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**China Dongxiang (Group) Co., Ltd.**

**中國動向（集團）有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 3818)**

## **MAJOR TRANSACTION IN RELATION TO THE ACQUISITION OF PHENIX**

### **BACKGROUND**

Reference is made to the Price Sensitive Announcement of the Company dated 1 April 2008. As stated in the Price Sensitive Announcement, the Company and ORIX entered into a non-binding LOI in relation to the acquisition of Phenix. The Board is pleased to announce that the Company, ORIX and the Vendor entered into the Share Purchase Agreement on 25 April 2008 in relation to the Acquisition.

### **THE ACQUISITION**

On 25 April 2008, the Company, ORIX and the Vendor entered into the Share Purchase Agreement, pursuant to which the Company has conditionally agreed, either itself or through one of its subsidiaries, to purchase and the Vendor has conditionally agreed to sell the Sale Shares for a consideration of 1 Yen (equivalent to approximately HK\$0.0769). Completion is conditional upon fulfillment of certain conditions precedent. Pursuant to the Share Purchase Agreement, the Purchaser, ORIX (or its designated subsidiary) and Phenix will be entering into the Transaction Documents upon Completion.

## **GENERAL**

Based on the calculation of five test set out in Rule 14.07 of the Listing Rules, two of the relevant percentage ratios in respect of the Acquisition exceeded 25% but are less than 100%. The Acquisition therefore constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is subject to the approval by the Shareholders. Written approval of this Acquisition has been obtained from Poseidon Sports Limited (a company indirectly wholly-owned by Mr. Chen Yihong) and Colour Billion Limited (a company wholly-owned by Mr. Chen Yihong's wife, Ms. Liu Peiying) which, as at the date of the announcement, are interested in 2,932,601,000 Shares in aggregate, representing approximately 51.66% of the issued share capital of the Company having the right to attend and vote at an extraordinary general meeting to approve the Acquisition. No general meeting of the Shareholders will need to be convened as all the conditions set out in Rule 14.44 of the Listing Rules have been met by the Company. As no Shareholder has any material interest in Acquisition and therefore no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Acquisition.

A circular containing, amongst other things, further details of the Acquisition and the accountants' report on Phenix will be dispatched to the Shareholders in accordance with relevant requirements of the Listing Rules.

## **THE SHARE PURCHASE AGREEMENT**

### **Date**

25 April 2008

### **Parties**

- (1) Purchaser
- (2) Vendor
- (3) ORIX

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, the counterparties to the Share Purchase Agreement (being the Vendor and ORIX) and their ultimate beneficial owners are third parties independent of the Company and its connected persons (as defined under the Listing Rules).

There were no prior transactions between the Company, ORIX and the Vendor which would require aggregation with the Acquisition under Rule 14.22 of the Listing Rules.

### **Assets to be acquired**

The Sale Shares.

## **Consideration**

1 Yen (equivalent to approximately HK\$0.0769).

## **Conditions precedent**

Completion is conditional upon the following:

- (a) the warranties given by the Vendor and ORIX remaining true and correct in all material respects;
- (b) Phenix, ORIX and the Vendor having performed and complied with all terms and conditions of the Share Purchase Agreement and the Transaction Documents;
- (c) Phenix, ORIX and the Vendor having duly attended to and carried out all necessary procedures that are required under the laws of Japan and each of their constitutional documents to effect the execution, delivery and performance of the Share Purchase Agreement and the Transaction Documents;
- (d) there has not been discovered or occurrence of any incident which would have a material adverse impact on Phenix and no material change in laws, regulations or policies in Japan or any jurisdictions in which Phenix operates;
- (e) there has not been any threat of litigation, legal proceedings, administrative procedures instigated against Phenix in relation to the Acquisition;
- (f) the execution of a restructuring plan and workforce reduction plan by Phenix and filing of an application for release of security interest on “KAPPA” trademark in Japan by the beneficiary of such security interest, ORIX and the Vendor as stipulated under the Share Purchase Agreement; and
- (g) the delivery of a certificate by ORIX and the Vendor to the Purchaser confirming conditions (a) to (f) as mentioned above have been duly satisfied.

If all the above conditions precedent shall not have been satisfied by the Vendor, the Company and/or ORIX or waived by the Purchaser on or before the Long Stop Date, the Share Purchase Agreement may be terminated by either the Company or ORIX and the Vendor.

## **Completion**

Completion shall take place at 10:00 a.m. on the later of 30 April 2008 or the second Business Day following the date on which the last condition as aforesaid is satisfied.

Upon Completion, Phenix will become an indirect wholly-owned subsidiary of the Company and its results will be consolidated into the financial statements of the Group.

On the Completion Date, the Purchaser, ORIX (or its designated subsidiary) and Phenix will enter into the following Transaction Documents:

## **TRANSACTION DOCUMENTS**

### **Purchaser Share Subscription Agreement**

The Purchaser and Phenix will enter into the Purchaser Share Subscription Agreement for the subscription of 71,399,999 newly issued shares of Phenix in a consideration of 499,799,993 Yen (equivalent to approximately HK\$38,438,761).

### **ORIX Share Subscription Agreement**

ORIX (or its designated subsidiary) and Phenix will enter into the ORIX Share Subscription Agreement for the subscription of 9,000,000 newly issued shares of Phenix in a consideration of 63,000,000 Yen (equivalent to approximately HK\$4,845,222).

### **Letter Agreement**

Concurrent with the ORIX Share Subscription Agreement, ORIX (or its designated subsidiary), Phenix and the Purchaser will enter into the Letter Agreement which is to set forth limitations and restrictions on ORIX (or its designated subsidiary)'s right as a minority shareholder of Phenix.

### **Assignment Agreement**

The Purchaser and ORIX will enter into the Assignment Agreement under which, ORIX will assign to the Purchaser the benefit of the Sale Loan (including principal amount and interest thereof) which shall remain outstanding as at the Completion Date for a consideration of 1 Yen (equivalent to approximately HK\$0.0769). It is expected that the Sale Loan will be approximately 5,937,000,000 Yen (equivalent to approximately HK\$456,604,499) as of the Completion.

Upon completion of the Purchaser Share Subscription Agreement and the ORIX Share Subscription Agreement, Phenix will be held as to 91% by the Company and 9% by ORIX on a fully diluted basis.

The Total Consideration has been determined after arm's length negotiations between the Company, ORIX and the Vendor with reference to the operating and business conditions and the working capital requirement for on-going business and future growth of Phenix as provided by the Vendor and after taking into consideration the strategic value of Phenix on the future development of the Group, details of which are set out in the section headed "Reasons for and benefits of the Acquisition" below.

The Total Consideration will be satisfied by internal resources of the Group.

## INFORMATION OF THE COMPANY, PHENIX AND ORIX

### The Company

The principal activities of the Company and its subsidiaries are design, development, marketing and wholesale of branded sportswear in the PRC.

### Phenix

Phenix is an indirectly wholly-owned subsidiary of ORIX. Phenix is a sports apparel company with core operations in design, development and sales. Its major brands include, among others, “PHENIX” in the ski and outdoor sportswear market globally and “KAPPA” in the football and athletic-wear market in Japan.

### ORIX

ORIX is an integrated financial services group based in Tokyo. The business of ORIX and its subsidiaries includes leasing, corporate finance, real estate-related finance and development, life insurance, and investment and retail banking.

### Financial information

The following table sets out the financial information of Phenix for the nine months period ended 28 February 2006 and the year ended 28 February 2007 prepared in accordance with the Japanese GAAP:

	<b>For the nine months ended 28 February 2006</b> <i>(‘000 Yen)</i>	<b>For the year ended 28 February 2007</b> <i>(‘000 Yen)</i>
Turnover	8,896,896 (equivalent to approximately HK\$684,245,030)	11,607,447 (equivalent to approximately HK\$892,708,864)
Profit/(loss) before taxation	(76,139) (equivalent to approximately HK\$(5,855,720))	(401,567) (equivalent to approximately HK\$(30,883,830))
Profit/(loss) after taxation	(88,370) (equivalent to approximately HK\$(6,796,385))	(419,185) (equivalent to approximately HK\$(32,238,800))

The net assets value of Phenix was approximately 473,643,000 Yen (equivalent to approximately HK\$36,427,072) as at 28 February 2007.

## **REASONS FOR AND BENEFITS OF THE ACQUISITION**

The Group believes that the Acquisition will bring synergy to the business of the Group and Phenix in both the PRC and Japan markets. Firstly, Phenix has strong design and development capabilities. The integration of the design and development functions of Phenix will enhance the Group's existing capabilities in this area and provide a strong platform for the Group's long-term development of the "KAPPA" brand in the PRC market. Secondly, the Acquisition provides a good opportunity for the Group to launch their high quality ski and outdoor sportswear in the PRC market. The Acquisition is also in line with the Group's multi-brand strategy. Thirdly, the Group intends to utilize and build upon its successful experience in brand management and operation to enhance the business performance of Phenix, in particular the "KAPPA" brand in Japan, which is in line with the Group's regional operation and development in Japan.

The Group is committed to be one of the best multi-brand sportswear enterprises in the PRC. The "KAPPA" brand is the Group's first brand and it has provided a very solid foundation for the Group to deploy its multi-brand strategy. By utilizing the management's abundant experience on sportswear industry and the Group's strong financial resources, the Group endeavors to find and explore the opportunities for acquisition of the ownership or long term operating right of one or more international brands in the PRC market. The Directors believe that the multi-brand strategy will enhance the value of the Shares and bring benefits to its shareholders and investors.

The Directors (including the independent non-executive Directors) consider that the Total Consideration reflects the loss trading position of Phenix in 2007, the general deterioration of the operation conditions and the adjusted net asset value of Phenix taking into account of the Sale Loan and that other terms of the Acquisition are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **General**

Based on the calculation of five test set out in Rule 14.07 of the Listing Rules, two of the relevant percentage ratios in respect of the Acquisition exceeded 25% but are less than 100%. The Acquisition therefore constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is subject to the approval by the Shareholders. Written approval of the Acquisition has been obtained from Poseidon Sports Limited (a company indirectly wholly-owned by Mr. Chen Yihong) and Colour Billion Limited (a company wholly-owned by Mr. Chen Yihong's wife, Ms. Liu Peiying) which, as at the date of this announcement, are directly interested in 2,932,601,000 Shares in aggregate, representing approximately 51.66% of the issued share capital of the Company having the right to attend and vote at an extraordinary general meeting to approve the Acquisition. No general meeting of the Shareholders will need to be convened as all the conditions set out in Rule 14.44 of the Listing Rules have been met by the Company. As no Shareholder has any material interest in Acquisition and therefore no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Acquisition.

A circular containing, amongst other things, further details of the Acquisition and the accountants' report on Phenix will be dispatched to the Shareholders in accordance with relevant requirements of the Listing Rules.

## DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

“Acquisition”	acquisition of the Sale Shares, the Sale Loan and the subscription of new shares of Phenix by the Purchaser pursuant to the Share Purchase Agreement, the Transaction Documents and the transactions contemplated thereunder
“Assignment Agreement”	the agreement to be entered into on the Completion Date by ORIX and the Purchaser, under which, ORIX will assign to the Purchaser the benefit of the Sale Loan (including principal amount and interest thereof) which shall remain outstanding as at the Completion Date at a consideration of 1 Yen (equivalent to approximately HK\$0.0769)
“Board”	the board of Directors
“Business Day”	a day which commercial banks are generally opens in the PRC and Japan for general banking business
“Company”	China Dongxiang (Group) Co., Ltd. 中國動向（集團）有限公司, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Stock Exchange
“Completion”	completion of the Share Purchase agreement
“Completion Date”	the date on which Completion takes place
“connected person”	has the meaning ascribed thereto in the Listing Rules and the word “connected” shall be construed accordingly
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Letter Agreement”	the agreement to be entered into on the Completion Date by ORIX (or its designated subsidiary), Phenix and the Purchaser to set forth limitations and restrictions on ORIX’s right as a minority shareholder of Phenix
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“LOI”	the non-binding letter of intent entered into by the Company and ORIX in relation to the Acquisition on 13 March 2008
“Long Stop Date”	30 May 2008

“ORIX”	ORIX Corporation, a company incorporated under the laws of Japan with limited liability, the indirect shareholder of the entire equity interest in Phenix
“ORIX Share Subscription Agreement”	the agreement to be entered on the Completion Date by ORIX (or its designated subsidiary) and Phenix for the subscription of 9,000,000 newly issued shares of Phenix at a consideration of 63,000,000 Yen (equivalent to approximately HK\$4,845,222)
“Phenix”	Phenix Co., Ltd., a company established under the laws of Japan
“PRC”	the People’s Republic of China
“Price Sensitive Announcement”	the price sensitive announcement of the Company dated 1 April 2008 in relation to the execution of the LOI entered into between the Company and ORIX regarding the acquisition of Phenix
“Purchaser”	the Company or a subsidiary of the Company
“Purchaser Share Subscription Agreement”	the agreement to be entered on the Completion Date by the Purchaser and Phenix for the subscription of 71,399,999 newly issued shares of Phenix at a consideration of 499,799,993 Yen (equivalent to approximately HK\$38,438,761)
“Sale Loan”	the amount from time to time advanced by the Vendor and/or ORIX to Phenix and which remains outstanding as at the Completion
“Sale Shares”	the entire issued share capital of Phenix (being 19,600,001 shares of Phenix) as at the date of the Share Purchase Agreement agreed to be acquired by the Purchaser pursuant to the Share Purchase Agreement
“Share(s)”	share(s) of HK\$0.01 each in the issued share capital of the Company
“Share Purchase Agreement”	the conditional agreement dated 25 April 2008 entered into among the Company, ORIX and the Vendor in relation to the Acquisition
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Total Consideration”	499,799,995 Yen (equivalent to approximately HK\$38,438,761), being the total consideration of 1 Yen for the Sale Shares payable under the Share Purchase Agreement, 499,799,993 Yen for the subscription of 71,399,999 new shares of Phenix under the Purchaser Share Subscription Agreement and 1 Yen for the assignment of Sale Loan under the Assignment Agreement

“Transaction Documents”	the Purchaser Share Subscription Agreement, ORIX Share Subscription Agreement, the Letter Agreement and the Assignment Agreement
“Vendor”	OPI2002 TOUSHI JIGYOU KUMIAI (OPI2002 Investment Business Union), a partnership formed under the laws of Japan and the sole shareholder of Phenix
“Yen”	Japanese Yen, the lawful currency of Japan
“%”	per cent

*Unless otherwise specified, translation of Yen into Hong Kong dollars in this announcement is for illustration purposes only and is based on rate of HK\$1 equals to 13.0025 Yen.*

On Behalf of the Board  
**China Dongxiang (Group) Co., Ltd.**  
**Chen Yihong**  
*Chairman*

Hong Kong, 25 April 2008

*As at the date of this announcement, the Board comprises two executive Directors, Mr. Chen Yihong and Mr. Qin Dazhong; one non-executive Director, Mr. Gao Yu; and three independent non-executive Directors, Dr. Xiang Bing, Mr. Xu Yudi and Mr. Mak Kin Kwong.*