%
Employee salary and benefit (as a % of sales)	17.6%	19.3%	+1.7%
Design and product development (as a % of sales)	5.8%	6.2%	+0.4%
Logistics & delivery charges (as a % of sales)	6.1%	6.9%	+0.8%
One-off provision for impairment of KAPPA trademark (as a % of sales)	-	12.7%	+12.7
Total	46.6%	67.5%	+20.9%

- ◆ Total SG&A expenses as a % of sales increased from 46.6% to 67.5% mainly due to the one-off provision for impairment of KAPPA trademark amounted to ¥1,302.3 million made in 2008
- ◆ Should the one-off provision be excluded, the SG&A expenses as a % of sales for 2008 is 54.8%, still 8.2% higher than the 46.6% in 2007 due to overall decline in sales in 2008

Financial Highlights of Phenix

Balance Sheet

For the year ended 28 or 29 February

	2007 (¥ 'mn)	2008 (¥ 'mn)
Cash and Bank Balances	417	602
Net Deficit Value	(293)	(3,196)
Net Asset Value (Excluding Loan from ORIX)	27 (equivalent to HK\$ 2.1 mn)	2,804 (equivalent to HK\$ 215.7 mn)
Trade Receivable Turnover Days	78 days	76 days
Trade Payable Turnover Days	158 days	149 days
Inventory Turnover Days	95 days	108 days

- ◆ Apart from loan due to Orix, Phenix had no external borrowing as at 29 February 2008

Financial Effects of the Acquisition

Balance Sheet

	China Dongxiang Group (As at 31 Dec 2007) RMB 'mn	Phenix (As at 29 Feb 2008) RMB 'mn	(Note 1) Pro forma adjustments RMB 'mn	Enlarged Group RMB 'mn	(Note 2) Enlarged Group vs China Dongxiang Group RMB 'mn
Total Assets	6,222.9	387.6	15.7	6,626.2	+403.3
Total Liabilities	321.1	604.5	393.1	532.5	+211.4
Net Asset Value	5,901.8	(216.9)	408.7	6,093.7	+191.9

NOTE

- (a) The adjustments on assets mainly represented valuation adjustments on property, plant and equipment, intangible assets and inventories

(b) The adjustments on liabilities mainly included elimination of intercompany loan of RMB 407.1 million between China Dongxiang and Phenix. The loan was assigned by Orix to China Dongxiang at a consideration of ¥1
- The net increase of RMB 191.9 million represented negative goodwill of the acquisition (subject to final adjustments on 30 April 2008) and will be recognized as income of the Enlarged Group

DONGXIANG

China Dongxiang (Group) Co., Ltd.
中國動向(集團)有限公司

Benefits of the Acquisition



Immediate Access to a World Class Apparel Design & Development Team



phenix

- ◆ Over 50 years of experience in Japan
- ◆ Design know-how for high performance products included high-quality and highly functional products
- ◆ Advanced specifications and patterning technology

- ◆ Further enhance China Dongxiang's capabilities in R&D with introduction of the experienced R&D talent of Phenix

- ◆ Provide a strong platform for the Group's long-term development of the KAPPA brand and other brands in the PRC market

Expansion into New Business Area with the Introduction of Skiing Products

- ◆ Enrich regional brand portfolio
- ◆ Expand the Group's product offering to ski products
- ◆ Tap opportunities in the PRC's ski and outdoor sportswear market



佐々木 大輔
フリースキーヤー



飯塚 浩
アレイマウススキーヤー

Multi-brand Strategy

- ◆ China Dongxiang will become the brand owner of KAPPA brand in the PRC (including Macau) and Japan
- ◆ In line with the Group's long term multi-brand strategy

Renowned brands of China Dongxiang



Benefits to Phenix in Japan

- ◆ Retain the core management team to operate the business
- ◆ Sharing the similar business model with China Dongxiang, in which raw materials are procured and products are manufactured mainly in the PRC, Phenix could enjoy cost saving through economies of scale

DONGXIANG

China Dongxiang (Group) Co., Ltd.
中國動向(集團)有限公司

Outlook and Future Strategies



Development Roadmap

- ◆ Further consolidate Phenix's leading position in the Japanese skiwear market while exploring the PRC skiing market
- ◆ Utilize the strong R&D capabilities of Phenix to enhance the Group's business in the PRC market
- ◆ Expand its global footprint of Kappa and achieve economies of scales while lowering its production cost



Restructuring Plan of Phenix

Business Streamline

- ◆ Speed up the termination of the licensee business
- ◆ Refocus on the high value own brand products

Cost of Sales Enhancement

- ◆ Raw material procurement and production functions will be integrated
- ◆ Cost of Sales will therefore be highly enhanced

Workforce Reduction

- ◆ Reduce around one third of the total employees
- ◆ Substantial saving on staff cost



- ◆ Turnaround the business of Phenix
- ◆ Positively contribute to the earnings of the Group in the long-term future

Vision and Mission

Vision

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

Mission

To become China's most excellent sportswear brand management company



DONGXIANG

China Dongxiang (Group) Co., Ltd.
中國動向(集團)有限公司

Open Forum

