THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Dongxiang (Group) Co., Ltd., you should at once hand this circular to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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)

MAJOR TRANSACTION IN RELATION TO THE ACQUISITION OF PHENIX

30 June 2008

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In this circular, the following expressions shall have the meanings set out below unless the content requires otherwise:

"Acquisition"	the acquisition of the Sale Shares, the Sale Loan and the subscription of new shares of Phenix by the Group pursuant to the Share Purchase Agreement, the Transaction Documents and the transactions contemplated thereunder
"Announcement"	the Company's announcement dated 25 April 2008 in relation to the Acquisition
"Assignment Agreement"	the agreement entered into on the Completion Date by ORIX and the Purchaser, under which, ORIX assigned 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 Yen 1 (equivalent to approximately HK$0.0769)
"associate(s)"	has the meaning as ascribed thereto under the Listing Rules
"Board"	the board of directors of the Company
"Business Day"	a day which commercial banks are generally open in the PRC and Japan for general banking business
"Company"	China Dongxiang (Group) Co., Ltd. (中國動向(集團)有限公司), a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Stock Exchange
"Completion"	completion of the Share Purchase Agreement
"Completion Date"	30 April 2008, the date on which Completion took place
"connected person"	has the meaning ascribed thereto in the Listing Rules and the word "connected" shall be construed accordingly
"Director(s)"	the director(s) of the Company
"Enlarged Group"	the Group and Phenix
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong

"HK Dongxiang"	Hong Kong Dongxiang Sports Development Holdings Limited (香港動向體育發展有限公司), a direct wholly-owned subsidiary of the Company
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"IFRS"	International Financial Reporting Standards
"Latest Practicable Date"	23 June 2008, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining and collation of relevant information contained herein
"Letter Agreement"	the agreement entered into on the Completion Date by ORIX and the Purchaser which sets forth limitations and restrictions on ORIX's right as a minority shareholder of Phenix
"Listing Rules"	the 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 prior to the Completion Date
"ORIX Share Subscription Agreement"	the agreement entered into on the Completion Date by ORIX and Phenix for the subscription of 9,000,000 newly issued shares of Phenix for a consideration of Yen 63,000,000 (equivalent to approximately HK$4,845,222)
"percentage ratios"	the percentage ratios calculated based on the requirements under Rule 14.07 of the Listing Rules
"Phenix"	Phenix Co., Ltd., a company established under the laws of Japan
"PRC"	the People's Republic of China, and for the purposes of this circular, excluding Hong Kong, the Macau Special Administrative Region and Taiwan
"Price Sensitive Announcement"	the price sensitive announcement issued by the Company dated 1 April 2008 in relation to the execution of the LOI between the Company and ORIX regarding the acquisition of Phenix

"Prospectus"	the prospectus of the Company dated 25 September 2007
"Purchaser"	Dongxiang (Netherlands) Coöperatieve U.A., an entity incorporated under the laws of Netherlands and a wholly-owned subsidiary of the Company
"Purchaser Share Subscription Agreement"	the agreement entered into on the Completion Date by the Purchaser and Phenix for the subscription of 71,399,999 newly issued shares of Phenix for a consideration of Yen 499,799,993 (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 Date
"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
"SFO"	Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
"Share Purchase Agreement"	the conditional agreement dated 25 April 2008 entered into among the Company, ORIX and the Vendor in relation to the Acquisition
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiaries"	has the meaning given to that term under section 2(4) of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong
"Total Consideration"	Yen 499,799,995 (equivalent to approximately HK$38,438,761), being the total consideration of Yen 1 for the Sale Shares under the Share Purchase Agreement, Yen 499,799,993 for the subscription of 71,399,999 new shares of Phenix under the Purchaser Share Subscription Agreement and Yen 1 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
"US$" or "US dollar"	United States dollars, the lawful currency of the United States of America
"Vendor"	OPI2002 TOUSHI JIGYOU KUMIAI (OPI2002 Investment Business Union), a partnership formed under the laws of Japan
"Yen"	Japanese Yen, the lawful currency of Japan
"%"	percent

For illustrative purposes in this circular only and unless otherwise stated, exchange of HK$ into Yen has been carried out at an exchange rate of HK$1 = Yen 13.0025

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)

Executive Directors:
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Mr. Qin Dazhong

Non-executive Director:
Mr. Gao Yu

Independent non-executive Directors:
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Mr. Xu Yudi
Mr. Mak Kin Kwong

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30 June 2008

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION IN RELATION TO THE ACQUISITION OF PHENIX

INTRODUCTION

On 1 April 2008, the Company announced in the Price Sensitive Announcement that it entered into the non-binding LOI with ORIX in relation to the acquisition of Phenix. On 25 April 2008, the Company announced in the Announcement that it entered into the Share Purchase Agreement with ORIX and the Vendor on 25 April 2008 in relation to the Acquisition.

Pursuant to the Share Purchase Agreement, the Company conditionally agreed, either through itself or one of its subsidiaries, to purchase and the Vendor conditionally agreed to sell the Sale Shares for a consideration of Yen 1 (equivalent to approximately HK$0.0769).

The Completion of the Share Purchase Agreement, which was conditional upon the fulfillment of certain conditions precedent, took place on 30 April 2008. On Completion Date, the Purchaser, ORIX and Phenix entered into the Transaction Documents.

As no Shareholder has a material interest in the Acquisition which is different from that of the other Shareholders, no Shareholder is required to abstain from voting on the Acquisition.

The purpose of this circular is to provide, among others, (i) details of the Share Purchase Agreement and the Transaction Documents, (ii) information on the transactions contemplated thereunder including the Acquisition, (iii) financial information of Phenix, and (iv) unaudited pro forma financial information of the Enlarged Group.

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.

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 acquired

The Sale Shares.

Consideration

Yen 1 (equivalent to approximately HK$0.0769).

Conditions precedent

The following conditions precedent had been satisfied by the relevant parties to the Share Purchase Agreement:

(a) the warranties given by the Vendor and ORIX remained true and correct in all material respects;

(b) Phenix, ORIX and the Vendor performed and complied with all the terms and conditions of the Share Purchase Agreement and the Transaction Documents;

(c) Phenix, ORIX and the Vendor 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 had 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 operated;

(e) there had 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

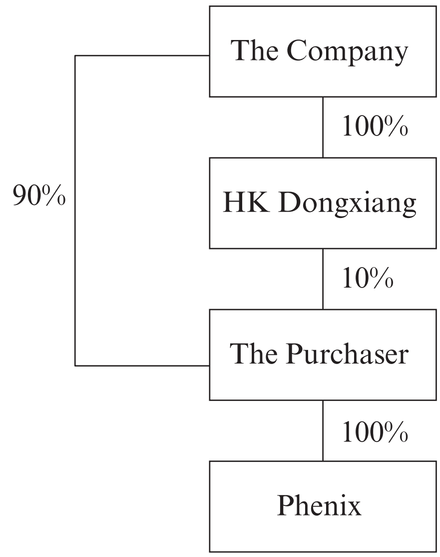
(g) the delivery of a certificate by ORIX and the Vendor to the Purchaser confirming conditions (a) to (f) as mentioned above had been duly satisfied.

Completion

Completion took place on 30 April 2008.

Upon Completion of the Share Purchase Agreement, Phenix became an indirect wholly-owned subsidiary of the Company.

The diagram below illustrates the shareholding structure of Phenix upon Completion.



On the Completion Date, the Purchaser, ORIX and Phenix entered into the following Transaction Documents:

TRANSACTION DOCUMENTS

Purchaser Share Subscription Agreement

The Purchaser and Phenix entered into the Purchaser Share Subscription Agreement for the subscription of 71,399,999 newly issued shares of Phenix for a consideration of Yen 499,799,993 (equivalent to approximately HK$38,438,761). The completion of the Purchaser Share Subscription Agreement took place on 1 May 2008.

ORIX Share Subscription Agreement

ORIX and Phenix entered into the ORIX Share Subscription Agreement for the subscription of 9,000,000 newly issued shares of Phenix for a consideration of Yen 63,000,000 (equivalent to approximately HK$4,845,222). The completion of the Orix Share Subscription Agreement took place on 1 May 2008.

Letter Agreement

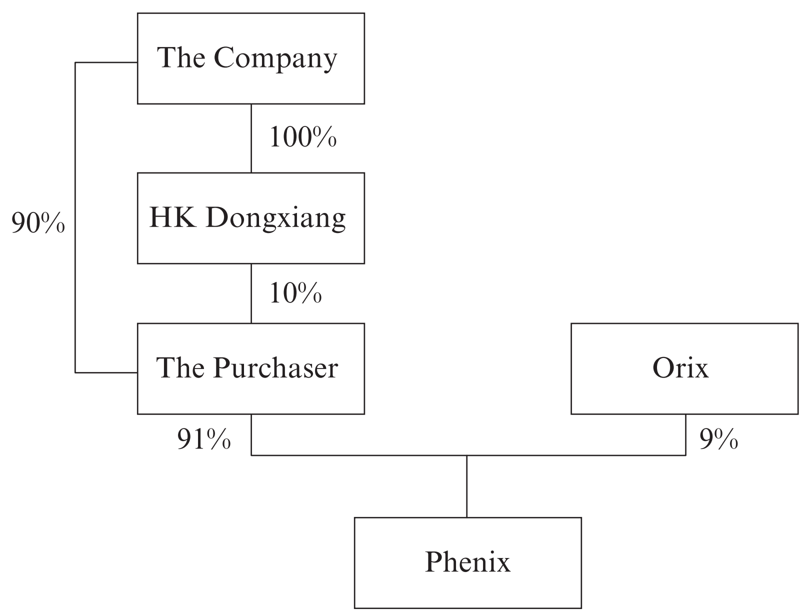
Concurrent with the ORIX Share Subscription Agreement, ORIX and the Purchaser entered into the Letter Agreement which sets forth limitations and restrictions on ORIX's right as a minority shareholder of Phenix.

Assignment Agreement

The Purchaser and ORIX entered into the Assignment Agreement, pursuant to which, ORIX assigned to the Purchaser the benefit of the Sale Loan (including principal amount and interest thereof) which remained outstanding as at the Completion Date for a consideration of Yen 1 (equivalent to approximately HK$0.0769). The Sale Loan as of the Completion amounted to Yen 5,937,000,000 (equivalent to approximately HK$456,604,499).

Upon completion of the Purchaser Share Subscription Agreement and the ORIX Share Subscription Agreement which took place on 1 May 2008, Phenix is effectively held as to 91% indirectly by the Company and 9% by ORIX and its results would be consolidated into the financial statements of the Group.

The diagram below illustrates the shareholding structure of Phenix upon completion of the Purchaser Share Subscription Agreement and the ORIX Share Subscription Agreement.



The Total Consideration was determined after arm's length negotiations amongst 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 was satisfied in cash 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 was an indirect 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 year ended 28 February 2007 and the year ended 29 February 2008 prepared in accordance with IFRS:

	For the year ended 28 February 2007 *(Yen'000)*	**For the year ended 29 February 2008** *(Yen'000)*
Turnover	11,707,316 (equivalent to approximately HK$900,390,000)	10,279,891 (equivalent to approximately HK$790,609,000)
Profit/(loss) before taxation	(321,145) (equivalent to approximately HK$(24,699,000))	(2,988,262) (equivalent to approximately HK$(229,822,000))
Profit/(loss) after taxation	(378,828) (equivalent to approximately HK$(29,135,000))	(2,921,460) (equivalent to approximately HK$(224,684,000))

The net deficit value of Phenix was approximately Yen 3,195,877,000 (equivalent to approximately HK$245,789,000) as at 29 February 2008.

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 product design and technology development platform for the Group's long-term development of the "KAPPA" brand and other brands in the PRC market. This will strengthen the competitive advantage of the Group. 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 its successful operation and effective management has provided a very solid foundation for the Group to deploy its multi-brand strategy. By utilizing the management's abundant experience in the 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 or regional 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 the Phenix for the year ended 29 February 2008, the general deterioration of the operation conditions and the adjusted net asset value of Phenix (taking into account of Sale Loan) and that the terms of the Acquisition are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

DISCUSSIONS OF THE AUDITED FINANCIAL INFORMATION OF PHENIX IN THIS CIRCULAR

Sales

For the nine months ended 28 February 2006, year ended 28 February 2007 and year ended 29 February 2008 ("The Period Under Review"), Phenix was primarily engaged in the design, development, marketing and sales of its owned branded products in Japan. The major brands include "PHENIX" in the ski and outdoor sportswear markets, "KAPPA" in the football, athletic and golf wear markets, "X-NIX" in the snowboard sportswear market and "INHABITANT" in the casual wear market. Phenix also conducted exported sales of "PHENIX" and "X-NIX" products to overseas markets. On the other hand, Phenix acted as the Japanese licenses for a number of international brands to sell their golf wear, casual wear and sportswear products in Japan.

The sales recognised during The Period Under Review by product categories are analyzed as follows:

	Nine months ended 28 February 2006		Year ended 28 February 2007		Year ended 29 February 2008	
	Yen'000	*% of total*	*Yen'000*	*% of total*	*Yen'000*	*% of total*
PHENIX brand products	4,403,599	49.6%	4,926,009	42.1%	4,031,726	39.2%
KAPPA brand products	1,563,521	17.6%	2,628,863	22.5%	2,369,135	23.1%
Other owned brand products	1,679,531	18.9%	1,584,588	13.5%	1,336,916	13.0%
Licensee products	1,238,181	13.9%	2,567,856	21.9%	2,542,114	24.7%
Total	8,884,832	100%	11,707,316	100%	10,279,891	100%

The total sales for the year ended 29 February 2008 was Yen 10,279.9 million, a decrease of Yen 1,427.4 million, or 12.2% from Yen 11,707.3 million in the corresponding period in 2007. This was mainly attributable to the decrease of sales of PHENIX brand products from Yen 4,926.0 million to Yen 4,031.7 million, a decrease of Yen 894.3 million or 18.2%. In addition, the sales of other owned brand products decreased from Yen 1,584.6 million to Yen 1,336.9 million, a decrease of Yen 247.7 million or 15.6%. The decrease was primarily due to the declining market size and highly competitive winter sportswear sector, including ski and snowboard, in Japan. On the other hand, the sales of "KAPPA" brand products also decreased from Yen 2,628.9 million to Yen 2,369.1 million, a decrease of Yen 259.8 million or 9.9% owing to the fierce competition of branded sportswear market in Japan. The sales of licensee products remained fairly stable at Yen 2,542.1 million and Yen 2,567.9 million for the year ended 29 February 2008 and 28 February 2007 respectively.

The total sales for the nine months ended 28 February 2006 was Yen 8,884.8 million.

Cost of sales and Gross profit

For the year ended 29 February 2008, the cost of sales was Yen 6,147.2 million, representing a decrease of Yen 325.8 million, or 5% from Yen 6,473.0 million in the corresponding period in 2007. The decrease was smaller than the decrease in sales and resulted in a lower gross profit margin for the year ended 29 February 2008 as compared to the year ended 28 February 2007.

The total cost of sales for the nine months ended 28 February 2006 was Yen 4,968.1 million.

The gross profit and gross profit margin during The Period Under Review by product categories are analyzed as follows:

	Nine months ended 28 February 2006		Year ended 28 February 2007		Year ended 29 February 2008	
	Gross Profit	**Gross Profit Margin**	**Gross Profit**	**Gross Profit Margin**	**Gross Profit**	**Gross Profit Margin**
	Yen'000	*(%)*	*Yen'000*	*(%)*	*Yen'000*	*(%)*
PHENIX brand products	1,926,434	43.7%	2,103,729	42.7%	1,687,241	41.8%
KAPPA brand products	628,417	40.2%	1,069,336	40.7%	894,427	37.8%
Other owned brand products	747,060	44.5%	728,495	46.0%	630,081	47.1%
Licensee products	614,805	49.7%	1,332,804	51.9%	920,893	36.2%
Total	3,916,716	44.1%	5,234,364	44.7%	4,132,642	40.2%

The total gross profit margins were fairly stable at 44.1%and 44.7% for the nine months ended 28 February 2006 and the year ended 28 February 2007 respectively, but dropped to 40.2% for the year ended 29 February 2008. The decrease was mainly due to the drop of gross profit margin for "KAPPA" brand products and licensee products. The gross profit margin for "KAPPA" brand products was 37.8% for the year ended 29 February 2008, representing a decrease of 2.9% from 40.7% for the year ended 28 February 2007. The decrease was due to sales at higher discounts to cope with the fierce market competition. Since late 2007, the management of Phenix has decided to terminate its licensee business and to refocus on the development of its own brand business. The licensee products were sold at higher discounts in order to clear the remaining inventories and resulted in a lower gross profit margin of 36.2% as compared with the 51.9% in the corresponding period of 2007.

Distribution costs

Distribution costs mainly included employee salary and benefit expenses for sales related staff, advertising and marketing expenses, design and product development expenses and logistics and delivery charges. For the year ended 29 February 2008, distribution costs amounted to Yen 5,731.7 million, an increase of Yen 1,356.5 million (or 31.0%), as compared to the amount of Yen 4,375.2 million for the year ended 28 February 2007. The substantial increase was mainly attributable to the impairment provision of "KAPPA" trademark amounted to Yen 1,302.3 million made during the year ended 29 February 2008 by reference to the valuation made by a professional valuer. Should the impairment provision be excluded, as a percentage of sales, the distribution costs will be 43.1% for the year ended 29 February 2008, still an increase of 5.7% as compared to 37.4% for the year ended 28 February 2007 due to the overall declining in sales.

Distribution costs for the nine months ended 28 February 2006 was Yen 3,205.6 million and it represented 36.1% of total sales for the period.

Administrative expenses

Administrative expenses mainly represented employee salary and benefit expenses for administrative staff, provision for impairment of inventories, and provision for doubtful trade and other receivables. For the year ended 29 February 2008, administrative expenses amounted to Yen 1,203.7 million, an increase of Yen 125.1 million (or 11.6%), as compared to the amount of Yen 1,078.6 million for the year ended 28 February 2007. The increase was mainly attributable to the increase of provision expense for doubtful trade receivables from Yen 6.3 million for the year ended 28 February 2007 to Yen 141.4 million for the year ended 29 February 2008, an increase of Yen 135.1 million.

Administrative expenses for the nine months ended 28 February 2006 was Yen 933.1 million.

Other gains/(losses), net

The other losses for the year ended 29 February 2008 was Yen 92.6 million and it mainly comprised Yen 66.9 million loss on disposal of property, plant and equipment. The other losses for the year ended 28 February 2007 was Yen 31.4 million, it primarily represented loss on disposal of property, plant and equipment amounted to Yen 50.4 million net of Yen 32.5 million gain from derivative financial instruments. The other gains for the nine months ended 28 February 2006 was Yen 326.4 million. It included Yen 234.9 million gain on discontinued pension plan and Yen 97.8 million gain from derivative financial instruments.

Finance costs, net

The finance costs for the year ended 29 February 2008, year ended 28 February 2007 and nine months ended 28 February 2006 were Yen 167.2 million, Yen 166.5 million and Yen 132.9 million respectively. These mainly represented interest expenses for bank and other borrowings.

Share of profit/(loss) of jointly controlled entities

The share of profit/(loss) of jointly controlled entities for the year ended 29 February 2008, year ended 28 February 2007 and nine months ended 28 February 2006 were (Yen 3.7) million, Yen 5.5 million and Yen 14.1 million respectively. These represented the share of the profit/(loss) of Phenix's jointly controlled entities in the PRC under the equity method of accounting.

Income tax expenses

The income tax credit/(expense) for the year ended 29 February 2008, year ended 28 February 2007 and nine months ended 28 February 2006 were Yen 66.8 million, Yen (57.7) million and Yen (48.6) million respectively, which comprises Japan income tax and deferred taxation.

Japan income tax is calculated based on the tax rate applicable to Phenix of 30% on the estimated assessable profit. Phenix did not derive any assessable profit during The Period Under Review and therefore no provision for Japan income tax was required.

Phenix is also subject to inhabitant tax in Japan which is determined based on rates (determined by the prefecture and city where Phenix has operations) on the income tax payable, subject to certain minimum payment. As there was no assessable profit during The Period Under Review, Phenix was subject to minimum inhabitant tax payments.

Phenix has recognised deferred income tax credit/(expense) of Yen 83.6 million, Yen (40.1) million and Yen (36.3) million for the year ended 29 February 2008, year ended 28 February 2007 and nine months ended 28 February 2006 relating to amortisation of "KAPPA" trademark and depreciation of property, plant and equipment.

Net profit/(loss) for the period/year

The net loss for the year ended 29 February 2008 was Yen 2,921.5 million, an increase of Yen 2,542.7 million, as compared with the loss of Yen 378.8 million for the year ended 28 February 2007. The increase was mainly due to the impairment provision of "KAPPA" trademark amounted to Yen 1,302.3 million made during the year ended 29 February 2008. In addition, the decrease in total sales of 12.2% and drop of overall gross profit margin from 44.7% to 40.2% has brought to a decrease of gross profit amounted to Yen 1,101.7 million from year ended 28 February 2007 to year ended 29 February 2008.

The net profit for the nine months ended 28 February 2006 was Yen 21.8 million. Should the other gains from discontinued pension plan of Yen 234.9 million and from derivative financial instruments of Yen 97.8 million be excluded, Phenix suffered a net loss of Yen 310.9 million.

Liquidity and financial resources

As at 29 February 2008, cash and cash equivalents of Phenix amounted to Yen 602.2 million, an increase of Yen 184.8 million as compared with the balance of Yen 417.4 million as at 28 February 2007. The increase represented net increase in borrowings from bank and Orix of Yen 3,460.4 million, less net cash outflow from operating activities of Yen 3,148.0 million and net cash used in investing activities of Yen 127.6 million.

For the year ended 28 February 2007, the cash and cash equivalents decreased by Yen 188.0 million comprised Yen 369.2 million net cash generated from operating activities less Yen 627.2 million used in investing activities and Yen 70 million net increase from bank and other borrowings.

For the nine months ended 28 February 2006, the cash and cash equivalents increased by Yen 33.6 million comprised Yen 348.4 million net cash generated from operating activities less Yen 189.8 million used in investing activities and Yen 125.0 million net repayment of bank borrowings.

As at 29 February 2008 and 28 February 2007, majority of the cash and cash equivalents were denominated in Yen. As at 28 February 2006, the cash and cash equivalents denominated in Yen and US$ were Yen 418.6 million and Yen 186.9 million respectively.

Due to the total net loss and net operating cash outflow position of Phenix for The Period Under Review, the sources of funding were mainly the borrowings and advances from bank, and loans from Orix. As at 29 February 2008, 28 February 2007 and 28 February 2006, the bank borrowings and advances were nil, Yen 2,877.3 million and Yen 3,389.4 million respectively, all were denominated in Yen and bearing interest at Tokyo Interbank Offered Rate ("TIBOR") plus 3% per annum. In addition, the loans from Orix were Yen 6,000 million, Yen 320 million and nil as at 29 February 2008, 28 February 2007 and 28 February 2006 respectively. The loans were unsecured, denominated in Yen and bearing interest at rates of 2.5% to 3.7% per annum.

As at 29 February 2008 and 28 February 2007, the total equity of Phenix was at a net deficit position and gearing ratio calculation was not applicable. As at 28 February 2006, the gearing ratio of Phenix was 56.1 times and it was calculated based on the ratio of total borrowings over total equity.

The bank borrowings were secured by certain land and buildings, inventories and accounts receivable of Phenix. In addition, certain guarantee deposits to suppliers was secured against certain trade and notes payable. The "KAPPA" trademark was secured for the settlement of the related outstanding purchase consideration. The purchase consideration was fully settled by Phenix during the year ended 28 February 2007 and the security was released subsequent to 29 February 2008.

As at 28 February 2006, Phenix has outstanding foreign exchange forward contracts with aggregate notional principal amount of US$8 million. The contracts were settled during the year ended 28 February 2007.

Net asset/(deficit) value

As at 29 February 2008 and 28 February 2007, the net deficit value of Phenix were Yen 3,195.9 million and Yen 293.1 million respectively. As at 28 February 2006, the net asset value of Phenix was Yen 60.4 million. The change of net deficit value of Yen 293.1 million as at 28 February 2007 to net deficit value of Yen 3,195.9 million as at 29 February 2008 was mainly attributable to Phenix suffered a net loss of Yen 2,921.5 million during the year ended 29 February 2008.

FINANCIAL EFFECTS OF THE ACQUISITION ON THE GROUP

Following the completion of Acquisition, the Group would hold 91% share interest in Phenix and the results, assets and liabilities of Phenix would be fully consolidated into the financial statements of the Group.

Assets and liabilities

Based on the unaudited pro forma statement of assets and liabilities of the Enlarged Group as set out in Appendix III to this circular, the Group had audited total assets, total liabilities and net assets of around RMB6,223.0 million, RMB321.1 million and RMB5,901.8 million respectively as at 31 December 2007. Upon the completion of the Acquisition, the Enlarged Group would have unaudited pro forma total assets, total liabilities and net assets of around RMB6,626.2 million, RMB532.5 million and RMB6,093.7 million respectively.

As at 29 February 2008, the total liabilities of Phenix included the loan from Orix amounted to Yen 6,000 million. The loan was then partially repaid and reduced to Yen 5,937 million as at the Completion Date. According to the Assignment Agreement, the loan was assigned from Orix to the Purchaser as at the Completion Date for a consideration of Yen 1 . Upon consolidation, the loan of Yen 6,000 million (equivalent to approximately RMB407.1 million) would be eliminated at the pro forma statement of assets and liabilities of the Enlarged Group. Hence, the total liabilities of the Enlarged Group only increased by RMB211.4 million instead of the total liabilities of Phenix amounted to Yen 8,908.3 million (approximately RMB604.5 million) as at 29 February 2008 upon the completion of the Acquisition.

Earnings

The Directors believe that the Acquisition will bring synergy to the business of the Group and Phenix in both the PRC and Japan markets. After the acquisition, Group intends to utilize and build upon its successful experience in brand management and operation to enhance the business performance of Phenix. This primarily includes business streamline, cost of sales enhancement and workforce reduction. Please refer to the section "FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP" below for more details. The Directors consider that the Acquisition will have a positive impact on the earnings of the Group in the long-term future.

On the other hand, a negative goodwill will be recognised as an income in the Enlarged Group's consolidated income statement upon completion of the Acquisition.

Assuming the Acquisition had taken place on 31 December 2007, based on the financial information and the fair value of the assets and liabilities of Phenix as at 29 February 2008 estimated by the Directors, the negative goodwill would be approximately RMB191,910,000. Please refer to Note (4) of the unaudited pro forma statement of assets and liabilities of the Enlarged Group as set out in Appendix III for more details.

The fair values of the identifiable assets and liabilities of Phenix at the date of completion of the Acquisition may be different from the fair values and estimations used in the preparation of Appendix III — "Unaudited Pro Forma Financial Information of the Enlarged Group". Accordingly, the amount of negative goodwill at the date of completion of the Acquisition may be different from the estimated amounts stated in Appendix III.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Group

The Group is a leading international sportswear brand enterprise based in the PRC. The "KAPPA" brand, which is owned by the Group in the PRC and Macau, is one of the top international sportswear brands in the PRC. The "KAPPA" brand was successfully positioned at the forefront of sportswear fashion market in the PRC, its products convey an active, fashionable and youthful image which are well accepted by the PRC's fast growing and high potential consumers.

For the year ended 31 December 2007, the Group achieved a 99.2% growth in sales from RMB858.9 million to RMB1,711.0 million. Profit attributable to equity holders reached a record high of RMB733.6 million, representing an increase of 139.4% over the previous year. As at 31 December 2007, cash and cash equivalents of the Group amounted to RMB5,311.1 million, it mainly comprised the net IPO proceeds of RMB5,013.9 million raised from the company's global offering in October 2007. As at 31 December 2007, the Group's net asset value was RMB5,901.8 million. The Group's current assets exceeded current liabilities by RMB5,500.1 million. The Group had a very strong liquidity position and the current ratio as at 31 December 2007 was 18.4 times. As at 31 December 2007, the Group had no outstanding bank loans and other borrowings.

The Enlarged Group

The Group believes that the Acquisition is in line with the Group's multi-brand strategy and it will bring synergy to the business of the Enlarged Group in both the PRC and Japan markets. Phenix has strong design and development capabilities. The integration of the design and development functions of Phenix and the Group will enhance the Enlarged Group's capabilities in this area and provide a strong platform for the Enlarged Group's long-term development of the "KAPPA" brand and other brands in the PRC market. The Acquisition also provides a good opportunity for the Enlarged Group to launch Phenix's high quality ski and outdoor sportswear in the PRC market.

Phenix suffered a net loss of Yen 2,921.5 million (equivalent to approximately RMB198.2 million) for the year ended 29 February 2008. The loss included an one-off impairment provision of "KAPPA" trademark amounted to Yen 1,302.3 million (equivalent to approximately RMB88.4 million) made during the year. Should the impairment provision be excluded, the net loss of Phenix was Yen 1,619.2 million (equivalent to approximately RMB109.8 million). Because of the declining sales and reduced gross profit margin, Phenix's gross profit of Yen 4,132.6 million (equivalent to approximately RMB280.4 million) was not able to cover the distribution costs and administrative expenses (excluded "KAPPA" trademark provision) totalling Yen 5,633.1 million (equivalent to approximately RMB382.2 million) for the year. The Group has the following restructuring plans to enhance the performance of Phenix:

Business streamline

The Group realizes that the core competency of Phenix is its own brands products which enjoy high reputations in Japan. However, Phenix has diversified its effort on a number of licensee brands in the past several years and indirectly caused the decline in sales of its own brand products. In addition, Phenix was required to expand its operation size in order to develop licensee brands in different market sectors, thus, distribution costs and administrative expenses increased as a result despite the sales of licensee products could not achieve economy of scale to cover the additional costs and expenses. The licensee business has been suffering losses. The Group has decided to speed up the termination the licensee business of Phenix and let it to refocus on its high value own brand products.

Cost of sales enhancement

Phenix engages agencies for procurement of raw materials and arrangement of production. The agency fees and production costs are relatively high due to the small scale of operation and no direct control over manufactures in the PRC. In future, the raw material procurement and production functions of Phenix will be integrated into the Enlarged Group and synergy effect will be created. The cost of sales of Phenix will be highly enhanced through the Enlarged Group's strong supplier base in the PRC.

Workforce reduction

Phenix would reduce the number of its employees as a result of the business streamline. Before the Completion Date, around one-third of the employees would leave Phenix according to a workforce reduction plan agreed between the Group and Orix. There would be a substantial saving on staff cost after the Acquisition.

In conclusion, the Directors consider that the synergy effect of the Acquisition and the turnaround business of Phenix after the restructuring plans will have a positive impact on the earnings of the Group in the long-term future.

Indebtedness

As at 30 April 2008, the Enlarged Group had no outstanding borrowings.

GENERAL

Based on the calculation of five tests set out in Rule 14.07 of the Listing Rules, two of the relevant percentage 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 of the Shareholders.

As no Shareholder has a material interest in the Acquisition which is different from that of the other Shareholders, no Shareholder is required to abstain from voting on the Acquisition. 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 Latest Practicable Date, are interested in 2,932,601,000 Shares in aggregate, representing approximately 51.65% of the issued share capital of the Company having the right to attend and vote at an extraordinary general meeting to approve the Acquisition. The written approval from Poseidon Sports Limited and Colour Billion Limited is accepted in lieu of holding a general meeting to approve the Acquisition pursuant to Rule 14.44 of the Listing Rules.

The Directors consider that the terms of the Share Purchase Agreement and the Transaction Documents are fair and reasonable and the Acquisition is in the interest of the Company and the Shareholders as a whole. Under the assumption that the Acquisition is to be approved by the Shareholders by way of an extraordinary general meeting of the Company instead of the written consent from Poseidon Sports Limited and Colour Billion Limited, the Directors would have recommended the Shareholders to vote in favour of any resolution(s) in connection with the Acquisition that would have been proposed at such an extraordinary general meeting.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
On behalf of the Board
China Dongxiang (Group) Co., Ltd.
Chen Yihong
Chairman

1. SUMMARY OF INCOME STATEMENTS AND BALANCE SHEETS OF THE GROUP FOR EACH OF THE THREE YEARS ENDED 31 DECEMBER 2005, 2006 AND 2007

The following is a summary of the profits and losses and the assets and liabilities of the Group for each of the three years ended 31 December 2005, 2006 and 2007, as extracted from the accountant's report as set out in Appendix I to the prospectus of the Company dated 25 September 2007 and from the annual reports of the Company for the year ended 31 December 2007 respectively.

The International Accounting Standards Board has issued a number of new and revised International Financial Reporting Standards and International Accounting Standards ("new IFRSs") which are effective for accounting periods beginning on or after 1 January 2007. The Group has not early adopted these new IFRSs in the financial statements for the years ended 31 December 2005 and 2006. The adoption of these new IFRSs beginning from 1 January 2007 had no significant impact on the Group's results of operations and financial positions.

Combined/consolidated balance sheets
(All amounts in Renminbi thousands unless otherwise stated)

	As at 31 December		
	2005	**2006**	**2007**
ASSETS			
Non-current assets			
Property, plant and equipment	17,580	42,835	94,474
Lease prepayments	4,852	14,001	30,080
Intangible assets	38,866	286,287	279,751
Deferred income tax assets	57	1,422	3,308
	61,355	344,545	407,613
Current assets			
Inventories	31,206	87,846	88,173
Financial assets	—	20,000	201,505
Trade receivables	36,979	84,374	138,319
Prepayments, deposits and other receivables	8,947	19,127	46,764
Amounts due from related parties	2,877	—	—
Cash and bank balances			
— Restricted bank balances	—	20,000	29,521
— Cash and cash equivalents	39,065	274,749	5,311,060
	119,074	506,096	5,815,342
Total assets	180,429	850,641	6,222,955

	As at 31 December		
	2005	2006	2007
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	—	—	54,904
Share premium	—	—	5,000,710
Reserves	43,873	307,504	846,217
Total equity	43,873	307,504	5,901,831
LIABILITIES			
Non-current liabilities			
Borrowings	—	3,357	—
Licence fees payable	24,781	6,434	5,906
Financial liability	—	295,514	—
	24,781	305,305	5,906
Current liabilities			
Trade payables	45,168	112,850	177,619
Accruals and other payables	21,241	81,869	112,804
Borrowings	13,010	1,833	—
Licence fees payable — current portion	23,428	638	1,557
Amounts due to related parties	—	727	—
Current income tax liabilities	8,928	39,915	23,238
	111,775	237,832	315,218
Total liabilities	136,556	543,137	321,124
Total equity and liabilities	180,429	850,641	6,222,955

Combined/consolidated income statements
(All amounts in Renminbi thousands unless otherwise stated)

	Year ended 31 December		
	2005	**2006**	**2007**
Sales	147,712	858,921	1,711,023
Cost of sales	(81,101)	(323,360)	(710,450)
Gross profit	66,611	535,561	1,000,573
Other income	3,325	12,582	20,144
Distribution costs	(20,058)	(124,145)	(210,101)
Administrative expenses	(9,361)	(35,745)	(85,895)
Operating profit	40,517	388,253	724,721
Finance income/(costs), net	(1,222)	(16,177)	46,542
Share of profit of an associated Company	641	—	—
Profit before income tax	39,936	372,076	771,263
Income tax expense	(2,130)	(65,617)	(37,695)
Profit attributable to equity holders of the Company	37,806	306,459	733,568

2. EXTRACT FROM THE ANNUAL REPORT OF THE COMPANY FOR THE YEAR ENDED 31 DECEMBER 2007

The following is an extract of the latest published audited consolidated financial statements of the Group for the year ended 31 December 2007 together with the notes therein, from the 2007 annual report of the Company.

Consolidated Balance Sheet
(All amounts in Renminbi thousands unless otherwise stated)

	Note	**As at 31 December 2007**	**2006**
ASSETS			
Non-current assets			
Property, plant and equipment	6	94,474	42,835
Lease prepayments	7	30,080	14,001
Intangible assets	8	279,751	286,287
Deferred income tax assets	10	3,308	1,422
		407,613	344,545
Current assets			
Inventories	11	88,173	87,846
Financial assets	12	201,505	20,000
Trade receivables	13	138,319	84,374
Prepayments, deposits and other receivables	14	46,764	19,127
Cash and bank balances	15		
— Restricted bank balances		29,521	20,000
— Cash and cash equivalents		5,311,060	274,749
		5,815,342	506,096
Total assets		6,222,955	850,641
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	16	54,904	—
Share premium	16	5,000,710	—
Reserves	17	846,217	307,504
Total equity		5,901,831	307,504

	Note	As at 31 December 2007	2006
LIABILITIES			
Non-current liabilities			
Borrowings	20	—	3,357
Licence fees payable	21	5,906	6,434
Financial liability	22	—	295,514
		5,906	305,305
Current liabilities			
Trade payables	18	177,619	112,850
Accruals and other payables	19	112,804	81,869
Borrowings	20	—	1,833
Licence fees payable — current portion	21	1,557	638
Amounts due to related parties	34(c)	—	727
Current income tax liabilities		23,238	39,915
		315,218	237,832
Total liabilities		321,124	543,137
Total equity and liabilities		6,222,955	850,641
Net current assets		5,500,124	268,264
Total assets less current liabilities		5,907,737	612,809

Balance Sheet
(All amounts in Renminbi thousands unless otherwise stated)

	Note	**As at 31 December 2007**
ASSETS		
Non-current assets		
Investments in subsidiaries	9	10,082,680
Current assets		
Prepayments, deposits and other receivables	14	13,422
Amounts due from subsidiaries	9	247,927
Cash and cash equivalents	15	4,710,223
		4,971,572
Total assets		15,054,252
EQUITY		
Share capital	16	54,904
Share premium	16	5,000,710
Reserves	17	9,974,832
Total equity		15,030,446
LIABILITIES		
Current liabilities		
Accruals and other payables	19	23,806
Total liabilities		23,806
Total equity and liabilities		15,054,252
Net current assets		4,947,766
Total assets less current liabilities		15,030,446

Consolidated Income Statement
(All amounts in Renminbi thousands unless otherwise stated)

		Year ended 31 December	
	Note	**2007**	**2006**
Sales	5	1,711,023	858,921
Cost of sales	24	(710,450)	(323,360)
Gross profit		1,000,573	535,561
Other income	23	20,144	9,937
Distribution costs	24	(210,101)	(124,145)
Administrative expenses	24	(85,895)	(35,745)
Operating profit		724,721	385,608
Finance income/(costs), net	26	46,542	(13,532)
Profit before income tax		771,263	372,076
Income tax expense	27	(37,695)	(65,617)
Profit attributable to equity holders of the Company		733,568	306,459
Earnings per share for profit attributable to equity holders of the Company (expressed in RMB cents per share)			
— Basic	29	15.89	7.10
— Diluted	29	15.82	7.07
Dividends	30	441,881	—

Consolidated Statement of Changes in Equity
(All amounts in Renminbi thousands unless otherwise stated)

		Attributable to equity holders of the Company				
	Note	**Share capital**	**Share premium**	**Other reserves**	**Retained earnings**	**Total**
Year ended 31 December 2006						
At 1 January 2006		—	—	10,749	33,124	43,873
Distributions to equity holders	17(a)	—	—	(36,910)	—	(36,910)
Capital injection from equity holders	17(b)	—	—	24,082	—	24,082
Appropriation of statutory reserves		—	—	742	(742)	—
Profit for the year		—	—	—	306,459	306,459
Dividend relating to 2005 paid		—	—	—	(30,000)	(30,000)
At 31 December 2006		—	—	(1,337)	308,841	307,504
Representing:						
Reserves		—	—	(1,337)	308,841	307,504
2006 proposed dividends		—	—	—	—	—
At 31 December 2006		—	—	(1,337)	308,841	307,504
Year ended 31 December 2007						
At 1 January 2007		—	—	(1,337)	308,841	307,504
Contribution by the Investors	22	—	—	23,203	—	23,203
Derecognition of a financial liability	22	—	—	295,514	—	295,514
Issue of new shares	16, 17	13,249	5,000,710	—	—	5,013,959
Issue of shares pursuant to the Capitalisation Issue	16(a)(ii)	41,655	—	(41,655)	—	—
Appropriation of statutory reserves	17(b)	—	—	10,000	(10,000)	—
Share-based compensation	17(c)	—	—	14,279	—	14,279
Foreign currency translation differences	17	—	—	(106,196)	—	(106,196)
Profit for the year		—	—	—	733,568	733,568
Dividends paid	30	—	—	—	(380,000)	(380,000)
At 31 December 2007		54,904	5,000,710	193,808	652,409	5,901,831
Representing:						
Share capital and reserves		54,904	4,938,829	193,808	652,409	5,839,950
Proposed final dividend *(Note 30)*		—	61,881	—	—	61,881
At 31 December 2007		54,904	5,000,710	193,808	652,409	5,901,831

Consolidated Cash Flow Statement

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Year ended 31 December 2007	2006
Operating activities			
Cash generated from operations	31(a)	627,784	376,333
Interest received		84,977	2,645
Interest paid	26	(149)	(121)
Income tax paid		(56,258)	(30,951)
Net cash generated from operating activities		656,354	347,906
Investing activities			
Purchase of property, plant and equipment		(55,834)	(27,437)
Addition of lease prepayments		—	(9,410)
Purchases of intangible assets		(26,549)	(264,796)
Proceeds from disposal of property, plant and equipment	31(b)	129	—
Increase in restricted bank deposit		(9,521)	(20,000)
Sales/(purchase) of held-to-maturity financial assets		20,584	(20,000)
Increase in financial assets at fair value through profit and loss		(200,000)	—
Net cash used in investing activities		(271,191)	(341,643)
Financing activities			
Proceeds from issue of ordinary shares	16(a)	5,013,862	—
Cash paid to equity holders of the Company for acquisition of subsidiaries pursuant to the internal restructuring	17	—	(36,910)
Capital injections from equity holders of the Company	17	—	24,082
Proceeds from bank borrowings		—	5,780
Repayments of bank borrowings		(5,190)	(590)
Repayment of borrowings from minority shareholders		—	(6,310)
Borrowing from directors	34(b)	6,200	—
Repayment of borrowings from directors		(6,927)	—
Repayment of borrowings from third parties		—	(6,700)
Contribution from the Investors	17	23,203	280,069
Dividends paid	17	(380,000)	(30,000)
Net cash generated from financing activities		4,651,148	229,421
Net increase in cash and cash equivalents		5,036,311	235,684
Cash and cash equivalents at beginning of the year		274,749	39,065
Cash and cash equivalents at end of the year	15	5,311,060	274,749

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

1 GENERAL INFORMATION OF THE GROUP AND REORGANISATION

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 People's Republic of China (excluding Hong Kong Special Administrative Region, Macau and Taiwan) (the "PRC") and Macau.

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

Pursuant to a group reorganisation (the "Reorganisation") which included exchange of shares to rationalise the structure of the group in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited, the Company acquired the entire issued share capital of Hong Kong Dongxiang Sports Development Holdings Limited ("Hong Kong Dongxiang"), the then holding company of all other companies comprising the Group, and became the holding company of the Group. The Reorganisation was completed on 29 June 2007. The details of the subsidiaries of the Company are set out in Note 9 below.

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

The Reorganisation represented a business combination involving entities under common control. Accordingly the Reorganisation has been accounted for as a business combination under common control in a manner similar to the uniting of interests method. The consolidated financial statements of the Group have been prepared as if the current group structure had been in existence throughout both years presented, or since the respective dates of incorporation or establishment of the group companies.

These consolidated financial statements have been authorised for issue by the Board of Directors on 1 April 2008.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

(a) Standards, amendment and interpretations effective in 2007 and relevant to the Group

IFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to IAS 1, 'Presentation of financial statements – Capital disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments, or the disclosures relating to taxation and trade and other payables.

IFRIC — Int 8, 'Scope of IFRS 2', requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of IFRS 2. This standard does not have any impact on the Group's financial statements.

IFRIC — Int 10, 'Interim financial reporting and impairment', prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and in financial assets carried at cost be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group's financial statements.

(b) Interpretation early adopted by the Group

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

(c) Standards, amendments and interpretations effective in 2007 but not relevant to the Group

The following interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Group's operations:

- IFRIC — Int 7, 'Applying the restatement approach under IAS 29, Financial reporting in hyper-inflationary economies'; and

- IFRIC — Int 9, 'Re-assessment of embedded derivatives'.

(d) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods, and the Group has not early adopted them:

- IAS 1 (Revised), "Presentation of Financial Statements" (effective from 1 January 2009). IAS 1 (Revised) requires all owner changes in equity to be presented in a statement of changes in equity. All comprehensive income is presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). It requires presenting a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when there are retrospective adjustments or reclassification adjustments. However, it does not change the recognition, measurement or disclosure of specific transactions and other events required by other IFRS.

- IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed.

- IAS 27 (Revised), 'Consolidated and separate financial statements' (effective from 1 July 2009). The amendment requires non-controlling interests, such as minority interests to be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets and liabilities and related equity components of the former subsidiary are derecognised. Any gain or loss is recognised in the income statement. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost.

- Amendments to IAS 32 and IAS 1, 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009). The amendments require certain puttable financial instruments and financial instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation be classified as equity.

- IFRS 8, 'Operating segments' (effective from 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US Standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply IFRS 8 from 1 January 2009.

- IFRIC — Int 12, 'Service concession arrangements' (effective from 1 January 2008). IFRIC — Int 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. IFRIC — Int 12 is not relevant to the Group's operations because none of the Group's companies provide for public sector services.

- IFRIC — Int 13, 'Customer loyalty programmes' (effective from 1 July 2008). IFRIC — Int 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programme.

- IFRIC — Int 14, 'IAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2008). IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Group will apply IFRIC 14 from 1 January 2008, but it is not expected to have any impact on the Group's financial statements.

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

With the exception of business combinations involving entities under common control which are accounted for on the uniting of interests basis, the purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost which represents the fair value of the equity instruments issued by the Company. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(b) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from equity. Gains or losses on disposals to minority interests are also recorded in equity. For disposals to minority interests, differences between any proceeds received and the relevant share of minority interests are also recorded in equity.

2.3 Segment reporting

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

The Group's primary format for reporting segment information is business segment, with secondary information reported geographically. Since less than 10% of the Group's sales and operating profit are attributable to overseas market, no analysis of business segment or geographical segment is presented.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the Company is USD and the functional currency of its subsidiaries is "Renminbi" ("RMB"). The consolidated financial statements are presented in RMB, which is the presentation currency of the financial statements of the Company and the Group.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sale reserve in equity.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates of the financial reporting period unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions; and
- all resulting exchange differences are recognised in exchange reserve as a separate component of equity.

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Construction-in-progress represents buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition. No provision for depreciation is made on construction-in-progress until such time the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated below.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Buildings	20 years
Vehicles	5 years
Office equipment and others	5 years
Leasehold improvements	2 to 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other income, net', in the income statement.

When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

2.6 Intangible assets

(a) Trademarks

Acquired trademarks are shown at historical cost. Trademarks have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives of 40 years.

(b) Licence rights

Licence rights are stated at historical cost less accumulated amortisation and impairment losses, if any. They are initially measured as the fair values of the future obligation to pay fixed periodic payments and the expected variable payments based on pre-determined criteria on future revenues from the licensed business that can be reliably estimated at inception of the licence periods. Amortisation is calculated using the straight-line method to allocate the cost of the licence rights over the periods of the respective contractual rights.

(c) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 2 to 5 years.

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets and financial liabilities

(a) Financial assets

The Group classifies its financial assets in the following categories: held-to-maturity, at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

- *Held-to-maturity*

  Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available for sale. Held-to maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date, which are classified as current assets.

- *Financial assets at fair value through profit or loss*

  Financial assets at fair value through profit or loss are managed and their performances are evaluated on a fair value basis. A financial asset is classified in this category in accordance with investment strategy. Assets in this category are classified as current assets.

- *Loans and receivables*

  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. The Group's loans and receivables comprise 'trade receivables', 'prepayments, deposits and other receivables' and 'cash and bank balances' in the balance sheet.

(b) Financial liability

The Group's financial liability arose due to the contractual liability to repay the Investors according to the notes issued to the Investors and an option granted to the Investors to demand the Group to repurchase all or a portion of the shares held by the Investors.

The financial liability was recognised initially at fair value plus transaction costs that are directly attributable to the issuance of the financial liability. After initial recognition, the Group measured the financial liabilities at amortised cost using the effective interest method. The Group derecognises a financial liability from its combined balance sheet when, and only when, it was extinguished, such as when the obligation specified in the contract was discharged or cancelled or expired.

2.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods comprises raw materials and other direct costs but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses.

2.10 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'administrative expenses'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'administrative expenses' in the income statement.

2.11 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks.

2.12 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.13 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.15 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax liabilities are provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.16 Employee benefits

(a) Pension obligations

The Group's companies participate in various defined contribution retirement benefit plans administered by the relevant municipal and provincial governments in the PRC. The relevant municipal and provincial governments undertake to assume the retirement benefit obligation payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made.

The Group's monthly contributions to the defined contribution retirement benefit plans are expensed in the income statement as incurred.

(b) Share-based compensation

The Group operates equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.17 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.18 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods — wholesale

Sales of goods are recognised when a group entity has delivered products to the wholesaler, the wholesaler has full discretion over the channel to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

(b) Sales of goods — consignment sales

Consignment sales are the sales of certain goods of the Group under which the recipient undertakes to sell the goods on behalf of the Group. Revenue is recognised by the Group when the goods are sold by the recipient to a third party.

(c) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

2.19 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.20 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and cash flow and fair value interest rate risk. The Group's risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group has not used derivative financial instruments to hedge the risk exposures.

(i) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB, while very limited purchases are from overseas and settled mainly in USD. Foreign exchange risk also arises from certain bank deposits denominated in foreign currencies (Note 15), mainly Hong Kong Dollars ("HKD"), the payable for purchase of Kappa trademark (Note 19), the licence fees payables (Note 21) and the financial liabilities (Note 22), which are denominated in USD. The Group currently does not hedge its foreign exchange exposure. The functional currency of the Company is USD and as at 31 December 2007, most of the bank deposits of the Company are denominated in HKD. As exchange rate of HKD is closely linked to USD, the fluctuation of foreign exchange rate would have no significant impact on the financial statements of the Group.

As at 31 December 2007, if RMB had strengthened/weakened by 5% against the USD with all other variables held constant, profit for the year and equity of the Group would have been approximately RMB337,000 higher/lower mainly as a result of foreign exchange gains/losses on translation of USD denominated payables.

As at 31 December 2007, if RMB had strengthened/weakened by 5% against the HKD with all other variables held constant, profit for the year would have been approximately RMB1,464,000 lower/higher mainly as a results of foreign exchange losses/gains on translation of HKD denominated cash and bank balances. In addition, the translation of the financial statements of companies with the Group that have financial currency other than RMB to the Company's presentation currency of RMB would result in equity of the Group to decrease/increase by approximately RMB234,259,000 mainly because HKD denominated cash and bank deposits are the major assets on the financial statements of companies within the Group that have functional currency other than RMB.

(ii) Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of restricted bank balances, cash and cash equivalents, trade receivables and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets. As at 31 December 2007, all the bank deposits are deposited in the high quality financial institutions without significant credit risk.

The table below shows the bank deposits balance at 4 major banks as at 31 December 2007 and 2006. Management does not expect any losses from non-performance by these banks.

	Rating (i)	As at 31 December 2007	2006
Industrial and Commercial Bank of China	A–	5,174,367	224,310
Bank of Communications	BBB	12,371	14,575
HSBC Bank PLC	AA	20,985	—
Morgan Stanley Private Wealth Management	(i)	90,048	—
		5,297,771	238,885

(i) The source of the current credit rating is from Standard & Poor. The credit rating information for Morgan Stanley Private Wealth Management is not available.

The Group's credit sales are only made to customers with appropriate credit history and at credit period of 45 to 60 days.

(iii) Liquidity risk

The liquidity risk of the Group is controlled by maintaining sufficient cash and cash equivalents, which is generated from the operating cash flow and financing cash flow.

The table below analyses the Group's financial liabilities that will be settled on a net basis by relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
The Group					
At 31 December 2007					
Licence fees payable	1,951	1,653	5,037	—	8,641
Trade payables	177,619	—	—	—	177,619
Accruals and other payables	112,804	—	—	—	112,804
	292,374	1,653	5,037	—	299,064
At 31 December 2006					
Borrowings	2,111	2,111	1,407	—	5,629
Licence fees payable	740	1,211	6,690	—	8,641
Financial liabilities	—	—	421,814	—	421,814
Trade payables	112,850	—	—	—	112,850
Accruals and other payables	81,869	—	—	—	81,869
	197,570	3,322	429,911	—	630,803
The Company					
At 31 December 2007					
Accruals and other payables	23,806	—	—	—	23,806

(iv) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from financial assets at fair value through profit or loss. Financial assets and liabilities at fixed rates expose the Group to fair value interest rate risk. The Group currently does not hedge its exposure to interest rate risk. Financial assets and liabilities at variable rates expose the Group to cash flow interest rate risk. The Group's exposure to changes in interest rates is mainly attributable to its cash in bank. Details of the Group's cash in bank balances are disclosed in Note 15.

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by equity holders' equity as shown in the balance sheet. The Group did not have any borrowings as at 31 December 2007 (2006: gearing ratio was 0.02).

3.3 Fair value estimation

The carrying amounts of the Group's financial assets including cash and cash equivalents, restricted bank balances, trade and other receivables, financial assets at fair value through profit or loss and held-to-maturity financial assets and financial liabilities including trade and other payables and current borrowings, are assumed to approximate their fair values due to their short maturities. The fair values of financial liabilities for disclosure purposes are estimated by discounting the future contractual cash flows at the current market interest rates available to the Group for similar financial instruments.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgements are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Useful life of trademark

The Group's management determines that the useful life of Kappa trademark is 40 years (Note 8). This estimate is based on the management's experiences in the sportswear industry. The Group will increase or decrease the amortisation charge where useful lives are less or longer than previously estimated lives. The estimate of useful life of the trademark and the amortisation charge could change significantly as a result of changes in the sportswear market, market trend and competition. Management will increase the amortisation charge where useful life is less than the previously estimated, or the trademark asset will be write-off or write-down to the recoverable amount when there is any indication that the carrying amount is not recoverable.

(ii) Licence rights and licence fees payable

Licence rights (Note 8) and licence fees payable (Note 21) are initially recognised at their estimated fair value which represent the present values of the fixed periodic payments and expected various payments to be made in the future years that can be reliably estimated at inception. The future expected payments are estimated by management with reference to internal financial budgets and cash flow projections in relation to the licensed businesses. These budgets and forecast are prepared by management based on a number of assumptions which are assessed by management as appropriate. The discount rate used is determined with reference to the interest rate of the Group's borrowings. Judgment is required in the determination of these key assumptions adopted. Changes to the key assumptions can cause significantly effect to the budgets and forecast, and therefore the fair value of the licence rights and related licence fees payable.

(iii) Income taxes

The Group is mainly subject to income taxes in the PRC. Judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination may be uncertain during the ordinary course of business. The Group recognises liabilities based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(iv) Classification of liability and equity

The Group recognised a financial liability during the year ended 31 December 2006 in respect of an obligation to repay the Investors pursuant to an option granted to the Investors to demand the Group to repurchase all or a portion of the shares held by the Investors (Note 22). The Group's management has assessed the terms of the investment agreements, as amended, and other relevant agreements and the facts and circumstances, and concluded that a financial liability shall be recognised in year 2006 and subsequently be de-recognised and classified to equity in year 2007, in respect of the funds contributed by the Investors. The financial liability was recognised initially at fair value plus related transaction costs. After initial recognition, the financial liability was measured at amortised cost using the effective interest method. The Group derecognised the financial liability from its consolidated balance sheet when the obligation specified in the contract was discharged. The recognition of the financial liability and the subsequent de-recognition and transfer to equity required significant judgements.

5 SALES AND SEGMENT INFORMATION

Sales recognised during the years ended 31 December 2007 and 2006 were as follows:

	Group	
	Year ended 31 December	
	2007	2006
Kappa Brand products	1,645,237	839,275
International sourcing	60,124	19,635
Rukka Brand products	5,662	11
	1,711,023	858,921

The Group is principally engaged in brand development, design, and sale of sport-related footwear, apparel and accessories in the PRC and Macau. All of the sales and operating profit of the Group are earned from sales of sport-related products and over 90% of its operations are located in the PRC. Less than 10% of the Group's sales and operating profit are attributable to overseas market. Therefore, no analysis of business segment or geographical segment is presented.

6 PROPERTY, PLANT AND EQUIPMENT

	Group					
	Buildings	Vehicles	Office equipment and others	Leasehold improvements	Construction in progress	Total
Year ended 31 December 2006						
Opening net book amount	14,606	171	2,450	353	—	17,580
Additions	24,345	966	2,126	—	—	27,437
Disposals *(Note 31(b))*						
— Cost	—	—	(342)	—	—	(342)
— Depreciation	—	—	168	—	—	168
Depreciation *(Note 24)*	(770)	(131)	(754)	(353)	—	(2,008)
Closing net book amount	38,181	1,006	3,648	—	—	42,835
At 31 December 2006						
Cost	38,951	1,450	5,196	—	—	45,597
Accumulated depreciation	(770)	(444)	(1,548)	—	—	(2,762)
Net book amount	38,181	1,006	3,648	—	—	42,835
Year ended 31 December 2007						
Opening net book amount	38,181	1,006	3,648	—	—	42,835
Additions	5,357	4,704	6,722	—	39,051	55,834
Transfer	6,070	—	89	—	(6,159)	—
Disposals *(Note 31(b))*						
— Cost	—	(353)	(204)	—	—	(557)
— Depreciation	—	342	181	—	—	523
Depreciation *(Note 24)*	(1,883)	(734)	(1,544)	—	—	(4,161)
Closing net book amount	47,725	4,965	8,892	—	32,892	94,474
At 31 December 2007						
Cost	50,378	5,801	11,803	—	32,892	100,874
Accumulated depreciation	(2,653)	(836)	(2,911)	—	—	(6,400)
Net book amount	47,725	4,965	8,892	—	32,892	94,474

Depreciation expenses have been charged to the consolidated income statement as follows:

	Year ended 31 December	
	2007	**2006**
Distribution costs	285	5
Administrative expenses	3,876	2,003
	4,161	2,008

There is no pledge of property, plant and equipment of the Group as at 31 December 2007. A bank borrowing amounting to RMB5,190,000 (Note 20) as at 31 December 2006 was secured by the pledge of a building of the Group with net book value amounting to approximately RMB11,870,000.

The Group's buildings are located in Beijing and Jiangsu Province, the PRC and on land with use rights lease at period within 50 years.

7 LEASE PREPAYMENTS

	Group		
	Lease prepayments for land use rights	Lease prepayments for stores	Total
Year ended 31 December 2006			
Opening net book amount	4,852	—	4,852
Additions	9,410	—	9,410
Amortisation *(Note 24)*	(261)	—	(261)
Closing net book amount	14,001	—	14,001
At 31 December 2006			
Cost	14,262	—	14,262
Accumulated amortisation	(261)	—	(261)
Net book amount	14,001	—	14,001
Year ended 31 December 2007			
Opening net book amount	14,001	—	14,001
Additions	—	19,630	19,630
Amortisation *(Note 24)*	(280)	(3,271)	(3,551)
Closing net book amount	13,721	16,359	30,080
At 31 December 2007			
Cost	14,262	19,630	33,892
Accumulated amortisation	(541)	(3,271)	(3,812)
Net book amount	13,721	16,359	30,080

Amortisation expenses of the Group's lease prepayments for land use rights and for stores has been charged to administrative expenses and distribution costs in the consolidated income statements, respectively.

Lease prepayments for land use rights represent the Group's interests in land which are held in the PRC and on leases within 50 years.

Lease prepayments for stores represent prepayment of rental for lease of flagship stores.

8 INTANGIBLE ASSETS

	Group			
	Licence rights *(Note (b))*	**Kappa trademarks** *(Note (c))*	**Computer software**	**Total**
Year ended 31 December 2006				
Opening net book amount	38,522	—	344	38,866
Addition	—	280,994	7,228	288,222
De-recognition *(Note 22)*				
— Cost	(68,400)	—	—	(68,400)
— Accumulated amortisation	36,021	—	—	36,021
Amortisation *(Note 24)*	(1,024)	(7,024)	(374)	(8,422)
Closing net book amount	5,119	273,970	7,198	286,287
At 31 December 2006				
Cost	6,314	280,994	8,355	295,663
Accumulated amortisation	(1,195)	(7,024)	(1,157)	(9,376)
Net book amount	5,119	273,970	7,198	286,287
Year ended 31 December 2007				
Opening net book amount	5,119	273,970	7,198	286,287
Additions	—	—	3,123	3,123
Amortisation *(Note 24)*	(1,024)	(7,025)	(1,610)	(9,659)
Closing net book amount	4,095	266,945	8,711	279,751
At 31 December 2007				
Cost	6,314	280,994	11,478	298,786
Accumulated amortisation	(2,219)	(14,049)	(2,767)	(19,035)
Net book amount	4,095	266,945	8,711	279,751

Amortisation expenses in relation to licence rights and trademark have been charged to distribution costs and in relation to computer software have been charged to administrative expenses in the consolidated income statement.

The licence rights represent the capitalisation of the licence fees, including the guaranteed minimum payments and the expected variable payments based on the future revenue from the licensed Kappa and Rukka businesses that can be reliably estimated at inception of the licences. They are recognised based on a discount rate of 5.85% per annum, which approximated the then external bank borrowing rate at inception of the respective licences. The Kappa licence right was terminated in 2006 pursuant to the Group's purchase of the Kappa trademarks (Note (c) below). Accordingly, the Kappa licence rights intangible asset, the related licence fees payable liability (Note 21) and the related deferred income tax liabilities (Note 10) were de-recognised in 2006, resulting in a net gain of RMB6,866,000 (Note 23) for the year ended 31 December 2006.

The Kappa trademarks represent the perpetual rights of the use of Kappa trademarks in the PRC and Macau. The trademarks were purchased from a third party in year 2006 at a consideration of USD35,000,000, equivalent to approximately RMB280,994,000. The Kappa trademarks intangible asset is subject to amortisation on a straight-line basis over an estimated useful life of 40 years.

9 INTERESTS IN SUBSIDIARIES — THE COMPANY

	Company As at 31 December 2007
Investments in subsidiaries	
Unlisted investments, at cost	10,068,859
Contribution to the Pre-IPO Share Option Scheme *(Note 16(b))*	13,821
	10,082,680
Amounts due from subsidiaries	
Advance to subsidiaries	17,927
Dividends receivable	230,000
	247,927

The amounts due from subsidiaries are unsecured, interest free and repayable on demand.

The following is a list of the principal subsidiaries at 31 December 2007:

Company name	Place of incorporation	Particulars of Issued/registered capital	Interest held	Principal activities and place of operation
Directly held:				
Hong Kong Dongxiang Sports Development Holdings Limited ("Hong Kong Dongxiang")	Hong Kong	10,000 ordinary shares of HKD1 each	100%	Investment holdings, Hong Kong
Indirectly held:				
Gaea Sports Limited ("Gaea Sports")	Hong Kong	1 ordinary share of HKD1	100%	Investment holdings, Hong Kong
Achilles Sports Pte. Ltd. ("Achilles")	Singapore	100,000 ordinary shares of USD1 each	100%	Own trademark, Singapore
上海雷德體育用品有限公司 Shanghai Leide Sporting Goods Co., Limited ("Shanghai Leide")	Shanghai, the PRC	RMB1,110,000	100%	Design and consulting services, the PRC
上海泰坦體育用品有限公司 Shanghai Taitan Sporting Goods Co., Limited ("Shanghai Taitan")	Shanghai, the PRC	RMB3,000,000	100%	Design, production and sales of sport-related footwear, apparel and accessories, the PRC

Company name	Place of incorporation	Particulars of Issued/registered capital	Interest held	Principal activities and place of operation
上海卡帕體育用品有限公司 Shanghai Kappa Sporting Goods Co., Limited ("Shanghai Kappa")	Shanghai, the PRC	RMB20,000,000	100%	Design, production and sales of sport-related footwear, apparel and accessories, the PRC
北京動向體育發展有限公司 Beijing Dongxiang Sports Development Co., Limited ("Beijing Dongxiang")	Beijing, the PRC	RMB10,000,000	100%	Design and sales of sport-related footwear, apparel and accessories, the PRC

10 DEFERRED INCOME TAX ASSETS

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority. The amounts of deferred income tax items are as follows:

	Group As at 31 December	
	2007	2006
Deferred income tax assets		
— To be recovered after more than 12 months	468	183
— To be recovered within 12 months	2,840	1,239
	3,308	1,422

The movements in deferred income tax assets and deferred income tax liabilities during the years ended 31 December 2007 and 2006, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred income tax assets:

	Group				
	Provision for impairment of trade receivables	Provision for write-down of inventories	Amortisation of intangible assets	Others	Total
At 1 January 2006	475	777	2,950	899	5,101
Recognised in the income statement *(Note 27)*	(13)	—	(2,826)	(840)	(3,679)
At 31 December 2006	462	777	124	59	1,422
Recognised in the income statement *(Note 27)*	(462)	2,063	246	39	1,886
At 31 December 2007	—	2,840	370	98	3,308

Deferred income tax liabilities:

	Fair value gains
At 1 January 2006	(5,044)
De-recognition *(Note 8(b))*	5,044
At 31 December 2006 and 2007	—

11 INVENTORIES

	Group As at 31 December	
	2007	**2006**
Finished goods		
— Carried at cost	68,855	74,677
— Carried at net realizable value	18,590	1,542
Raw materials and others		
— Carried at cost	230	1,767
— Carried at net realizable value	498	9,860
	88,173	87,846

For the year ended 31 December 2007, the cost of inventories recognised as cost of sales and distribution costs amounted to approximately RMB696,559,000 (2006: RMB323,442,000) respectively (Note 24).

The Group realized a loss of approximately RMB9,007,000 (2006: nil) (Note 24) for the year ended 31 December 2007 in respect of the write-down of inventories to their net realizable value. The amount has been included in administrative expenses in the consolidated income statement.

12 FINANCIAL ASSETS

	Group As at 31 December	
	2007	**2006**
Financial assets at fair value through profit or loss	201,505	—
Held-to-maturity financial assets	—	20,000
	201,505	20,000

The financial assets at fair value through profit or loss of RMB201,505,000 as at 31 December 2007 represented investment in a non-listed interest bearing financial instrument issued and managed by a commercial bank in the PRC. The interest rate of the instrument is determined based on the returns of the underlying investments of the instrument. The investment is denominated in RMB and has a maturity of three months.

The held-to-maturity financial asset of RMB20,000,000 as at 31 December 2006 represented investment in a non-listed interest bearing financial instrument issued and managed by a commercial bank in the PRC. The investment was denominated in RMB, had a maturity of six months and bears interests at rates of nil to 2.65%.

13 TRADE RECEIVABLES

	Group	
	As at 31 December	
	2007	2006
Trade receivables		
— Third parties	113,755	80,944
— Related parties *(Note 34(c))*	25,108	5,569
	138,863	86,513
Less: provision for impairment	(544)	(2,139)
Trade receivables, net	138,319	84,374

The Group's sales are mainly made on credit terms ranging from 45 to 60 days.

The ageing analysis of trade receivables as at 31 December 2007 and 2006 were as follows:

	Group	
	As at 31 December	
	2007	2006
Current	129,054	69,777
Overdue by:		
1 to 30 days	6,804	6,634
31 to 120 days	1,447	7,963
Over 120 days	1,558	2,139
	138,863	86,513

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

14 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company
			As at
	As at 31 December		31 December
	2007	2006	2007
Prepayments — advance to suppliers	15,563	15,603	—
Prepaid advertising fee	9,044	—	—
Interest receivables	16,173	—	13,412
Deposits and other receivables	5,984	3,524	10
	46,764	19,127	13,422

The carrying amounts of prepayments, deposits and other receivables approximated their fair values as at the balance sheet dates.

15 CASH AND BANK BALANCES

	Group As at 31 December 2007	Group As at 31 December 2006	Company As at 31 December 2007
Restricted bank deposits *(Note (a))*	29,521	20,000	—
Cash and cash equivalents *(Note(b))*	5,311,060	274,749	4,710,223
	5,340,581	294,749	4,710,223

Notes:

(a) The restricted bank deposits as at 31 December 2007 of approximately RMB29,521,000 were held in a commercial bank account as guarantee deposit for the advertising fee payable to a third party. The restriction will be released when the advertising fee is paid.

The restricted bank deposits as at 31 December 2006 of RMB20,000,000 were restricted for capital injection to a subsidiary to be set up. The subsidiary was set up on 26 January 2007 and the restriction was released on the same date.

As at 31 December 2007, the interest rate on the restricted bank deposits was 0.99% (2006: 0.72%) per annum.

(b) The cash and cash equivalents represent cash at bank and in hand. As at 31 December 2007 and 2006 cash and cash equivalents were denominated in the following currencies:

	Group As at 31 December 2007	Group As at 31 December 2006	Company As at 31 December 2007
RMB	599,701	264,842	—
USD	1,072	9,880	—
HKD	4,710,287	27	4,710,223
	5,311,060	274,749	4,710,223

As at 31 December 2007 and 2006, all cash and cash equivalents were deposits held at call with bank and the applicable interest rates were as follows:

	Group As at 31 December 2007	Group As at 31 December 2006	Company As at 31 December 2007
RMB	0.72–1.71%	0.72–1.62%	—
United States Dollars	1.00–3.95%	5.10%	1.00%
Hong Kong Dollars	0.65–5.38%	—	0.65–5.38%

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.

16 SHARE CAPITAL AND SHARE PREMIUM

(a) Share capital and share premium

	Company	
	Number of ordinary shares of par value HKD0.01	**Nominal value of ordinary shares HKD'000**
Authorised		
At 31 December 2007	10,000,000,000	100,000

At the date of incorporation of 23 March 2007, the authorised share capital of the Company was USD 50,000 divided into 5,000,000 shares of par value USD 0.01 ("USD Share"). On 27 March 2007, a subscriber's resolution was passed to re-denominate the authorised capital of the Company from USD 50,000 to HKD 390,000 by the creation of 390,000 shares of par value HKD 1 ("HKD Share"), and the 5,000,000 USD Shares were cancelled. On 9 May 2007, shareholders' resolutions were passed to approve the subdivision of each HKD Share to 100 shares of par value HKD 0.01. On 12 September 2007, shareholders' resolutions were passed to increase the authorised share capital of the company to HKD 100,000,000 divided into 10,000,000,000 shares of par value HKD0.01.

	Group and Company				
	Number of ordinary shares of par value HKD0.01	**Nominal value of ordinary shares**	**Equivalent nominal value of ordinary shares**	**Share premium account**	**Total**
		HKD'000	*RMB'000*	*RMB'000*	*RMB'000*
Issued and fully paid					
Issued HKD Shares *(Note (i))*	10,000,000	100	97	—	97
Issued HKD Shares pursuant to the Capitalisation Issue *(Note (ii))*	4,309,000,000	43,090	41,655	—	41,655
Issue of new shares upon initial public offering *(Note (iii))*	1,358,150,000	13,582	13,152	5,000,710	5,013,862
At 31 December 2007	5,677,150,000	56,772	54,904	5,000,710	5,055,614
Represented by:					
Share premium				4,938,829	
Proposed final dividend *(Note 30)*				61,881	
				5,000,710	

The movements in the Company's issued share capital and share premium for the period from 23 March 2007 (date of incorporation of the Company) to 31 December 2007 are as follows:

(i) Upon incorporation on 23 March 2007, one share of par value USD0.01 of the Company was allotted and issued as fully paid to Mapcal Limited as the initial subscriber for a consideration of USD0.01. On 27 March 2007, upon the re-denomination of the authorized share capital of the Company from USD50,000 to HKD390,000 by the creation of 390,000 HKD Shares of par value HKD1, one HKD Share was issued to Mapcal Limited and the one USD Share held by Mapcal Limited was repurchased with the proceeds received from the issue of the one HKD Share.

On 5 April 2007, the one HKD Share held by Mapcal Limited was transferred to Poseidon at par value and the Company allotted and issued a further of nine HKD Shares to Poseidon for a consideration of HKD9.

On 9 May 2007, shareholders' resolutions were passed to approve the subdivision of each HKD Share to 100 HKD Shares of par value HKD0.01.

On 29 June 2007, pursuant to the Reorganisation (Note 1), the Company allotted and issued to Poseidon Sports Limited, MS Apparel Limited and MS Apparel II Limited 7,999,000, 1,890,000 and 110,000 Shares respectively, credited as fully paid, in exchange for the transfer of the companies now comprising the Group from the then shareholders.

Subsequent to 29 June 2007, the issued share capital of the Company became HKD100,000 divided into 10,000,000 shares of par value HKD 0.01.

(ii) Pursuant to the resolutions of shareholders passed on 12 September 2007, the Company allotted and issued a total of 4,309,000,000 shares credited as fully paid at par to the then shareholders of the Company by way of capitalisation of a sum of HKD43,090,000 (approximately RMB41,655,000) standing to the credit of the capital reserve account of the Company. The shares allotted and issued rank pari passu in all respects with the previous issued shares (the "Capitalisation Issue").

(iii) The Company's shares were listed on The Stocks Exchange of Hong Kong Limited on 10 October 2007 and 1,358,150,000 new shares with par value of HKD0.01 were issued at HKD3.98 per share to investors in Hong Kong and overseas by way of global initial public offering and upon the exercise of the over-allotment option. The Company raised net proceeds of HKD5,177 million (approximately RMB5,014 million), after offsetting listing expenses, of which approximately RMB13,152,000 and RMB5,000,710,000 were recorded in paid-up share capital and share premium accounts respectively.

(iv) 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 will be in a position to pay off its debts as they fall due in the ordinary course of business of the Company.

(b) Share option schemes

Pre-IPO Share Option scheme

Pursuant to a shareholders' resolution passed on 17 September 2007, the Company adopted a share option scheme (the "Pre-IPO Share Option Scheme") and granted a total of 18,700,000 pre-IPO share options to independent non-executive directors and employees at a subscription price representing a discount of 30% to the global initial public offering price. All options granted under the Pre-IPO Share Option Scheme are subject to a vesting period of six months commencing from the date of listing of the Company's shares on The Stocks Exchange of Hong Kong Limited. These options are exercisable during a period of two years ending 9 April 2010. The Group has no legal and constructive obligation to repurchase or settle these options in cash. No further options can be granted under the Pre-IPO Share Option Scheme.

The movement in the number of share options outstanding and their related weighted average exercise prices during the year ended 31 December 2007 are as follows:

	Average exercise price per share *HKD*	Number of share options
At 1 January	—	—
Granted to non-executive directors	2.786	600,000
Granted to employees	2.786	18,100,000
At 31 December	2.786	18,700,000
Share option granted at 31 December 2007	2.786	18,700,000

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

The weighted average fair value of options granted in 2007 as determined using the Black-Scholes valuation model was HKD1.55 per option. The significant inputs into the model were spot price of HKD3.76, exercise price as shown above, volatility of 50%, option life of two and a half years, annual risk-free interest rate of 3.9%.

Based on the above, the fair value of the above options granted during the year was approximately HKD29,000,000 (2006: nil), of which the attributable amount charged to the consolidated income statement as employee benefit expenses during the year ended 31 December 2007 was approximately RMB14,279,000 (Note 25) (2006: nil).

Share Option Scheme

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

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

No share options have been granted under the Share Option Scheme during the year ended 31 December 2007 and up to date of this report.

17 RESERVES

	Capital reserve	Share-based compensation reserve	Special reserve	Statutory reserves	Exchange reserve	Retained earnings	Total
Year ended 31 December 2006							
At 1 January 2006	5,599	—	—	5,150	—	33,124	43,873
Distributions to equity holders *(Note (a))*	(36,910)	—	—	—	—	—	(36,910)
Capital injection from equity holders	24,082	—	—	—	—	—	24,082
Appropriation of statutory reserves *(Note (b))*	—	—	—	742	—	(742)	—
Contribution by the Investors *(Note 22)*	280,069	—	(280,069)	—	—	—	—
Profit for the year	—	—	—	—	—	306,459	306,459
Dividend relating to 2005 paid	—	—	—	—	—	(30,000)	(30,000)
At 31 December 2006	272,840	—	(280,069)	5,892	—	308,841	307,504
Year ended 31 December 2007							
At 1 January 2007	272,840	—	(280,069)	5,892	—	308,841	307,504
Contribution by the Investors *(Note 22)*	23,203	—	—	—	—	—	23,203
Derecognition of a financial liability *(Note 22)*	15,445	—	280,069	—	—	—	295,514
Issue of shares pursuant to the Capitalisation Issue *(Note 16 (a)(ii))*	(41,655)	—	—	—	—	—	(41,655)
Appropriation of statutory reserves *(Note (b))*	—	—	—	10,000	—	(10,000)	—
Share-based compensation *(Note (c))*	—	14,279	—	—	—	—	14,279
Foreign currency translation differences *(Note (d))*	—	—	—	—	(106,196)	—	(106,196)
Profit for the year	—	—	—	—	—	733,568	733,568
Dividends paid *(Note 30)*	—	—	—	—	—	(380,000)	(380,000)
At 31 December 2007	269,833	14,279	—	15,892	(106,196)	652,409	846,217

Company

	Capital reserves	Share-based compensation reserve	Exchange reserve	Retained earnings	Total
Period from 23 March 2007 to 31 December 2007					
At 23 March 2007, the date of incorporation	—	—	—	—	—
Issue of shares pursuant to the Capitalisation Issue *(Note (16 (a)(ii))*	(41,655)	—	—	—	(41,655)
Reserve resulted from the share swap pursuant to the Reorganisation *(Note 16(a)(i))*	10,068,859	—	—	—	10,068,859
Share-based compensation *(Note (c))*	—	14,279	—	—	14,279
Foreign currency translation differences *(Note (d))*	—	—	(106,196)	—	(106,196)
Profit for the period	—	—	—	269,545	269,545
Dividends paid *(Note (30))*	—	—	—	(230,000)	(230,000)
At 31 December 2007	10,027,204	14,279	(106,196)	39,545	9,974,832

Note:

(a) Distributions to equity holders of the Company during the years ended 31 December 2006 represented cash payments totaling RMB36,910,000 made to then shareholders for the acquisitions of the entire interests in Shanghai Taitan and Shanghai Leide by Gaea Sports pursuant to the Reorganisation (Note 1). These transactions were considered to be transfer of business under common control and the cash considerations paid by Gaea Sports were treated as deemed distributions to the equity holders.

(b) Subsidiaries of the Company incorporated in the PRC are required to make appropriations to certain statutory reserves namely, statutory reserve fund, enterprise expansion fund and discretionary reserve fund from their statutory profit for the year after offsetting accumulated losses as determined under the PRC accounting regulations from prior years and before profit distribution to equity holders. The percentages to be appropriated to such statutory reserve funds are determined according to the relevant regulations in the PRC at rates ranging from 5% to 10%, or at the discretion of the board of directors of the respective companies.

(c) Share-based compensation reserve represents value of employee services in respect of share options granted under the Pre-IPO Share Option Scheme, the details of which are set out note 16(b).

(d) Exchange reserve represents the difference arising from the translation of the financial statements of companies within the Group that have a functional currency different from the RMB presentation currency of the financial statements of the Group.

18 TRADE PAYABLES

The ageing analysis of trade payables as at 31 December 2007 and 2006 was as follows:

	Group	
	As at 31 December	
	2007	2006
Current	136,281	87,198
Overdue by:		
1 to 30 days	35,334	13,245
31 to 120 days	3,768	8,736
Over 120 days	2,236	3,671
	177,619	112,850

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

19 ACCRUALS AND OTHER PAYABLES

	Group		Company
	As at 31 December		As at 31 December
	2007	2006	2007
Advance from customers			
— Third parties	30,442	20,583	—
— Related parties *(Note 34 (c))*	—	2,177	—
Payable for purchase of Kappa trademark	—	23,426	—
Other taxes and levies payable	20,171	20,704	—
Listing expenses payables	22,905	—	22,905
Salary and welfare payables	12,645	7,420	—
Advertising fee payables	5,600	—	—
Accruals and other payables	21,041	7,559	901
	112,804	81,869	23,806

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

20 BORROWINGS

	Group	
	As at 31 December	
	2007	2006
Bank borrowing, secured — current	—	1,833
Bank borrowing, secured — non-current	—	3,357
	—	5,190

The bank borrowing was denominated in RMB and bore interest at 6.03% per annum. It was secured by a pledge of the Group's building with net book value amounting to approximately RMB11,870,000 (Note 6).

The bank borrowing was repayable as follows:

	Group As at 31 December 2007	2006
Within one year	—	1,833
In the second year	—	2,098
In the third to fifth years	—	1,259
	—	5,190

The carrying amounts of the borrowing approximated their fair values as at the balance sheet dates.

21 LICENCE FEES PAYABLE

	Group As at 31 December 2007	2006
Rukka licence fees payable	7,463	7,072
	7,463	7,072

The payment terms of licence fees payable are as follows:

	As at 31 December 2007	2006
Within one year	1,557	638
In the second year	1,308	965
In the third to fifth years	4,598	5,469
	7,463	7,072
Less: Current portion	(1,557)	(638)
Long-term portion	5,906	6,434
Estimated fair value of:		
Current portion	1,455	625
Long-term portion	5,695	5,936
	7,150	6,561

The movement in licence fees payable during the years ended 31 December 2007 and 2006 is as follows:

	Year ended 31 December 2007	2006
At 1 January	7,072	48,209
Imputed interest expenses *(Note 26)*	391	388
Payment	—	(7,324)
De-recognition *(Note 8 (b), 23)*	—	(34,201)
At 31 December	7,463	7,072

The licence fees payable represents the expected licence fees, including periodic payment and expected variable payments that will be payable through end of the respective licence periods based on pre-determined criteria on future revenues from the Kappa and Rukka licensed businesses that can be reliably estimated at the inception of the licences. They are recognised based on a discount rate of 5.85% per annum, which approximated the then external bank borrowing rate at inception of the respective licences. The licence fees payable are denominated in USD.

The estimated fair values are calculated based on discount rates of 7.74% per annum as at 31 December 2007 (2006: 6.48%), which approximated the then external bank borrowing rates available to the Group.

22 FINANCIAL LIABILITY

	Group and the Company As at 31 December	
	2007	**2006**
Financial liability to the Investors	—	295,514

The financial liability recognised in the balance sheet is calculated as follows:

Initial recognition during the year ended 31 December 2006	280,069
Imputed finance costs *(Note 26)*	22,789
Translation difference	(7,344)
At 31 December 2006	295,514

On 10 May 2006, the Company, Achilles, Poseidon, the Equity Holders and the Investors entered into an investment agreement, and other relevant agreement (collectively the "Investment Agreements"). Pursuant to the Investment Agreements, between May 2006 and September 2006, the Investors contributed a total of USD 35,000,000 (equivalent to approximately RMB280,069,000) to the Group, and in return, Achilles issued Notes amounting to USD 29,000,000 and the Company issued Bridge Notes amounting to USD6,000,000 to the Investors. In March 2007, the Investors contributed an additional USD 3,000,000 (equivalent to approximately RMB23,203,000) to the Group making the Investors' total contributions amounting to USD 38,000,000 (equivalent to approximately RMB303,272,000), and in return, Achilles issued Trademark Recordation Notes to the same amount to the Investors. Upon the completion of the pre-conditions set out in the Investment Agreements including, inter alia, the acquisition and successful registration of the Kappa trademarks, in April 2007, the Company allotted and issued 2,000 ordinary shares, representing 20% of its issued share capital, to the Investors. The consideration for the share issue was satisfied by the Investors assigning their rights under the Notes and the Trademark Recordation Notes to the Company and the Company canceling the Bridge Notes.

Given that the notes issued would effectively be exchanged for the issuance of a fixed number of ordinary shares of the Company upon occurrence of future events which were under the control of the Group, in accordance with IFRS and the Group's accounting policies, the notes were regarded as equity instruments upon issuance, and accordingly RMB280,069,000 was deemed to be capital contribution from the Investors during the year ended 31 December 2006 (Note 17).

Also pursuant to the terms of the Investment Agreements, if, among others, the Company could not successfully complete the listing of its shares on an internationally recognised stock exchange outside the PRC or on the main board of the Stock Exchange of Hong Kong Limited on or before 20 May 2009, the Investors had rights to have all or a portion of the shares held by them to be repurchased by the Company or Poseidon at predetermined prices, including a price equal to the amount that will yield a fixed internal rate of return of 15% on the amount of total contributions by the Investors. Since successful listing was not an event within the control of the Group, accordingly, the Group was regarded as not having an unconditional right to avoid the delivery of cash to settle the share re-purchase contractual obligation on 20 May 2009. A financial liability has therefore been recognised concurrently with the recognition of the capital contribution equity upon the issue of the notes.

The financial liability of RMB280,069,000 had been recognised at the present value of the amount that Hong Kong Dongxiang would have been required to pay for the re-purchase of the 20% equity interest from the Investors, based on a discount rate of 15% which represented the rate of return demanded by the Investors.

The carrying amount of the financial obligation as at 31 December 2006 approximated its fair values.

On 17 April 2007, the parties to the Investment Agreements entered into an Amendment No. 1 Deed to formalise an agreement arrived at between the Company and the Investors on 9 February 2007, pursuant to which Hong Kong Dongxiang was not a party to re-purchase the equity interest held by the Investors while Poseidon remains obliged to provide the re-purchase option to the Investors. Also pursuant to the Amendment No. 1 Deed, Hong Kong Dongxiang agreed to provide Poseidon an irrevocable line of standby credit which could be utilized by Poseidon, as and if needed, solely for the purpose of settling Poseidon's share re-purchase obligation to the Investors. The irrevocable line of credit shall bear interest at the then applicable market interest rate, compounded annually, from the date of drawdown to the date of repayment. The drawdowns shall be repayable by Poseidon to Hong Kong Dongxiang within such period of time as requested by Hong Kong Dongxiang depending on the amount of the drawdowns but in any event shall be no later than the third anniversary of the first drawdown date. Based on the terms of the Amendment No. 1 Deed, the financial liability has been derecognised and reclassified to equity in 2007 according to IAS 32, Financial instruments: Disclosure and presentation, since Hong Kong Dongxiang was no longer obliged to provide the share re-purchase option to the Investors.

23 OTHER INCOME

	Year ended 31 December	
	2007	**2006**
Subsidy income	17,734	2,607
Gain on de-recognition of Kappa licence right	—	6,866
Others	2,410	464
	20,144	9,937

The gain on de-recognition of Kappa licence right represented the charging to income statement of the net credit balance of the carrying value of the intangible asset of RMB32,379,000 (Note 8), the licence fees payable of RMB34,201,000 (Note 21) and the related un-realised deferred tax liabilities of RMB5,044,000 (Note 10) which were de-recognised in 2006 upon the termination of the Kappa licence rights (Note 8 (b)).

24 EXPENSES BY NATURE

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

	Year ended 31 December	
	2007	**2006**
Cost of inventories recognised as expenses included in cost of sales and distribution costs *(Note 11)*	696,559	323,442
Depreciation of property, plant and equipment *(Note 6)*	4,161	2,008
Loss on disposal of property, plant and equipment *(Note 6)*	—	174
Amortisation of lease prepayments *(Note 7)*	3,551	261
Amortisation of intangible assets *(Note 8)*	9,659	8,422
Advertising and marketing expenses	111,026	69,682
Employee salary and benefit expense *(Note 25)*	60,192	25,650
Withholding business tax on licence fees payable to overseas subsidiary	8,247	4,247
Design and product development expense	30,795	7,925
Legal and consulting expense	8,952	6,325
Operating lease in respect of buildings	7,771	2,696
Logistic fees	18,249	8,415
Write-down of inventories to net realisable value *(Note 11)*	9,007	—
(Reversal of)/Provision for impairment of trade and other receivables *(Note 13)*	(1,595)	604
Auditors' remuneration	2,032	2,511
Others	37,840	20,888
Total of cost of sales, distribution costs and administrative expenses	1,006,446	483,250

25 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2007	**2006**
Wages and salaries	33,770	20,760
Pension cost	3,242	1,223
Staff quarters and housing benefit	1,166	544
Expenses recognised in relation to Pre-IPO Share Option (Note 16)	14,279	—
Other benefit	7,735	3,123
	60,192	25,650

(a) Pensions — defined contribution plans

The employees of the subsidiaries of the Group in the PRC participate in defined contribution retirement benefit plans organised by the relevant provincial governments. For the year ended 31 December 2007, the Group is required to make monthly contributions to these plans at 20% (2006: 20%) of the basic salary amounts subject to a certain ceiling.

The Group has no other obligations for the payment of retirement and other post-retirement benefits of employees or retirees other than the defined contribution payments as disclosed above.

(b) Directors' and senior management's emoluments

The remuneration of each Director for the year ended 31 December 2007 is set out below:

Name of Director	Fees	Salary	Discretionary bonuses	Other benefits*	Employer's contribution to pension scheme	Total
Mr. Chen Yihong	37	1,503	—	13	21	1,574
Mr. Qin Dazhong	37	998	—	13	21	1,069
Mr. Xiang Bing	37	—	—	153	—	190
Mr. Xu Yudi	37	—	—	153	—	190
Mr. Mak Kin Kwong	37	—	—	153	—	190
	185	2,501	—	485	42	3,213

The remuneration of each director for the year ended 31 December 2006 is set out below:

Name of Director	Fees	Salary	Discretionary bonuses	Other benefits*	Employer's contribution to pension scheme	Total
Mr. Chen Yihong	—	549	—	21	19	589
Mr. Qin Dazhong	—	350	140	21	19	530
Mr. Xiang Bing	—	—	—	—	—	—
Mr. Xu Yudi	—	—	—	—	—	—
Mr. Mak Kin Kwong	—	—	—	—	—	—
	—	899	140	42	38	1,119

* *Other benefits include insurance premium, housing allowance and the fair value of share options charged to the consolidated income statement during the year.*

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2006: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2006: three) individuals during the year are as follows:

	2007	2006
Basic salaries, bonus, share options, other allowances and benefits in kind	6,709	1,031
Pension costs	63	53
	6,772	1,084

The emoluments fell within the following bands:

	Number of individuals	
	2007	2006
Emolument bands (in HK dollar)		
Below HKD1,000,000	—	3
HKD1,000,000–HKD2,000,000	1	—
HKD2,000,000–HKD3,000,000	1	—
Over HKD3,000,000	1	—
	3	3

26 FINANCE INCOME/(COSTS), NET

	Year ended 31 December	
	2007	2006
Interest income from subscription money upon initial public offering	44,742	—
Interest income from bank deposits	56,408	2,645
Total interest income	101,150	2,645
Interest expense on bank borrowings repayable within five years	(149)	(121)
Interest expense on financial obligation *(Note 22)*	—	(22,789)
Interest expense on licence fees payable *(Note 21)*	(391)	(388)
Total interest expenses	(540)	(23,298)
Foreign exchange (losses)/gains, net	(54,068)	7,121
	46,542	(13,532)

27 INCOME TAX EXPENSE

	Year ended 31 December	
	2007	2006
Current income tax		
— PRC enterprise income tax ("EIT")	39,581	61,938
Deferred income tax *(Note 10)*	(1,886)	3,679
	37,695	65,617

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

Hong Kong profits tax and Singapore profits tax have not been provided as there are no estimated assessable profits arising in or derived from Hong Kong and Singapore during the year ended 31 December 2007 (2006: Nil).

The subsidiaries incorporated in the PRC are subject to income tax at applicable rates ranging from 15% to 33% during the year ended 31 December 2007 and 2006. Shanghai Taitan and Shanghai Kappa are entitled to preferential income tax rate of 15% as resident in Shanghai Pudong New Area. In addition Shanghai Kappa obtained approval from the State Taxation Bureau of Shanghai Pudong New Area for its entitlement to full exemption from the preferential income tax of 15% for its first profit making year ended 31 December 2007.

Effective from 1 January 2008, the subsidiaries incorporated in the PRC will be subject to corporate income tax at the rate of 25% in accordance with the Corporate Income Tax Law of the PRC as approved by the National People's Congress on 16 March 2007. The preferential tax rates available to the Group's PRC subsidiaries will no longer be available since 1 January 2008. In addition, the distribution of profits of PRC subsidiaries since 1 January 2008 will be subject to withholding income tax.

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the combined companies as follows:

	Year ended 31 December	
	2007	**2006**
Profit before income tax	771,263	372,076
Tax calculated at the statutory tax rate of 33%	254,517	122,785
Preferential tax rates on the profits of certain subsidiaries	(227,018)	(70,149)
Expenses not deductible for tax purpose	25,377	11,218
Non-taxable income	(13,724)	—
Others	(1,457)	1,763
Income tax expense	37,695	65,617

The weighted average applicable tax rate was 4.9% (2006: 17.6%).

28 PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

The profit attributable to the equity holders of the Company for the year ended 31 December 2007 presented in the financial statements of the Company is of approximately RMB269,545,000 (Note 17).

29 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year. The comparative basic earnings per share for the year ended 31 December 2006 is calculated based on the profit attributable to the equity holders of the Company and on the assumption that the 4,319,000,000 shares issued upon the incorporation of the Company and in connection with the Reorganisation and Capitalization Issue (note 16(a)(ii)) had been in issue since 1 January 2006.

	2007	**2006**
Profit attributable to equity holders of the Company *(RMB'000)*	733,568	306,459
Weighted average number of ordinary shares in issue *(thousands)*	4,617,162	4,319,000
Basic earnings per share *(RMB cents per share)*	15.89	7.10

(b) Diluted

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has pre-IPO share options for 18,700,000 shares of the Company which are the dilutive potential ordinary shares. The comparative diluted earnings per share for the year ended 31 December 2006 are calculated based on the profit attributable to the equity holders of the Company and on the assumption that the 4,319,000,000 shares issued upon the incorporation of the Company and in connection with the Reorganisation and Capitalization Issue (Note 16(a)(ii)), and shares in relation to the pre-IPO share options upon exercise, have been in issue since 1 January 2006.

	2007	**2006**
Profit attributable to equity holders of the Company *(RMB'000)*	733,568	306,459
Weighted average number of ordinary shares in issue *(thousands)*	4,617,162	4,319,000
Adjustment for Pre-IPO Share Options *(thousands)*	18,700	18,700
Weighted average number of ordinary shares in issue for diluted earnings per share *(thousands)*	4,635,862	4,337,700
Diluted earnings per share *(RMB cents per share)*	15.82	7.07

30 DIVIDENDS

	2007
Interim dividend	150,000
Special dividend	230,000
Final dividend proposed, of RMB1.09 cents per ordinary share	61,881
	441,881

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

Pursuant to a resolution passed on 12 September 2007, the Company declared a special dividend of RMB230,000,000 in relation to the profit of the Group for the five months ended 31 May 2007. The dividend was paid in October 2007.

Pursuant to a resolution passed on 1 April 2008, the Company proposed a final dividend of RMB1.09 cents per ordinary share, totaling RMB61,881,000 from share premium account for the year ended 31 December 2007. This proposed dividend is not reflected as a dividend payable in the financial statements, and will be reflected as an appropriation of share premium account in the year ending 31 December 2008.

31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS

(a) Reconciliation of profit for the year to net cash generated from operations

	Year ended 31 December	
	2007	**2006**
Profit before income tax for the year	771,263	372,076
Adjustments for:		
— Depreciation of property, plant and equipment *(Note 6)*	4,161	2,008
— (Gain)/Loss on disposal of property, plant and equipment	(95)	174
— Amortisation of lease prepayment *(Note 7)*	3,551	261
— Amortisation of intangible assets *(Note 8)*	9,659	8,422
— Gain on de-recognition of intangible assets *(Note 23)*	—	(6,866)
— Write-down of inventories to net realisable value *(Note 11)*	9,007	—
— (Reversal of)/provision for impairment of trade receivables *(Note 13)*	(1,595)	604
— Interest income *(Note 26)*	(101,150)	(2,645)
— Interest expenses *(Note 26)*	540	23,298
— Investment income on held-to-maturity	(584)	—
— Fair value change on financial assets at fair value through profit or loss	(1,505)	—
— Expenses recognised in relation to Pre-IPO Share Option *(Note 25)*	14,279	—
— Exchange losses/(gains), net *(Note 26)*	54,068	(7,121)
	761,599	390,211
Changes in working capital:		
— Inventories	(9,334)	(56,640)
— Trade receivables, prepayments, deposits and other receivables	(63,717)	(55,302)
— Trade payables, accruals and other payables	(60,428)	104,273
— Licence fees payable	391	(6,936)
— Amounts due to related parties	(727)	727
Cash generated from operations	627,784	376,333

(b) In the consolidated cash flow statements, proceeds from disposal of property, plant and equipment comprise:

	Year ended 31 December	
	2007	**2006**
Net book amount *(Note 6)*	34	174
Gain on disposal of property, plant and equipment	95	(174)
Proceeds from disposal of property, plant and equipment	129	—

32 CONTINGENCIES

The Group had no significant contingent liabilities as at 31 December 2007 and 2006.

33 COMMITMENTS — THE GROUP

(a) Operating lease commitments

The Group leases certain of its office premises, 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 were as follows:

	As at 31 December	
	2007	**2006**
Not later than 1 year	17,980	737
Later than 1 year and not later than 5 years	57,892	—
	75,872	737

34 RELATED PARTY TRANSACTIONS

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

During the years ended and as at 31 December 2007 and 2006, the Group had the following transactions and balances with related parties:

(a) Transactions with related parties

	Year ended 31 December	
	2007	**2006**
Discontinued:		
Reimbursement of interest expenses		
— Mr. Chen Yihong	—	727
Borrowings from directors		
— Mr. Chen Yihong	5,766	—
— Mr. Qin Dazhong	434	—
	6,200	—
Continuing:		
Sales of goods:		
— Beijing Dong Gan Jing Ji Company Limited ("Beijing Dong Gan Jing Ji")	157,513	97,963

Beijing Dong Gan Jing Ji is a company beneficially owned by Mr. Chen Yihong's brother, Mr. Chen Yiliang.

(b) Balances with related parties

	As at 31 December	
	2007	**2006**
Trade receivables *(Note 13)*:		
— Beijing Dong Gan Jing Ji	25,108	5,569
Accruals and other payables:		
— Beijing Dong Gan Jing Ji	—	2,177
Amounts due to related parties:		
— Mr. Chen Yihong	—	727

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

(c) Key management compensation

	Year ended 31 December	
	2007	**2006**
Salaries, bonus and other welfares	13,874	2,445
Pension — defined contribution plans	126	109
	14,000	2,554

35 EVENTS AFTER THE BALANCE SHEET DATE

Save as disclosed elsewhere in this report, the following significant events took place subsequent to 31 December 2007:

On 13 March 2008, the Company and Orix Corporation ("ORIX") (collectively "the Parties") entered into a non-binding letter of intent ("LOI") in relation to the proposed acquisition of the entire issued share capital of Phenix Co., Ltd. ("Phenix"), a company established under the laws of Japan, at a price to be agreed (the "Acquisition"). Pursuant to the LOI, ORIX agreed to negotiate with the Company on an exclusive basis, and if agreement is reached, the Parties intend to enter into definitive agreements regarding the Acquisition on or before 25 April 2008. The LOI will be terminated automatically at the earlier of 30 April 2008 or upon the execution of the definitive agreements. Phenix is a sporting apparel company with core operations in design, development and sales. Its major brands include, among others, "PHENIX" in the ski and outdoor sportwear market globally and "Kappa" in the football and athletic-wear market in Japan. The Group considers that the Acquisition is in line with the Group's multi-brand strategy.

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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

30 June 2008

The Directors
China Dongxiang (Group) Co., Ltd.

Dear Sirs,

Introduction

We set out below our report on the financial information (the "Financial Information") of Phenix Co., Ltd. (the "Target Company") set out in Sections I to III below, for inclusion in the circular of China Dongxiang (Group) Co., Ltd. (the "Company") dated 30 June 2008 (the "Circular") in connection with the acquisition of equity interest in and outstanding loans of the Target Company and the subscription of newly issued equity interest in the Target Company by the Company. The Financial Information comprises the balance sheets of the Target Company as at 28 February 2006, 28 February 2007 and 29 February 2008, and the income statements, the statements of changes in equity and the cash flow statements of the Target Company for the nine months ended 28 February 2006 and each of the years ended 28 February 2007 and 29 February 2008 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory notes.

The Target Company was initially established as a limited liability company under the name of Al Leasing Co., Ltd. on 13 September 1990 under the laws of Japan. Its name was subsequently changed to Orix PE Two Corporation and then Phenix Co., Ltd. on 8 December 2000 and 1 December 2004 respectively. On 21 September 2004, the Target Company was converted from a limited liability company to a joint stock company.

As at the date of this report, the Target Company has direct interests in jointly controlled entities as set out in Note 9 of Section II below. These companies were established outside Hong Kong, and have substantially the same characteristics as a Hong Kong incorporated private company.

The Target Company adopted 31 May 2005 as its financial year end for the six months ended 31 May 2005 and changed to 28/29 February pursuant to a resolution of the board of directors of the Target Company passed on 20 July 2005. The jointly controlled entities have adopted 31 December as their financial year end date.

The Target Company is not subject to statutory audit requirement in Japan. The Target Company engaged KPMG Azsa & Co., certified public accountants registered in Japan, to perform audits on the financial statements prepared in accordance with accounting principles generally accepted in Japan (the "Japanese GAAP") for the nine months ended 28 February 2006 and the year ended 28 February 2007. No audit on the financial statements prepared under Japanese GAAP for the year ended up to February 2008 has been performed.

The Financial Information has been prepared based on the audited financial statements or, where appropriate, the unaudited financial statements of the Target Company and its jointly controlled entities, after making such adjustments as are appropriate.

Directors' responsibility

The directors of the Target Company during the Relevant Periods are responsible for the preparation and the true and fair presentation of the financial statements of the Target Company in accordance with Japanese GAAP. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The directors of the Company are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with International Financial Reporting Standards ("IFRS") issued by International Accounting Standards Board ("IASB"). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Reporting accountant's responsibility

Our responsibility is to express an opinion on the Financial Information based on our examination and to report our opinion to you. We examined the audited financial statements or, where appropriate, the unaudited financial statements of the Target Company and its jointly controlled entities for the Relevant Periods used and the related adjustments made in preparing the Financial Information, and carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Opinion

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the state of affairs of the Target Company as at 28 February 2006, 28 February 2007 and 29 February 2008 and of the Target Company's results and cash flows for the Relevant Periods.

I. FINANCIAL INFORMATION OF THE TARGET COMPANY

The following is the Financial Information of the Target Company as at 28 February 2006, 28 February 2007 and 29 February 2008 and for the Relevant Periods:

(a) Balance sheets

	Section II Note	**As at 28 February 2006**	**As at 28 February 2007**	**As at 29 February 2008**
		Yen'000	*Yen'000*	*Yen'000*
ASSETS				
Non-current assets				
Property, plant and equipment	7	365,658	326,411	281,548
Intangible assets	8	1,794,515	1,705,496	323,166
Investments in jointly controlled entities	9	400,275	416,591	415,832
Other receivables	10	273,880	273,880	273,880
		2,834,328	2,722,378	1,294,426
Current assets				
Inventories	12	1,303,150	2,076,768	1,568,745
Trade and notes receivables	13	2,750,393	2,276,568	1,976,918
Prepayments, deposits and other receivables	14	242,840	277,698	270,083
Cash and bank balances	15	605,433	417,426	602,221
		4,901,816	5,048,460	4,417,967
Total assets		7,736,144	7,770,838	5,712,393

	Section II Note	**As at 28 February 2006** *Yen'000*	**As at 28 February 2007** *Yen'000*	**As at 29 February 2008** *Yen'000*
EQUITY				
Capital and reserve attributable to equity holders of the Target Company				
— Share capital	16	495,000	495,000	495,000
— Reserves	17	(434,552)	(788,068)	(3,690,877)
Total equity/(deficit)		60,448	(293,068)	(3,195,877)
LIABILITIES				
Non-current liabilities				
Borrowings	18	1,969,574	1,719,574	—
Deferred tax liabilities	25	54,579	94,643	11,060
Licence fees payable	19	22,709	9,050	61,245
Other payables	20	518,700	—	—
		2,565,562	1,823,267	72,305
Current liabilities				
Trade and notes payables	21	2,421,181	3,197,420	1,808,003
Accruals and other payables	22	653,240	1,135,328	567,980
Borrowings	18	1,419,804	1,477,735	6,000,000
Derivative financial instruments	23	34,769	—	—
Licence fees payable — current portion	19	53,647	13,659	44,140
Provisions	24	510,059	392,343	392,475
Current income tax liabilities		17,434	24,154	23,367
		5,110,134	6,240,639	8,835,965
Total liabilities		7,675,696	8,063,906	8,908,270
Total equity/(deficit) and liabilities		7,736,144	7,770,838	5,712,393
Net current liabilities		(208,318)	(1,192,179)	(4,417,998)
Total assets less current liabilities		2,626,010	1,530,199	(3,123,572)

(b) Income statements

	Section II Note	**Nine months ended 28 February 2006** *Yen'000*	**Year ended 28 February 2007** *Yen'000*	**Year ended 29 February 2008** *Yen'000*
Revenue	6	8,884,832	11,707,316	10,279,891
Cost of sales	26	(4,968,116)	(6,472,952)	(6,147,249)
Gross profit		3,916,716	5,234,364	4,132,642
Other income		84,860	90,755	77,962
Distribution costs	26	(3,205,645)	(4,375,150)	(5,731,671)
Administrative expenses	26	(933,134)	(1,078,638)	(1,203,687)
Other gains/(losses), net	27	326,372	(31,384)	(92,622)
Operating profit/(loss)		189,169	(160,053)	(2,817,376)
Finance costs, net	30	(132,887)	(166,545)	(167,159)
Share of profit/(loss) of jointly controlled entities	9	14,116	5,453	(3,727)
Profit/(loss) before income tax		70,398	(321,145)	(2,988,262)
Income tax (expense)/credit	31	(48,556)	(57,683)	66,802
Profit/(loss) for the period/ year		21,842	(378,828)	(2,921,460)
Attributable to:				
Equity holders of the Target Company		21,842	(378,828)	(2,921,460)
Earnings/(loss) per share for profit/(loss) attributable to the equity holders of the Target Company		*Yen*	*Yen*	*Yen*
— Basic and diluted	32	1.11	(19.33)	(149.05)

(c) Statements of changes in equity

	Section II Note	**Share capital** *Yen'000*	**Reserves** *Yen'000*	**Total** *Yen'000*
At 1 June 2005		495,000	(485,501)	9,499
Profit for the period	17	—	21,842	21,842
Currency translation difference	17	—	34,520	34,520
Release of reserve upon disposal of financial assets available for sale	17	—	(5,413)	(5,413)
At 28 February 2006		495,000	(434,552)	60,448
Loss for the year	17	—	(378,828)	(378,828)
Currency translation difference	17	—	25,312	25,312
At 28 February 2007		495,000	(788,068)	(293,068)
Loss for the year	17	—	(2,921,460)	(2,921,460)
Currency translation difference	17	—	18,651	18,651
At 29 February 2008		495,000	(3,690,877)	(3,195,877)

(d) Cash flow statements

	Section II Note	**Nine months ended 28 February 2006** *Yen'000*	**Year ended 28 February 2007** *Yen'000*	**Year ended 29 February 2008** *Yen'000*
Operating activities:				
Cash generated from/(used in) operations	35(a)	425,640	465,121	(2,944,549)
Income tax paid		(12,796)	(10,900)	(17,568)
Interest paid		(64,615)	(85,166)	(186,189)
Interest received		156	165	334
Net cash generated from/(used in) operating activities		348,385	369,220	(3,147,972)
Investing activities:				
Purchase of property, plant and equipment		(20,399)	(56,713)	(81,530)
Payment of outstanding consideration of acquiring Kappa trademark	20	(285,123)	(518,700)	—
Purchase of other intangible assets		(10,374)	(3,790)	(18,470)
Proceeds from disposal of property, plant and equipment	35(b)	99,350	194	—
Proceeds from disposal of available for sale financial assets		77,130	—	—
Dividends received from jointly controlled entities		12,008	14,450	15,683
Payment of license fees	19	(62,360)	(62,668)	(43,342)
Net cash used in investing activities		(189,768)	(627,227)	(127,659)

	Section II Note	**Nine months ended 28 February 2006**	**Year ended 28 February 2007**	**Year ended 29 February 2008**
		Yen'000	*Yen'000*	*Yen'000*
Financing activities:				
Proceeds from loan from Orix		—	320,000	5,680,000
Proceeds from bank borrowings		1,191,971	1,450,000	—
Repayments of bank borrowings		(1,316,971)	(1,700,000)	(2,219,574)
Net cash (used in)/generated from financing activities		(125,000)	70,000	3,460,426
Increase/(decrease) in cash and cash equivalents		33,617	(188,007)	184,795
Cash and cash equivalents at beginning of the period/year	15	571,816	605,433	417,426
Cash and cash equivalents at end of the period/year	15	605,433	417,426	602,221

II. NOTES TO THE FINANCIAL INFORMATION

1 GENERAL INFORMATION OF THE TARGET COMPANY

The Target Company is principally engaged in brand development, design and sale of sport-related apparel in Japan.

The Target Company was initially established as a limited liability company under the name of Al Leasing Co., Ltd. on 13 September 1990 under the laws of Japan. Its name was subsequently changed to Orix PE Two Corporation and then Phenix Co., Ltd. on 8 December 2000 and 1 December 2004 respectively. On 21 September 2004, the Target Company was converted from a limited liability company to a joint stock company. The address of the Target Company's registered office during the Relevant Periods is 10-8, Yutaka-cho 2-chome, Shibata-shi, Niigata, Japan.

During the Relevant Periods, the directors of the Target Company regard OPI2002 Toushi Jigyou Kumiai ("OPI"), a partnership established under the laws of Japan and Orix Corporation ("Orix"), a company incorporated under the laws of Japan and whose shares have been listed on the Stock Exchanges in Tokyo, Osaka and New York, as being the Target Company's immediate holding company and ultimate holding company respectively.

In April 2008, Orix, OPI and the Company entered into several agreements whereby the Company, through a wholly owned subsidiary, agreed to purchase the entire equity interest in the Target Company and the assignment of the outstanding balance of the loan of Yen 5,937,000,000 provided by Orix to the Target Company. On 30 April 2008, the Company, through a wholly owned subsidiary, and Orix further agreed to subscribe certain new shares in the Target Company. Upon completion of the Share Purchase Agreement and the subscription of the new shares, on 1 May 2008 the Target Company become a 91% indirectly owned subsidiary of the Company. Further details are set out in Note 40.

2 BASIS OF PRESENTATION

(a) Going concern basis

As at 29 February 2008, the Target Company had net current liabilities of Yen 4,417,998,000 and deficit on equity of Yen 3,195,877,000. The Target Company had relied heavily on finance provided by its shareholder to continue its operations.

As at the date of this report, the Company has confirmed its present intention to provide sufficient continuing financial resources to the Target Company to enable it to meet its liabilities as and when they fall due and to continue its operations without significant curtailment. The directors of the Target Company believe that the Target Company is able to continue its operations for the foreseeable future. Accordingly, the Financial Information has been prepared on a going concern basis.

(b) Adoption of IFRS

The Financial Information has been prepared in accordance with IFRS. The Financial Information is the first set of the Target Company's financial statements prepared in accordance with IFRS. The Target Company has applied IFRS 1 "First-time Adoption of International Financial Reporting Standards" in preparing the Financial Information and has taken the exemptions relating to business combinations.

A reconciliation of the effect of the transition from Japanese GAAP to IFRS on the Target Company's total equity/(deficit) and profit/(loss) for the period/year is set out in Note 38.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with IFRS and under the historical cost convention, as modified by the revaluation of derivative financial instruments.

The preparation of the Financial Information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Target Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Financial Information, are disclosed in Note 5 of this section.

Throughout the Relevant Periods, the Target Company has adopted all the new and revised IFRS that are currently in use and effective for accounting periods commencing on or after 1 March 2007.

As at the date of this report, the following new standards, amendments to existing standards and interpretations have been issued by IASB but are mandatory for accounting periods beginning on or after 1 March 2008 and have not been early adopted by the Target Company. The Target Company anticipates that the adoption of these new standards, amendments to existing standards and interpretations will not result in substantial changes to the Target Company's accounting policies.

		Effective for accounting periods beginning on or after
IAS 1 (Revised)	"Presentation of Financial Statements"	1 January 2009
IAS 23 (Amendment)	"Borrowing Costs"	1 January 2009
IAS 27 (Revised)	"Consolidated and Separate Financial Statements"	1 July 2009
IAS 32 and IAS 1 (Amendment)	"Puttable Financial Instruments and Obligations Arising on Liquidation"	1 January 2009
IFRS 2 (Amendment)	"Share-based Payment Vesting Conditions and Cancellations	1 January 2009
IFRS 3 (Revised)	"Business Combinations"	1 July 2009
IFRS 8	"Operating Segments"	1 January 2009
IFRIC Interpretation 13	"Customer Loyalty Programmes"	1 July 2008
IFRIC Interpretation 14	"IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"	1 January 2008

The accounting policies set out below have been consistently applied throughout the Relevant Periods.

(a) Jointly controlled entities

A jointly controlled entity is a joint venture where the Target Company and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity. Investment in a jointly controlled entity is accounted for under the equity method of accounting, whereby the investment is initially recorded at cost and is adjusted thereafter to recognise the Target Company's share of the post-acquisition/establishment results and distributions received of the jointly controlled entity, and other necessary alternations in the Target Company's proportionate interest in jointly controlled entity arising from changes in equity of jointly controlled entity that have not been included in the income statement.

The Target Company's share of post-acquisition/establishment results after taxation of jointly controlled entities is included in the income statement.

Unrealised gains on transactions between the Target Company and its jointly controlled entities are eliminated to the extent of the Target Company's interest in the jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred.

(b) Segment reporting

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

The Target Company's primary format for reporting segment information is business segment, with geographical segment as secondary segment reporting format.

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the Financial Information of the Target Company are measured using the currency of the primary economic environment in which the entity operates. The Financial Information is presented in Japanese Yen ("Yen"), which is the Target Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statements.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale are included in the available-for-sale reserve in equity.

(iii) Foreign operation

The results and financial positions of all foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

(d) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Target Company and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statements during the financial period in which they are incurred.

Freehold land is not subject to depreciation. Depreciation of other properties, plant and equipment is calculated using the straight-line method to allocate the cost less impairment loss of each asset to its residual value over its estimated useful life, as follows:

Buildings	19–38 years
Vehicles	2 years
Office equipment and others	2–20 years
Leasehold improvements	7–15 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within other (losses)/gains, net, in the income statement.

(e) Intangible assets

(i) Trademarks

Acquired trademarks are shown at historical cost. Trademarks have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives of 40 years.

(ii) Licence rights

Licence rights are stated at historical cost less accumulated amortisation and impairment losses, if any. They are initially measured as the fair values of the future obligation to pay fixed periodic payments and the expected variable payments based on pre-determined criteria on future revenues from the licensed business that can be reliably estimated at inception of the licence periods. Amortisation is calculated using the straight-line method to allocate the cost of the licence rights over the periods of the respective contractual rights.

(iii) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 2 to 5 years.

(f) Impairment of non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(g) Financial assets

The Target Company's financial assets are loans and receivables. The classification depends on the purposes for which the financial assets were acquired. Management determine the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as "trade and notes receivables" and "cash and bank balances" in the balance sheet.

Purchases and sales of financial assets are recognised on trade-date, the date on which the Target Company commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Target Company has transferred substantially all risks and rewards of ownership. Loans and receivables are carried at amortised cost using the effective interest method.

The Target Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

(h) Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair values. Changes in the fair value of these derivatives instruments are recognised immediately in the income statement within "other gain/loss, net".

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods comprises raw materials and other direct costs but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses.

(j) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Target Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the income statement.

(k) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks.

(l) Share capital

Shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(m) Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(n) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Target Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs that are directly attributable to the acquisition, construction or production of any qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sales are realisable as part of the cost of the asset.

All other borrowing costs are charged to the income statement in the period in which they are incurred.

(o) Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in Japan where the Target Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax liabilities are provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(p) Licence fees payable

Licence fee payable in relation to a licence right is initially recognised at fair value of the considerations given to obtain the licence at the inception of the licence period. The fair value of the consideration is determined based on the present value of fixed periodic payments and expected variable payments that can be reliably estimated at the inception of the licence period. Expected variable payments are based on pre-determined criteria on future revenues by reference to forecast prepared based on certain key assumptions and with reference to past records of performance of the licensed business, the industry trend and other relevant factors, after considering uncertainties. Licence fee payable is subsequently stated at amortised cost using the effective interest method less payments made.

Interest is accrued on licence fees payable and charged to interest expenses in the income statement. Changes in expected cash flows recognised as an adjustment to royalty fee expense included in distribution costs in the income statement. The revised expected cash flows are discounted using the original effective interest rate to arrive at the carrying amount of the liability.

(q) Employee benefits — pension obligations

The Target Company has defined contribution plans for employees' retirement benefits. The relevant government agencies in Japan are responsible for the pension liability to these retired employees. The Target Company contributes on a monthly basis to these pension plans. Under these plans, the Target Company has no obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

(r) Provisions

Provisions are recognised when the Target Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is realizable as interest expense.

(s) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Target Company's activities. Revenue is shown net of value-added tax, returns, rebates and discounts, where appropriate.

The Target Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Target Company's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Target Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Sales of goods — wholesale

Sales of goods are recognised when the Target Company has delivered products to the wholesaler, the wholesaler has full discretion over the channel to sell the products, and there is no unfulfilled obligation that could affect the wholesale's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with sales contract, the acceptance provisions have lapsed, or the Target Company has objective evidence that all criteria for acceptance have been satisfied.

Depending on the terms agreed between the Target Company and the wholesalers, certain wholesalers are entitled to return goods of pre-determined quantities within a specified period. Management of the Target Company estimates the quantities of goods return based on historical trend and revenue is recognised to the extent of goods delivered less estimated goods return.

(ii) Sales of goods — retail

The Target Company operates a chain of retail shops and an outlet for selling sports apparel. Sales of goods are recognised when the Target company entity sells a product to the customer. Retail sales are usually in cash or by credit card.

(iii) Interest income

Interest income is realizable on a time-proportion basis using the effective interest method. When a receivable is impaired, the Target Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is realizable using the original effective interest rate.

(t) Operating leases, as a lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the combined income statements on a straight-line basis over the period of the lease.

(u) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Target Company. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the combined financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

(v) Dividend distribution

Dividend distribution to the equity holders of the Target Company is recognised as a liability in the Target Company's financial statements in the period in which the dividends are approved by the equity holders of the Target Company.

4 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Target Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and cash flow and fair value interest rate risk. The Target Company's risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Target Company's financial performance. The Target Company has not used derivative financial instruments to hedge the risk exposures.

(i) Credit risk

The Target Company has no significant concentrations at credit risk. The carrying amounts of cash and bank balances, trade and notes receivables, investments and other current assets except for prepayments, represent the Target Company's maximum exposure to credit risk in relation to financial assets. Substantially all of the Target Company's cash and bank balances are held in major financial institutions located in Japan, which management believes are of high credit quality. The Target Company has policies that limit the amount of credit exposure to any financial institutions.

The table below shows the bank deposits with the main bank of the Target Company as at 28 February 2006, 28 February 2007 and 29 February 2008. The Directors do not expect any losses from non-performance by the bank.

	*Rating**	**As at 28 February 2006**	**As at 28 February 2007**	**As at 29 February 2008**
		Yen'000	*Yen'000*	*Yen'000*
Sumitomo Mitsui Bank Corporation	A+	484,376	401,711	581,327

* *The source of current credit rating is from Japan Credit Rating Agency Ltd.*

The Target Company's credit sales are only made to customers with appropriate credit history and usually a credit period of between 45 days to 60 days are granted.

(ii) Liquidity risk

Prudent management of liquidity risk of the Target Company includes maintaining sufficient cash and the availability of adequate funding from committed credit facilities.

The maturity analysis of borrowings that shows the remaining contractual maturities is disclosed in Note 18. Generally there is no specific credit period granted by the supplier but the trade payables are normally expected to be settled within the period ranging from 30 days to 90 days after receipt of goods or services.

The table below analyses the Target Company's financial liabilities that will be settled into relevant maturity groupings based on remaining period at each balance sheet date to the contractual maturity dates. The amounts disclosed in the tables are the contractual undiscounted cash flows.

	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Total**
	Yen'000	*Yen'000*	*Yen'000*	*Yen'000*
As 28 February 2006				
Borrowings	1,532,469	376,862	1,782,451	3,691,782
Derivative financial instruments	34,769	—	—	34,769
License fees payable	61,057	12,451	5,833	79,341
Trade and note payables	2,421,181	—	—	2,421,181
Accruals and other payables	653,240	518,700	—	1,171,940
	4,702,716	908,013	1,788,284	7,399,013
As 28 February 2007				
Borrowings	1,604,597	1,782,451	—	3,387,048
License fees payable	17,951	10,433	—	28,384
Trade and note payables	3,197,420	—	—	3,197,420
Accruals and other payables	1,135,328	—	—	1,135,328
	5,955,296	1,792,884	—	7,748,180
As 29 February 2008				
Borrowings	6,062,877	—	—	6,062,877
License fees payable	51,070	9,500	72,833	133,403
Trade and notes payables	1,808,003	—	—	1,808,003
Accruals and other payables	567,980	—	—	567,980
	8,489,930	9,500	72,833	8,572,263

(iii) Cash flow and fair value interest rate risk

The Target Company's interest rate risk arises from financial assets at fair value through profit or loss. Financial assets and liabilities at fixed rates expose the Target Company to fair value interest rate risk. The Target Company does not hedge its exposure to interest rate risk. Financial assets and liabilities at valuable rates expose the Target Company to cash flow interest rate risk. The Target Company's exposure to changes in interest rates is mainly attributable to its cash in bank. Details of the Target Company's cash in bank balances are disclosed in Note 15.

If interest rates on borrowings had been 0.5% higher with all other variables held constant, profit for the nine months ended 28 February 2006 attributable to the equity holders of the Target Company would have been Yen 9,495,000 lower, and the loss for each of the years ended 28 February 2007 and 29 February 2008, would be Yen 12,523,000 and Yen 21,349,000 higher, respectively. These fluctuations are mainly the results of higher interest expense on floating rate borrowings.

(iv) Capital risk management

The Target Company's objectives when managing capital are to safeguard the Target Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Target Company may adjust the amount of return capital to shareholders, issue new shares or sell assets to reduce debt.

(b) Fair value estimation

The carrying amounts of the Target Company's financial assets including cash and cash equivalents, restricted bank balances, trade and other receivables; and financial liabilities including trade and other payables, and current borrowings, are assumed to approximate their fair values due to their short maturities. The fair values of financial liabilities for disclosure purposes are estimated by discounting the future contractual cash flows at the current market interest rate available to the Target Company for similar financial instruments.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Target Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Useful life and impairment of trademark

The useful life of Kappa trademark is determined to be 40 years. This estimate is based on the management's experiences in the sportswear industry. It could change significantly as a result of changes in the sportswear market and competitor actions in response to severe industry cycles. The Target Company will increase or decrease the amortisation charge where useful lives are shorter or longer than previously estimated useful lives. It could change significantly as a result of competition and change in market trend. Management also assesses at each reporting date whether there is any indication that the trademark may be impaired. If any such indication exists, the Target Company shall estimate and write down the carrying value of the trademark to its recoverable amount. During the year ended 29 February 2008, a provision for impairment of Kappa trademark of Yen 1,302,337,000 had been made (Note 26).

(ii) Licence rights and licence fees payable

Licence rights and licence fees payable are initially recognised at their estimated fair value which represent the present value of the fixed periodic payments and expected various payments to be made in future years that can be reliably estimated at inception. The future expected payments are estimated by management with reference to internal financial budgets and cash flow projections in relation to the licensed businesses. These budgets and forecast are prepared by management based on a number of assumptions which are assessed by management as appropriate. The discount rate used is determined with reference to the interest rate of the Target Company's borrowings. Judgment is required in the determination of these key assumptions adopted. Changes to the key assumptions can cause significantly effect to the budgets and forecast, and therefore the fair value of the licence rights and related licence fees payable.

(iii) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature.

(iv) Provision for impairment of trade receivables

Provision for doubtful debts is made based on the assessment of the recoverability of trade receivables with reference to the extent and duration that the amount will be recovered. Provisions are applied to trade receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of receivables and doubtful debt expenses in the period in which such estimate has been changed.

6 REVENUE AND SEGMENT INFORMATION

Revenue recognised during the Relevant Periods is as follows:

	Nine months ended 28 February 2006	**Year ended 28 February 2007**	**Year ended 29 February 2008**
	Yen'000	*Yen'000*	*Yen'000*
Sale of goods:			
— Phenix brand products	4,403,599	4,926,009	4,031,726
— Kappa brand products	1,563,521	2,628,863	2,369,135
— Other owned brand products	1,679,531	1,584,588	1,336,916
— Licensee products	1,238,181	2,567,856	2,542,114
	8,884,832	11,707,316	10,279,891

The Target Company is principally engaged in brand development, design, sale of sport-related apparel in Japan and overseas.

(a) Primary reporting format — Business segments

The Target Company is engaged in only one business segment of brand development, design, sale of sport-related apparel. Accordingly, analysis by business segment is not presented.

(b) Secondary reporting format — Geographical segments

The Target Company's revenue, total assets and capital expenditures are analysed as follows:

	Nine months ended/As at 28 February 2006	Year ended/As at 28 February 2007	Year ended/As at 29 February 2008
	Yen'000	*Yen'000*	*Yen'000*
Revenue			
— Japan	7,962,424	10,692,595	9,325,742
— Overseas	922,408	1,014,721	954,149
	8,884,832	11,707,316	10,279,891
Total assets			
— Japan	7,718,112	7,764,983	5,710,349
— Overseas	18,032	5,855	2,044
	7,736,144	7,770,838	5,712,393
Capital expenditures			
— Japan	30,773	66,503	215,817

Revenue is allocated based on the country in which the customer is located. Total assets and capital expenditure are allocated based on where the assets are located.

7 PROPERTY, PLANT AND EQUIPMENT

	Lands	Buildings	Vehicles	Office equipment and others	Leasehold improvements	Total
	Yen'000	*Yen'000*	*Yen'000*	*Yen'000*	*Yen'000*	*Yen'000*
At 31 May 2005						
Cost	164,200	71,597	437	168,314	113,829	518,377
Accumulated depreciation	—	(3,172)	(98)	(13,831)	(4,659)	(21,760)
Net book amount	164,200	68,425	339	154,483	109,170	496,617
Period ended 28 February 2006						
Opening net book amount	164,200	68,425	339	154,483	109,170	496,617
Additions	—	—	—	20,049	350	20,399
Disposals *(Note 35 (b))*						
— Cost	(114,700)	—	—	(3,507)	—	(118,207)
— Depreciation	—	—	—	987	—	987
Depreciation *(Note 26)*	—	(4,470)	(148)	(22,906)	(6,614)	(34,138)
Closing net book amount	49,500	63,955	191	149,106	102,906	365,658
At 28 February 2006						
Cost	49,500	71,597	437	184,856	114,179	420,569
Accumulated depreciation	—	(7,642)	(246)	(35,750)	(11,273)	(54,911)
Net book amount	49,500	63,955	191	149,106	102,906	365,658
Year ended 28 February 2007						
Opening net book amount	49,500	63,955	191	149,106	102,906	365,658
Additions	—	—	—	31,202	25,511	56,713
Disposals *(Note 35 (b))*						
— Cost	—	—	—	(28,045)	(39,037)	(67,082)
— Depreciation	—	—	—	10,077	6,383	16,460
Depreciation *(Note 26)*	—	(5,237)	(148)	(31,224)	(8,729)	(45,338)
Closing net book amount	49,500	58,718	43	131,116	87,034	326,411
At 28 February 2007						
Cost	49,500	71,597	437	188,013	100,653	410,200
Accumulated depreciation	—	(12,879)	(394)	(56,897)	(13,619)	(83,789)
Net book amount	49,500	58,718	43	131,116	87,034	326,411
Year ended 29 February 2008						
Opening net book amount	49,500	58,718	43	131,116	87,034	326,411
Additions	—	438	—	77,816	3,276	81,530
Disposals *(Note 35 (b))*						
— Cost	—	—	(120)	(90,549)	(11,895)	(102,564)
— Depreciation	—	—	148	33,075	2,456	35,679
Impairment charge *(Note 26)*	(1,920)	—	—	(17,148)	—	(19,068)
Depreciation *(Note 26)*	—	(3,077)	(40)	(30,580)	(6,743)	(40,440)
Closing net book amount	47,580	56,079	31	103,730	74,128	281,548
At 29 February 2008						
Cost	49,500	72,035	317	175,280	92,034	389,166
Accumulated depreciation	—	(15,956)	(286)	(54,402)	(17,906)	(88,550)
Accumulated impairment	(1,920)	—	—	(17,148)	—	(19,068)
Net book amount	47,580	56,079	31	103,730	74,128	281,548

Note:

(a) Impairment of property, plant and equipment is charged to administrative expenses while depreciation expenses have been charged to distribution costs and administrative expenses, detail of which are as follows:

	Nine months ended 28 February 2006	Year ended 28 February 2007	Year ended 29 February 2008
	Yen'000	*Yen'000*	*Yen'000*
Distribution costs	29,511	39,352	30,858
Administrative expenses	4,627	5,986	28,650
	34,138	45,338	59,508

(b) The Target Company's lands and buildings are located in Niigata and Gunma Prefecture of Japan and held on freehold.

(c) As at 28 February 2006, 28 February 2007 and 29 February 2008, land and buildings with aggregate carrying value of approximately Yen 121 million, Yen 115 million and Yen 105 million were pledged as primary securities for long term loan facilities granted by banks (Note 18), and secondary securities for certain outstanding trade and notes payable (Note 21).

8 INTANGIBLE ASSETS

	Kappa trademark *(Note (b))* Yen'000	Licence rights *(Note (c))* Yen'000	Software and others Yen'000	Total Yen'000
At 31 May 2005				
Cost	1,734,000	157,856	12,656	1,904,512
Accumulated amortisation	(14,450)	(25,242)	(8,462)	(48,154)
Net book amount	1,719,550	132,614	4,194	1,856,358
Period ended 28 February 2006				
Opening net book amount	1,719,550	132,614	4,194	1,856,358
Additions	—	—	10,374	10,374
Amortisation *(Note 26)*	(32,513)	(37,863)	(1,841)	(72,217)
Closing net book amount	1,687,037	94,751	12,727	1,794,515
At 28 February 2006				
Cost	1,734,000	157,856	23,030	1,914,886
Accumulated amortisation	(46,963)	(63,105)	(10,303)	(120,371)
Net book amount	1,687,037	94,751	12,727	1,794,515
Year ended 28 February 2007				
Opening net book amount	1,687,037	94,751	12,727	1,794,515
Additions	—	6,000	3,790	9,790
Amortisation *(Note 26)*	(43,350)	(50,984)	(4,475)	(98,809)
Closing net book amount	1,643,687	49,767	12,042	1,705,496
At 28 February 2007				
Cost	1,734,000	163,856	26,820	1,924,676
Accumulated amortisation	(90,313)	(114,089)	(14,778)	(219,180)
Net book amount	1,643,687	49,767	12,042	1,705,496
Year ended 29 February 2008				
Opening net book amount	1,643,687	49,767	12,042	1,705,496
Additions	—	115,817	18,470	134,287
Impairment charge *(Note 26)*	(1,302,337)	(89,140)	—	(1,391,477)
Amortisation *(Note 26)*	(43,350)	(76,444)	(5,346)	(125,140)
Closing net book amount	298,000	—	25,166	323,166
At 29 February 2008				
Cost	1,734,000	279,673	45,290	2,058,963
Accumulated amortisation and impairment	(1,436,000)	(279,673)	(20,124)	(1,735,797)
Net book amount	298,000	—	25,166	323,166

Notes:

(a) Amortisation and impairment charges of the Target Company's intangible assets for the Relevant Periods have been charged to distribution costs.

(b) The trademark represents the perpetual rights of the use of Kappa trademark in Japan. The Kappa trademark was purchased from a third party in 2005 at a consideration of Yen 1,734 million. The trademark is recorded as intangible asset and subject to amortization on a straight-line basis over an estimated useful life of 40 years.

The Kappa trademark is secured for the settlement of the outstanding purchase consideration (Note 20). The purchase consideration was fully settled by the Target Company during the year ended 28 February 2007. The security was released subsequent to 29 February 2008.

As at 29 February 2008, an impairment provision of Yen 1,302,337,000 was made against the Kappa trademark based on its estimated recoverable amount, which was determined by reference to the professional valuation on the Kappa trademark by Jones Lang LaSalle Sallmans Co., Ltd.

(c) During the Relevant Periods, licence rights mainly comprise of license arrangements of the brands of Master, 4DM, REMO and KAATS.

During the financial year ended 29 February 2008, the Target Company decided not to continue the licensing arrangement in relation to the development and sale of Master brand products upon the expiry of the licencing arrangement by 30 November 2008, and planed to sell all inventories on hand by the end of 2008. As a result of the decision, Yen 102,000,000 of impairment provision was made against inventories as at 29 February 2008.

In early 2008, the Target Company decided not to continue the licensing arrangement in relation to the development and sale of 4DM, REMO and KAATS brands of products. Accordingly, the carrying amounts of these licence rights as at 29 February 2008 totalling Yen 89,140,000 have been fully provided. In addition, On 7 April 2008, the Target Company entered into an agreement with a third party to transfer, among others, all of the relevant inventories on hand at a consideration of Yen 73,764,000, subject to certain adjustments. Accordingly, Yen 77,992,000 of impairment provision was made to the inventories as at 29 February 2008.

9 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	As at 28 February 2006	**As at 28 February 2007**	**As at 29 February 2008**
	Yen'000	*Yen'000*	*Yen'000*
Unlisted investment, at cost	365,203	365,203	365,203
Share of net assets	400,275	416,591	415,832

The financial information below, after necessary adjustments to conform with the Target Company's significant accounting policies, represents the Target Company's interest in respective jointly controlled entities as follows:

	As at 28 February 2006	As at 28 February 2007	As at 29 February 2008
	Yen'000	*Yen'000*	*Yen'000*
Total assets	489,166	513,074	546,403
Total liabilities	(88,891)	(96,483)	(130,571)

	Nine months ended 28 February 2006	Year ended 28 February 2007	Year ended 29 February 2008
	Yen'000	*Yen'000*	*Yen'000*
Revenue	293,917	288,168	313,470
Profit/(loss) after income tax for the period/year	14,116	5,453	(3,727)

There are no material contingent liabilities relating to the Target Company's interests in jointly controlled entities and no material contingent liabilities of jointly controlled entities themselves.

As at the date of this report, the particulars of the Target Company's jointly controlled entities are set out below.

Company name	Place of operation and date	Paid up capital	Equity interest held	Principal activities
Shanghai Phenix Apparel Co., Ltd. (上海菲尼克斯制衣有限公司)	The People's Republic of China ("PRC"), 28 December 1995	USD 4,300,000	52%	Production and sale of down apparel and sports wear
Shanghai Fengda Garment Co., Ltd. (上海鳳達服裝有限公司)	The PRC, 27 June 1994	USD 3,500,000	26%	Production and sale of ski wear and down apparel

10 OTHER RECEIVABLES

	As at 28 February 2006	As at 28 February 2007	As at 29 February 2008
	Yen'000	*Yen'000*	*Yen'000*
Guarantee deposits to suppliers	273,880	273,880	273,880

Guarantee deposits to suppliers were interest free and repayable according to the respective terms of agreements.

As at 28 February 2006, 28 February 2007 and 29 February 2008, a deposit of Yen 220 million was secured against certain trade and notes payables (Note 21).

The carrying value and fair value were as follows:

	As at 28 February 2006	As at 28 February 2007	As at 29 February 2008
	Yen'000	*Yen'000*	*Yen'000*
Carrying amount	273,880	273,880	273,880
Fair value*	273,875	273,295	273,734

* *The discount rates adopted in determining the fair value are 0.001%, 0.200% and 0.200% for the nine months ended 28 February 2006, and the two years ended 28 February 2007 and 29 February 2008, respectively.*

11 FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

	Loans and receivables	Cash and bank balances	Total
	Yen'000	*Yen'000*	*Yen'000*
Assets as per balance sheet			
At 28 February 2006			
Trade and notes receivables *(Note 13)*	2,750,393	—	2,750,393
Other receivables	467,840	—	467,840
Cash and bank balances *(Note 15)*	—	605,433	605,433
	3,218,233	605,433	3,823,666
At 28 February 2007			
Trade and notes receivables *(Note 13)*	2,276,568	—	2,276,568
Other receivables	448,219	—	448,219
Cash and bank balances *(Note 15)*	—	417,426	417,426
	2,724,787	417,426	3,142,213
At 29 February 2008			
Trade and notes receivables *(Note 13)*	1,976,918	—	1,976,918
Other receivables	421,724	—	421,724
Cash and bank balances *(Note 15)*	—	602,221	602,221
	2,398,642	602,221	3,000,863

	Derivatives at fair value through profit and loss *Yen'000*	Trade and notes payables *Yen'000*	Borrowings *Yen'000*	Accruals and other payables *Yen'000*	Licence fees payable *Yen'000*	Total *Yen'000*
Liabilities as per balance sheet						
At 28 February 2006						
Borrowings *(Note 18)*	—	—	3,389,378	—	—	3,389,378
Trade and notes payables *(Note 21)*	—	2,421,181	—	—	—	2,421,181
Accruals and other payables	—	—	—	1,108,081	—	1,108,081
Licence fees payable *(Note 19)*	—	—	—	—	22,709	22,709
Derivative financial instruments *(Note 23)*	34,769	—	—	—	—	34,769
	34,769	2,421,181	3,389,378	1,108,081	22,709	6,976,118
At 28 February 2007						
Borrowings *(Note 18)*	—	—	3,197,309	—	—	3,197,309
Trade and notes payables *(Note 21)*	—	3,197,420	—	—	—	3,197,420
Accruals and other payables	—	—	—	1,059,125	—	1,059,125
Licence fees payable *(Note 19)*	—	—	—	—	9,050	9,050
	—	3,197,420	3,197,209	1,059,125	9,050	7,462,904
At 29 February 2008						
Borrowings *(Note 18)*	—	—	6,000,000	—	—	6,000,000
Trade and notes payables *(Note 21)*	—	1,808,003	—	—	—	1,808,003
Accruals and other payables	—	—	—	508,107	—	508,107
Licence fees payable *(Note 19)*	—	—	—	—	61,245	61,245
	—	1,808,003	6,000,000	508,107	61,245	8,377,355

12 INVENTORIES

	As at 28 February 2006	As at 28 February 2007	As at 29 February 2008
	Yen'000	*Yen'000*	*Yen'000*
Finished goods			
— Carried at cost	392,239	533,084	420,672
— Carried at net realisable value	533,520	1,076,184	722,045
	925,759	1,609,268	1,142,717
Raw materials and others			
— Carried at cost	377,391	467,500	426,028
	1,303,150	2,076,768	1,568,745

The cost of inventories recognised as cost of sales, distribution costs and administrative expenses amounted to approximately Yen 4,921 million, Yen 6,274 million and Yen 6,117 million for the nine months ended 28 February 2006 and the years ended 28 February 2007 and 29 February 2008, respectively.

The Target Company recognised a loss on provision for inventories of approximately Yen 265 million, Yen 218 million, and Yen 86 million for the nine months ended 28 February 2006 and the years ended 28 February 2007 and 29 February 2008, respectively in respect of the write-down, net of provision written-back, of inventories to their net realizable value. The amount has been included in administrative expenses in the income statement.

As at 28 February 2006 and 28 February 2007, inventories with carrying value of Yen 695,886,000 and Yen 1,298,000,000 were pledged to banks as securities for long term and short term loan facilities and notes discounted. The securities on inventories were released during the year ended 29 February 2008.

13 TRADE AND NOTES RECEIVABLES

	As at 28 February 2006	As at 28 February 2007	As at 29 February 2008
	Yen'000	*Yen'000*	*Yen'000*
Trade receivables *(Note (a))*			
— Third parties	1,459,780	1,622,406	1,471,383
— Related parties	—	85	224
	1,459,780	1,622,491	1,471,607
Less: Provision for impairment	(14,553)	(20,806)	(162,253)
	1,445,227	1,601,685	1,309,354
Notes receivables *(Note (b))*			
— On hand	385,362	17,148	667,564
— Discounted to banks *(Note 18)*	919,804	657,735	—
	1,305,166	674,883	667,564
	2,750,393	2,276,568	1,976,918

(a) Trade receivable

The Target Company's sales are mainly made on credit terms ranging from 30 to 90 days.

The ageing analysis of trade receivables is as follows:

	As at 28 February 2006 *Yen'000*	As at 28 February 2007 *Yen'000*	As at 29 February 2008 *Yen'000*
Current	742,936	999,456	922,626
Overdue by:			
0 to 30 days	314,314	197,983	250,256
31 to 120 days	370,428	390,520	291,157
Over 120 days	32,102	34,532	7,568
	1,459,780	1,622,491	1,471,607

As at 28 February 2006, 28 February 2007 and 29 February 2008, certain trade receivables totalling Yen 906,621,326, Yen 1,069,476,905 and Yen 754,304,295 were secured to banks for short term and long term loan facilities (Note 18).

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

The creation and release of provision for impaired receivables have been included in administrative expenses in the income statement (Note 26). Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

As at 28 February 2006, 28 February 2007 and 29 February 2008, trade receivables of Yen 702,290,000, Yen 602,229,000 and Yen 416,623,000 were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	As at 28 February 2006 *Yen'000*	As at 28 February 2007 *Yen'000*	As at 29 February 2008 *Yen'000*
Overdue by:			
0 to 30 days	314,314	197,983	208,252
31 to 120 days	370,428	390,520	204,471
Over 120 days	17,549	13,727	3,900
	702,291	602,230	416,623

(b) Notes receivable

The notes receivables had maturity period of 3 to 6 months.

The notes receivables were denominated in Yen. Their carrying amounts approximated their fair values as at the balance sheet dates.

The Target Company discounted certain notes to banks with recourse in exchange for cash. Upon discounting of the notes, corresponding collateralised bank advances were recognised. Both the notes discounted and the collateralised bank advances were derecognised upon maturity of the notes.

14 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The carrying amounts of prepayments, deposits and other receivables approximated their fair values as at the balance sheet dates.

15 CASH AND BANK BALANCES

	As at 28 February 2006 *Yen'000*	As at 28 February 2007 *Yen'000*	As at 29 February 2008 *Yen'000*
Cash and cash equivalents	605,433	417,426	602,221
Maximum exposure to credit risk	605,433	417,216	602,221

The cash and cash equivalents represented cash at bank and in hand. As at 28 February 2006, 28 February 2007 and 29 February 2008, cash and cash equivalents were denominated in the following currencies:

	As at 28 February 2006 *Yen'000*	As at 28 February 2007 *Yen'000*	As at 29 February 2008 *Yen'000*
Yen	418,573	416,423	602,110
USD	186,860	3	111
	605,433	417,426	602,221

As at 28 February 2006, 28 February 2007 and 29 February 2008, all cash and cash equivalents were demand deposits and the applicable interest rates were as follows:

	As at 28 February 2006	As at 28 February 2007	As at 29 February 2008
Yen	0.001%	0.200%	0.200%
USD	0.001%	0.250%	0.250%

16 SHARE CAPITAL

	As at 28 February 2006	As at 28 February 2007	As at 29 February 2008
Authorised:			
— Number of shares *('000 shares)*	80,800	80,800	80,800
Issued and fully paid:			
— Number of shares *('000 shares)*	19,600	19,600	19,600
— Amount *(Yen'000)*	495,000	495,000	495,000

On 18 April 2008, the authorised share capital has been increased to 200,000,000 shares.

On 1 May 2008, the Target Company issued additional 80,399,999 shares to the Company and Orix, making up a total of 100,000,000 shares and the share capital was increased to Yen 776,399,997.

17 RESERVES

	Capital reserve *Yen'000*	Accumulated losses *Yen'000*	Investment revaluation reserve *Yen'000*	Currency translation difference *Yen'000*	Total *Yen'000*
At 1 June 2005	482,699	(942,636)	5,413	(30,977)	(485,501)
Profit for the period	—	21,842	—	—	(21,842)
Currency translation difference	—	—	—	34,520	34,520
Release of reserve upon disposal of financial assets available for sale	—	—	(5,413)	—	(5,413)
At 28 February 2006	482,699	(920,794)	—	3,543	(434,552)
Loss for the year	—	(378,828)	—	—	(378,828)
Currency translation difference	—	—	—	25,312	25,312
At 28 February 2007	482,699	(1,299,622)	—	28,855	(788,068)
Loss for the year	—	(2,921,460)	—	—	(2,921,460)
Currency translation difference	—	—	—	18,651	18,651
At 29 February 2008	482,699	(4,221,082)	—	47,506	(3,690,877)

Capital reserve represents amount of capital contribution in excess of the par value of the share capital issued.

18 BORROWINGS

	As at 28 February 2006 *Yen'000*	As at 28 February 2007 *Yen'000*	As at 29 February 2008 *Yen'000*
Non-Current			
Long term bank borrowings, secured *(Note (b))*	1,969,574	1,719,574	—
Current			
Long term bank borrowings-current portion, secured *(Note (b))*	250,000	250,000	—
Short term bank borrowings, secured *(Note (c))*	250,000	250,000	—
Loan from Orix, unsecured *(Note (d))*	—	320,000	6,000,000
Bank advances for discounted notes *(Note 13)*	919,804	657,735	—
	1,419,804	1,477,735	6,000,000
Total borrowings	3,389,378	3,197,309	6,000,000

Notes:

(a) The bank and other borrowings were repayable as follows:

	As at 28 February 2006 *Yen'000*	As at 28 February 2007 *Yen'000*	As at 29 February 2008 *Yen'000*
Within one year	1,419,804	1,477,735	6,000,000
In the second year	250,000	1,719,574	—
Third to fifth year	1,719,574	—	—
Wholly repayable within 5 years	3,389,378	3,197,309	6,000,000

(b) Long term bank borrowings were secured by certain land and buildings (Note 7), inventories (Note 12) and trade receivables (Note 13) of the Target Company and were denominated in Yen. The long term bank borrowings were interest bearing at Tokyo Interbank Offered Rate ("TIBOR") plus 3% per annum and were fully repayable by May 2008. The Target Company fully repaid the loan in August 2007.

(c) Short term bank borrowings are secured by certain inventories of the Target Company (Note 12), denominated in Yen, interest bearing at TIBOR plus 3% per annum and repayable within one year.

(d) Loan from Orix was unsecured, denominated in Yen, interest bearing at rates of 3.6% and 2.5% to 3.7% per annum for the years ended 28 February 2007 and 29 February 2008, and repayable within one year.

Subsequent to 29 February 2008, the Target Company repaid Yen 63,000,000 to Orix and the remaining balance of the loan of Yen 5,937,000,000 was assigned to a wholly owned subsidiary of the Company at a consideration of Yen 1 on 30 April 2008.

(e) The exposure of the Target Company's borrowings to interest rate changes and the contractual repricing dates at the balance sheet dates were as follows:

	As at 28 February 2006	As at 28 February 2007	As at 29 February 2008
	Yen'000	*Yen'000*	*Yen'000*
6 months or less	1,169,804	1,227,735	6,000,000
7–12 months	2,219,574	1,969,574	—
	3,389,378	3,197,309	6,000,000

(f) The weighted average effective interest rates at the respective balance sheet dates were set out as follows:

	As at 28 February 2006	As at 28 February 2007	As at 29 February 2008
Bank borrowings	3.11%	3.58%	3.73%
Other borrowings	—	3.70%	2.50%

(g) The carrying amounts of current portion of long term borrowings and short term borrowings approximated their fair values as at the balance sheet dates.

The carrying value and fair value of borrowings were as follows:

	As at 28 February 2006	As at 28 February 2007	As at 29 February 2008
	Yen'000	*Yen'000*	*Yen'000*
Carrying amount	3,389,378	3,197,309	6,000,000
Fair value*	3,272,735	3,135,475	5,987,700

* *The discount rates adopted in determining the fair value are 3.11%, 3.58% and 3.73% for the nine months ended 28 February 2006, and the two years ended 28 February 2007 and 29 February 2008, respectively.*

19 LICENCE FEES PAYABLE

	As at 28 February 2006	As at 28 February 2007	As at 29 February 2008
	Yen'000	*Yen'000*	*Yen'000*
Licenses fees payable	76,356	22,709	105,385
Less: current portion	(53,647)	(13,659)	(44,140)
Long term portion	22,709	9,050	61,245

The licence fees payable represent the expected licence fees,including periodic payment and expected variable payments that will be payable through end of the respective licence periods based on pre-determined criteria on future revenues from the Master, 4DM, KAATS, and REMO licensed business that can be reliably estimated at the inception of the licences. They were recognised based on discount rates of 3.11% to 3.73%, which approximated the then external bank borrowing rate at inception of the respective licences. The licence fees payable were denominated in Yen.

The payment terms of licence fees payable were as follows:

	As at 28 February 2006	As at 28 February 2007	As at 29 February 2008
	Yen'000	*Yen'000*	*Yen'000*
Within one year	53,647	13,659	44,140
One to two years	13,659	9,050	8,512
Two to three years	9,050	—	8,206
Over three years	—	—	44,527
	76,356	22,709	105,385
Estimated fair value* of:			
Current portion	53,647	13,512	44,076
Long-term portion	22,709	9,001	61,245
	76,356	22,513	105,321

* *The estimated fair values are calculated based on discounted rates of 3.11%, 3.58%, and 3.73% per annum as at 28 February 2006, 28 February 2007 and 29 February 2008, which approximated the external bank borrowing rates available to the Target Company.*

The movements in license fees payable during the Relevant Periods are as follows:

	As at 28 February 2006	As at 28 February 2007	As at 29 February 2008
	Yen'000	*Yen'000*	*Yen'000*
Beginning of the period/year	135,597	76,356	22,709
Imputed interest expenses *(Note 30)*	3,119	3,021	3,939
Additions	—	6,000	122,079
Payment	(62,360)	(62,668)	(43,342)
End of the period/year	76,356	22,709	105,385

20 OTHER PAYABLES

	As at 28 February 2006	As at 28 February 2007	As at 29 February 2008
	Yen'000	*Yen'000*	*Yen'000*
Payable for purchase of Kappa trademark	602,700	518,700	—
Less: Current portion *(Note 22)*	(84,000)	(518,700)	—
Long-term portion	518,700	—	—

The payable is denominated in Yen. Its carrying amounts approximates the fair value at 28 February 2006. Settlement of the payable was secured by the Kappa trademark (Note 8).

21 TRADE AND NOTES PAYABLES

	As at 28 February 2006	As at 28 February 2007	As at 29 February 2008
	Yen'000	*Yen'000*	*Yen'000*
Trade payables	520,080	918,800	444,426
Notes payables	1,901,101	2,278,620	1,363,577
Total	2,421,181	3,197,420	1,808,003

The ageing analysis of trade and notes payables as at 28 February 2006, 28 February 2007 and 29 February 2008 was as follows:

	As at 28 February 2006	As at 28 February 2007	As at 29 February 2008
	Yen'000	*Yen'000*	*Yen'000*
Current	519,458	914,759	441,996
Overdue by:			
0 to 30 days	435,707	709,015	417,167
31 to 120 days	1,265,289	1,423,085	749,824
Over 120 days	200,727	150,561	199,016
	2,421,181	3,197,420	1,808,003

As at 28 February 2006, 28 February 2007 and 29 February 2008, settlement of the trade and notes payables totalling Yen 1,099,143,000, Yen 971,670,000 and Yen 532,403,000 were secured by certain land and buildings (Note 7(c)) and certain guarantee deposits to suppliers (Note 10).

The trade payables were denominated in Yen. The carrying amounts approximated their fair values as at the balance sheet dates.

22 ACCRUALS AND OTHER PAYABLES

	As at 28 February 2006	As at 28 February 2007	As at 29 February 2008
	Yen'000	*Yen'000*	*Yen'000*
Deposits	11,939	14,938	14,349
Payable for purchase of Kappa trademark			
— current portion *(Note 20)*	84,000	518,700	—
Accruals and other payables			
— Third parties	556,994	600,895	549,330
— Related parties	307	795	4,301
	653,240	1,135,328	567,980

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

23 DERIVATIVE FINANCIAL INSTRUMENTS

The derivative financial instruments as at 28 February 2006 represented forward foreign exchange contracts entered into by the Target Company. The aggregate notional principal amounts of the outstanding forward foreign exchange contracts was USD 8 million. The contracts were settled during the year ended 28 February 2007, resulting in gains of Yen 97,776,000 and Yen 32,549,000 for the nine months ended 28 February 2006 and the year ended 28 February 2007 respectively (Note 27).

24 PROVISIONS FOR GOODS RETURN

	As at 28 February 2006 *Yen'000*	As at 28 February 2007 *Yen'000*	As at 29 February 2008 *Yen'000*
Beginning of the period/year	524,950	510,059	392,343
Charged to the income statement			
— Additional provisions	—	—	132
Utilised/reversed during the period/year	(14,891)	(117,716)	—
End of the period/year	510,059	392,343	392,475

25 DEFERRED TAX LIABILITIES

	As at 28 February 2006 *Yen'000*	As at 28 February 2007 *Yen'000*	As at 29 February 2008 *Yen'000*
Deferred tax liabilities:			
— Deferred tax liabilities to be recovered after more than 12 months	54,579	94,643	11,060

The movement in deferred tax liabilities during the Relevant Periods, without taking into account the offsetting of balances within the same tax jurisdiction, is as follows:

	Amortisation of Kappa trademark *Yen'000*	Depreciation of property, plant and equipment *Yen'000*	Total *Yen'000*
At 1 June 2005	13,005	5,249	18,254
Recognised in the income statement *(Note 31)*	29,261	7,064	36,325
At 28 February 2006	42,266	12,313	54,579
Recognised in the income statement *(Note 31)*	39,015	1,049	40,064
At 28 February 2007	81,281	13,362	94,643
Recognised in the income statement *(Note 31)*	(81,281)	(2,302)	(83,583)
At 29 February 2008	—	11,060	11,060

26 EXPENSES BY NATURE

The expenses included in cost of sales, distribution costs and administrative expenses were analysed as follows:

	Nine months ended 28 February 2006	Year ended 28 February 2007	Year ended 29 February 2008
	Yen'000	*Yen'000*	*Yen'000*
Cost of inventories recognised as expenses included in cost of sales and distribution cost *(Note 12)*	4,921,603	6,274,082	6,117,522
Employee benefit expenses *(Note 28)*	1,424,599	2,060,856	1,982,686
Depreciation of property, plant and equipment *(Note 7)*	34,138	45,338	40,440
Amortisation of intangible assets *(Note 8)*	72,217	98,809	125,140
Provision for impairment:			
— Property, plant and equipment *(Note 7)*	—	—	19,068
— Kappa trademark *(Note 8)*	—	—	1,302,337
— Licence rights 4DM, KAATS and REMO *(Note 8)*	—	—	89,140
— Inventories *(Note 12)*	264,765	217,893	86,126
— Trade receivables	(10,914)	6,253	141,447
Advertising and marketing expenses	439,837	713,751	811,860
Legal and consulting expenses	93,247	98,840	167,322
Operating lease in respect of warehouse and office	151,083	200,735	193,907
Operating lease in respect of outlets	201,235	263,502	211,402
Logistics and delivery charges	565,390	712,951	708,141
Auditors' remuneration	11,030	11,222	—
Royalty expenses	31,703	65,155	86,301
Design and product development expenses	569,186	683,591	638,648
Travelling expenses	154,986	242,041	225,959
Others	182,790	231,721	135,161
Total of cost of sales, distribution costs and administrative expenses	9,106,895	11,926,740	13,082,607

27 OTHER GAINS/(LOSSES), NET

	Nine months ended 28 February 2006	Year ended 28 February 2007	Year ended 29 February 2008
	Yen'000	*Yen'000*	*Yen'000*
Other gains:			
— Gain on discontinued pension plan *(Note)*	234,879	—	—
— Gain on disposal of available for sale financial assets	15,653	—	—
— Gain from derivative financial instruments *(Note 23)*	97,776	32,549	—
— Others	3,932	1,680	2,157
	352,240	34,229	2,157
Other losses:			
— Loss on disposal of property, plant and equipment	(17,870)	(50,428)	(66,885)
— Others	(7,998)	(15,185)	(27,894)
	(25,868)	(65,613)	(94,779)
	326,372	(31,384)	(92,622)

Note:

In July 2005, the Target Company obtained consent from all of its employees to terminate a voluntary defined benefit retirement scheme, resulting in a gain of Yen 234,879,000.

28 EMPLOYEE BENEFIT EXPENSES

	Nine months ended 28 February 2006	Year ended 28 February 2007	Year ended 29 February 2008
	Yen'000	*Yen'000*	*Yen'000*
Wages and salaries	1,339,432	1,956,581	1,859,751
Pension cost	84,965	118,021	130,920
Other benefits	139,097	180,923	168,473
	1,563,494	2,255,525	2,159,144
Less: amount recorded in design and product development expenses	(138,895)	(194,669)	(176,458)
	1,424,599	2,060,856	1,982,686

The employees of the Target Company in Japan participate in defined contribution retirement benefit plans organized by the government in Japan. The Target Company were required to make monthly contributions to these plans at 7.144%, 7.321% and 7.498% of the basic salary amounts subject to a certain ceiling, and an additional fixed payment of Yen 13,580, Yen 13,860 and Yen 14,100 per head for the nine months ended 28 February 2006, the year ended 28 February 2007 and 29 February 2008, respectively.

The Target Company had no other obligations for the payment of retirement and other post-retirement benefits of employees or retirees other than the defined contribution payments as disclosed above.

29 DIRECTORS AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The emoluments of individual director of the Target Company for the Relevant Periods, which are included in the employee benefit expense as disclosed in Note 28 are set out below:

Name of Director	Salaries and allowances	Discretionary bonus	Pension cost	Total
	Yen'000	*Yen'000*	*Yen'000*	*Yen'000*
Period ended 28 February 2006				
— Mr. Kinichi Sato *(Note i)*	16,758	12	870	17,640
— Mr. Tsukasa Kimura	—	—	—	—
— Mr. Hideto Nishitani	—	—	—	—
— Mr. Joji Ota	—	—	—	—
	16,758	12	870	17,640
Year ended 28 February 2007				
— Mr. Kinichi Sato *(Note i)*	20,110	—	1,044	21,154
— Mr. Tsukasa Kimura	—	—	—	—
— Mr. Hideto Nishitani *(Note iii)*	—	—	—	—
— Mr. Joji Ota *(Note ii)*	—	—	—	—
	20,110	—	1,044	21,154
Year ended 29 February 2008				
— Mr. Kinichi Sato *(Note i)*	11,793	—	662	12,455
— Mr. Tsukasa Kimura *(Note i)*	9,263	—	—	9,263
— Mr. Mitsuhiko Saijo	—	—	—	—
— Mr. Masayuki Okamoto	—	—	—	—
— Mr. Satoru Matsuzaki	—	—	—	—
— Mr. Yasuaki Mikami *(Note iv)*	—	—	—	—
	21,056	—	662	21,718

(i) Mr. Kinichi Sato acted as the Managing Director of the Target Company until 18 September 2007 and Mr Tsusaka Kimura was appointed to succeed this position.

(ii) Mr. Joji Ota resigned on 14 June 2005.

(iii) Mr. Hideto Nishitani resigned on 30 May 2007.

(iv) Mr. Yasuaki Mikami retired on 30 May 2007.

(v) Subsequent to 29 February 2008, Mr. Masayuki Okamoto resigned on 13 March 2008 and all remaining directors resigned on 30 April 2008.

(vi) On 30 April 2008, Mr. Chen Yihong, Mr Qin Dazhong and Mr. Sun Jianjun have been appointed as directors of the Target Company and Mr. Sun Jianjun has been appointed as Managing Director on the same date.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Target Company include Directors whose emoluments are reflected in the analysis presented above were as follows:

	Nine months ended 28 February 2006	Year ended 28 February 2007	Year ended 29 February 2008
Number of Directors	1	1	2
Number of employees	4	4	3
	5	5	5

The emoluments payable to the remaining individuals for the Relevant Periods were as follows:

	Nine months ended 28 February 2006 *Yen'000*	Year ended 28 February 2007 *Yen'000*	Year ended 29 February 2008 *Yen'000*
Salary, bonus and other benefits	40,886	46,529	31,871
Pension costs	3,499	4,302	3,237
	44,385	50,831	35,108

The emoluments of the above individuals fall within the following bands:

	Nine months ended 28 February 2006	Year ended 28 February 2007	Year ended 29 February 2008
Nil to HK$1,000,000 (equivalent to approximately Nil to Yen 13,391,000)	3	3	2
HK$1,000,001 to HK$ 1,500,000 (equivalent to approximately Yen 13,391,000 to Yen 20,086,000)	1	1	1
	4	4	3

During the Relevant Period, no directors, or the highest pay non-director individuals of the Target Company waived any emoluments and no emoluments were paid by the Target Company to any of the directors or the highest paid non-director individuals of the Target Company as inducement to join or upon joining the Target Company or as compensation for loss of office.

30 FINANCE COSTS, NET

	Nine months ended 28 February 2006	Year ended 28 February 2007	Year ended 29 February 2008
	Yen'000	*Yen'000*	*Yen'000*
Interest expenses			
— Bank borrowings, wholly repayable within five years	82,067	113,902	49,843
— Other borrowings	—	63	88,635
— Notes discounted	25,460	24,014	24,286
— License fees payable *(Note 19)*	3,119	3,021	3,939
— Bond payable, unlisted *(Note)*	1,487	—	—
	112,133	141,000	166,703
Interest income on bank deposits	(156)	(165)	(334)
Foreign exchange loss, net	20,910	25,710	790
	132,887	166,545	167,159

Note: The interest expense was related to an unlisted corporate bond of Yen 100,000,000 issued in 2000 with maturity on 18 October 2007. In December 2005, the Target Company early repaid the bond in full.

31 INCOME TAX EXPENSE/(CREDIT)

	Nine months ended 28 February 2006	Year ended 28 February 2007	Year ended 29 February 2008
	Yen'000	*Yen'000*	*Yen'000*
Current income tax *(Note (a))*			
— Taxation in Japan	12,231	17,619	16,781
Deferred income tax *(Note 25)*	36,325	40,064	(83,583)
	48,556	57,683	(66,802)

(a) The Target Company was incorporated in Japan and is subject to the following taxes:

(i) Income tax

Japan income tax is calculated based on the tax rate applicable to the Target Company of 30% on the estimated assessable profit. The Target Company did not derive any assessable profit during the Relevant Periods and therefore no provision for Japan income tax was required.

(ii) Inhabitant tax

The Target Company is also subject to inhabitant tax in Japan. Inhabitant tax is determined based on rates (determined by the prefecture and city where the Target Company has operations) on the income tax payable, subject to certain minimum payment. As there was no assessable profit derived during the Relevant Periods, the Target Company was subject to the minimum inhabitant tax payments ("Inhabitant Tax Equalization").

The tax on the Target Company's profit/(loss) before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the combined companies as follows:

	Nine months ended 28 February 2006	**Year ended 28 February 2007**	**Year ended 29 February 2008**
	Yen'000	*Yen'000*	*Yen'000*
Profit/(loss) before income tax	70,398	(321,145)	(2,988,262)
Tax calculated at the domestic tax rates in Japan	21,119	(96,344)	(896,479)
Tax loss not recognized for deferred tax purpose	(21,119)	96,344	896,479
Inhabitant Tax Equalization	12,231	17,619	16,781
Income tax expenses	12,231	17,619	16,781

(b) In accordance with the Japan tax law applicable to the Target Company, tax losses may be carried forward against future taxable income. The Target Company did not recognised deferred tax assets of Yen 63 million, Yen 128 million and Yen 381 million in respect of tax losses amounting to Yen 210 million, Yen 427 million and Yen 1,272 million for the nine months ended 28 February 2006 and the years ended 28 February 2007 and 29 February 2008, respectively, as management estimated that such tax losses may not be utilised before they expired. As at the balance sheet dates, the tax losses carried forward were as follows:

	As at 28 February 2006	**As at 28 February 2007**	**As at 29 February 2008**
	Yen'000	*Yen'000*	*Yen'000*
Year of expiry of tax losses			
2013	62,924	62,924	62,924
2014	—	128,121	128,121
2015	—	—	381,484
	62,924	191,045	572,539

32 EARNINGS/(LOSS) PER SHARE

(a) Basic

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to equity holders of the Target Company by the weighted average number of shares in issue during the Relevant Periods.

	Nine months ended 28 February 2006	Year ended 28 February 2007	Year ended 29 February 2008
Profit/(loss) attributable to the equity holders of the Target Company *(Yen'000)*	21,842	(378,828)	(2,921,460)
Weighted average number of ordinary shares in issue *('000 shares)*	19,600	19,600	19,600
Earnings/(loss) per share	1.11	(19.33)	(149.05)

(b) Diluted

Diluted earnings per share are the same as basic earnings per share as there were no potential dilutive ordinary shares outstanding during the Relevant Periods.

33 PROFIT/(LOSS) ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE TARGET COMPANY

The profit/(loss) attributable to the equity holders of the Target Company for the nine months period ended 28 February 2006 and the two years ended 28 February 2007 and 29 February 2008 presented in the Financial Information included profit of Yen 7,726,000 and losses of Yen (384,281,000) and Yen (2,917,733,000) of the Target Company, respectively.

34 CONTINGENT LIABILITIES

As at 28 February 2006, 28 February 2007 and 29 February 2008, the Target Company had no significant contingent liabilities.

35 NOTES TO CASH FLOW STATEMENTS

(a) Reconciliation of profit for the year to net cash (used in)/generated from operations

	Nine months ended 28 February 2006	Year ended 28 February 2007	Year ended 29 February 2008
	Yen'000	*Yen'000*	*Yen'000*
Profit/(loss) before income tax for the period/year	70,398	(321,145)	(2,988,262)
Adjustments for:			
— Depreciation of property, plant and equipment *(Note 7)*	34,138	45,338	40,440
— Amortisation of intangible assets *(Note 8)*	72,217	98,809	125,140
— Provision for impairment of			
— Property, plant and equipment *(Note 7)*	—	—	19,068
— Intangible assets *(Note 8)*	—	—	1,391,477
— Inventories *(Note 12)*	264,765	217,893	86,126
— Trade receivables *(Note 26)*	(10,914)	6,253	141,447
— Interest income *(Note 30)*	(156)	(165)	(334)
— Interest expenses *(Note 30)*	112,133	141,000	166,703
— Loss on disposal of property, plant and equipment *(Note 27)*	17,870	50,428	66,885
— Gain on disposal of available for sale financial assets *(Note 27)*	(15,653)	—	—
— Share of (profit)/loss of jointly controlled entities *(Note 9)*	(14,116)	(5,453)	3,727
	530,682	232,958	(947,583)
Changes in working capital:			
— Inventories	29,550	(991,511)	421,897
— Trade and notes receivables, prepayments, deposits and other receivables	195,920	146,631	(516,203)
— (Decrease)/increase in trade and notes payables, accruals and other payables	(217,845)	1,229,528	(1,909,054)
— Derivative financial instruments	(97,776)	(34,769)	—
— Licence fees payable	—	—	6,262
— Provisions	(14,891)	(117,716)	132
Cash generated/(used in) from operations	425,640	465,121	(2,944,549)

(b) In the cash flow statements, proceeds from disposal of property, plant and equipment comprise:

	Nine months ended 28 February 2006 *Yen'000*	**Year ended 28 February 2007** *Yen'000*	**Year ended 29 February 2008** *Yen'000*
Net book amount *(Note 7)*	117,220	50,622	66,885
Loss on disposal of property, plant and equipment *(Note 27)*	(17,870)	(50,428)	(66,885)
Proceeds from disposal of property, plant and equipment	99,350	194	—

36 COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for but not yet incurred at the balance sheet dates is as follows:

	As at 28 February 2006 *Yen'000*	**As at 28 February 2007** *Yen'000*	**As at 29 February 2008** *Yen'000*
Computerised production cost management system	—	—	125,361

(b) Operating lease commitments

The Target Company leases certain of its office premise, shops and outlet under non-cancellable operating lease agreements. The leases have various terms and renewal rights.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 28 February 2006 *Yen'000*	**As at 28 February 2007** *Yen'000*	**As at 29 February 2008** *Yen'000*
No later than 1 year	574,619	422,628	240,119
Later than 1 year and no later than 5 years	603,079	299,465	127,534
	1,177,698	722,093	367,653

(c) Other commitments

The Target Company provides certain sponsorships to certain sports teams, including cash payment as well as provision of sports apparels for free.

The future aggregate minimum payments under sponsorship agreements are as follows:

	As at 28 February 2006 *Yen'000*	As at 28 February 2007 *Yen'000*	As at 29 February 2008 *Yen'000*
No later than 1 year	4,256	306,958	268,927
Later than 1 year and no later than 5 years	13,831	350,746	87,819
	18,087	657,704	356,746

37 RELATED PARTY TRANSACTIONS

As mentioned in Note 1 above, during the Relevant Periods, the directors of the Target Company regard Orix as being the Target Company's ultimate holding company.

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.

(a) Transactions with related parties:

During the Relevant Periods, the Target Company had the following transactions carried out with related parties:

	Nine months ended 28 February 2006 *Yen'000*	Year ended 28 February 2007 *Yen'000*	Year ended 29 February 2008 *Yen'000*
Sale of goods to companies controlled by Orix	219,005	809	1,054
Processing fee to jointly controlled entities of the Target Company	651,236	442,260	509,645
Other transactions with Orix			
— Computer leasing expenses	2,073	6,309	6,419
— Purchase of office supplies	367	1,606	1,497
— Interest expenses	—	63	88,635
— Business cooperation fee	—	—	9,263
Other transactions with companies controlled by Orix			
— Office cleaning expenses	6,159	6,532	6,104
— Travelling expenses	1,576	4,115	4,040
— Recruitment expenses	1,350	1,880	2,100
— Disposal handling service	698	528	—
— Car leasing expenses	—	200	1,198

Transactions with related parties were carried out at terms mutually agreed between both parties.

(b) Balances with related parties:

The Target Company had the following significant balances with its related parties:

	As at 28 February 2006 *Yen'000*	As at 28 February 2007 *Yen'000*	As at 29 February 2008 *Yen'000*
Borrowings			
— Loan from Orix *(Note 18)*	—	320,000	6,000,000
Trade receivables			
— Fellow subsidiaries *(Note 13)*	—	85	224
Trade payables			
— Jointly controlled entities	1,025	25,933	3,606
Accruals and other payables			
— Fellow subsidiaries	—	63	27
— Interest payable to Orix	307	732	4,274
	307	795	4,301

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

(c) Key management compensation

	Nine months ended 28 February 2006 *Yen'000*	Year ended 28 February 2007 *Yen'000*	Year ended 29 February 2008 *Yen'000*
Salaries, bonus and other benefits	73,973	91,148	83,990
Pension costs	7,348	9,720	9,234
	81,321	100,868	93,224

38 MAJOR DIFFERENCES BETWEEN AUDITED/UNAUDITED FINANCIAL STATEMENTS AND THE FINANCIAL INFORMATION OF THE TARGET COMPANY

The major differences between audited/unaudited financial statements of the Target Company and the Financial Information is set out below:

(a) Investments in jointly controlled entities are accounted for using the equity method under the accounting policies adopted by the Company. Under Japanese GAAP, investments in jointly controlled entities are stated at cost.

(b) Target Company has adopted accelerated method of depreciation on property, plant and equipment in the Japanese GAAP Financial Statements while the Company has adopted straight line method of depreciation. Adjustment was made for the alignment of the depreciation policy on a retrospective basis.

(c) Under Japanese GAAP, licence rights are not initially recognised as intangible assets and license payments are charged to income statements on an accrual basis. However, under IFRS, licence rights are required to be recognised initially as intangible assets and are amortised using straight line method over the licence period.

(d) Under Japanese GAAP, untaken annual leave and other related employee benefits are recognised when the leave is utilised. Under IFRS, untaken annual leave and other related employee benefits as at balance sheet dates should be recognised as a liability.

(e) Goodwill is carried at cost less accumulated amortisation under Japanese GAAP while it is stated at cost less impairment under IFRS. Adjustments were made to the amortisation and goodwill based on independent assessment by management of the Company.

(f) For the purpose of Financial Information, adjustments were made to the amortisation of Kappa trademark using 40 years as its useful life, which is determined based on assessment by management of the Company according to the relevant requirements of IFRS.

(g) In the Japanese GAAP financial statements for the nine months ended 28 February 2006, a loss was recognised upon completion of liquidation of an unlisted available-for-sale investment. Adjustment was made to record the loss at the commencement of liquidation prior to 1 June 2005 to reflect the fair value of the unlisted available-for-sale investment is as at 1 June 2005.

(h) Adjustment on goods return was made to the unaudited Japanese GAAP financial statements for the year ended 29 February 2008 based on an assessment by management of the Company according to relevant requirements of IFRS.

(i) Adjustments on impairment on inventories, land, Kappa trademark and licence rights to their respective net realisable value or recoverable amounts, where applicable, were made based on independent assessment by management of the Company according to the requirements of IFRS.

(j) Adjustments on deferred taxation according to the requirements of IFRS.

	As at 1 June 2005	As at 28 February 2006	As at 28 February 2007	As at 29 February 2008
	Yen'000	*Yen'000*	*Yen'000*	*Yen'000*
Total equity under Japanese GAAP	858,305	892,845	473,643	(2,521,360)
Adjustments for different accounting treatments:				
(a) Equity accounting for investments in jointly controlled entities	(13,564)	35,071	51,387	50,628
(b) Alignment of depreciation policy	17,498	41,043	44,541	36,864
(c) Recognition of licence rights	—	(8,415)	(9,961)	(19,922)
(d) Recognition of employee benefits relating to untaken annual leave and others	(127,300)	(102,029)	(143,129)	(145,464)
(e) Adjustments to amortisation and impairment of goodwill prior to 1 June 2005	(306,150)	(229,613)	(153,075)	—
(f) Alignment of useful life of trademark	43,350	140,888	270,938	400,988
(g) Provision for impairment for available-for-sale financial assets prior to 1 June 2005	(58,224)	—	—	—
(h) Adjustment of provision for sales return	—	—	—	(108,446)
(i) Provision for impairment:				
— Inventories	(388,014)	(652,780)	(730,985)	(666,910)
— Land	—	—	—	(1,920)
— Kappa trademark	—	—	—	(102,988)
— Licence rights	—	—	—	(89,140)
— Equipment	—	—	—	(17,148)
(j) Recognition of deferred taxation	(18,254)	(54,579)	(94,643)	(11,060)
Others	1,852	(1,983)	(1,784)	1
Total equity under IFRS	9,499	60,448	(293,068)	(3,195,877)

		Nine months ended 28 February 2006	Year ended 28 February 2007	Year ended 29 February 2008
		Yen'000	*Yen'000*	*Yen'000*
Profit/(loss) for the period/year under Japanese GAAP		39,932	(419,186)	(2,994,998)
Adjustments for different accounting treatments:				
(a)	Equity accounting for investments in jointly controlled entities	14,116	(8,996)	(19,410)
(b)	Alignment of depreciation policy	23,545	3,498	(7,677)
(c)	Recognition of licence rights	(8,415)	(1,546)	(9,962)
(d)	Recognition of employee benefits relating to untaken annual leave and others	25,271	(41,100)	(2,334)
(e)	Adjustments to amortisation and impairment of goodwill prior to 1 June 2005	76,537	76,537	153,075
(f)	Alignment of useful life of trademark	97,538	130,050	130,050
(g)	Provision for impairment for available-for-sale financial assets prior to 1 June 2005	58,224	—	—
(h)	Adjustment of provision for sales return	—	—	(108,446)
(i)	Provision for impairment:			
	— Inventories	(264,766)	(78,206)	64,075
	— Land	—	—	(1,920)
	— Kappa trademark	—	—	(102,988)
	— Licence rights	—	—	(87,357)
	— Equipment	—	—	(17,148)
(j)	Recognition of deferred taxation	(36,325)	(40,064)	83,583
Others		(3,815)	185	(3)
Profit/(loss) for the period/year under IFRS		21,842	(378,828)	(2,921,460)

39 REPORTING PERIOD

Pursuant to a resolution passed by the Board of directors of the Target Company on 20 July 2005, the Target Company changed it financial year end date from 31 May to 28/29 February. The first reporting period of the Financial Information presented is for the nine months ended 28 February 2006, which is shorter than one year. Accordingly, the amounts for the income statement, statement of changes in equity, cash flow statement and related notes for the nine months ended 28 February 2006 and the remaining two years ended 28 February 2007 and 29 February 2008 are not entirely comparable.

40 SUBSEQUENT EVENTS

Saved as disclosed elsewhere in this report, the following significant events took place subsequent to 29 February 2008:

(a) In April 2008, Orix, OPI and the Company entered into several agreements whereby the Company, through a wholly owned subsidiary, agreed to purchase the entire equity interest in the Target Company and the assignment of the outstanding balance of the loan of Yen 5,937,000,000 provided by Orix to the Target Company. On 30 April 2008, the Company has become the holding company of the Target Company thereafter.

(b) On 30 April 2008, the Company, through a wholly owned subsidiary, and Orix also agreed to subscribe for newly issued equity interest in the Target Company for a subscription price of the Yen 499,799,993 (71,399,999 shares) and Yen 63,000,000 (9,000,000 shares), respectively. After the completion of such subscriptions on 1 May 2008, the Company and Orix owned 91% and 9%, respectively, of the issued equity interest in the Target Company.

(c) Pursuant to a revolution passed by the board of directors of the Target Company, the Target Company has changed its financial year end from 28/29 February to 31 December.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for the Target Company in respect of any periods subsequent to 29 February 2008. Saved as disclosed in this report, no dividend or distribution has been declared, made or paid by the Target Company in respect of any periods subsequent to 29 February 2008.

Yours faithfully,

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

A. UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The following is an illustrative and unaudited pro forma statement of assets and liabilities of the Enlarged Group (the "Unaudited Pro Forma Financial Information"), which have been prepared by the directors of the Company on the basis of the notes set out below for the purpose of illustrating the effect of the acquisition of equity interest in and outstanding loans of the Target Company and the subscription of newly issued equity interest in the Target Company by the Company (the "Acquisition") as if it had taken place on 31 December 2007. This Unaudited Pro Forma Financial Information has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the financial positions of the Group had the Acquisition been completed as at 31 December 2007 or any future dates.

Unaudited Pro Forma Statement of Assets and Liabilities of the Enlarged Group

		Pro forma adjustments			
	Statement of assets and liabilities of the Group as at 31 December 2007	**Statement of assets and liabilities of the Target Company as at 29 February 2008**	**Other pro forma adjustments**	*Note*	**Unaudited pro forma statement of assets and liabilities of the Enlarged Group**
	RMB'000	*RMB'000*	*RMB'000*		*RMB'000*
	(Note 2)	*(Note 3(a))*			
ASSETS					
Non-current assets					
Property, plant and equipment	94,474	19,105	2,297	3(b)	115,876
Lease prepayments	30,080	—			30,080
Intangible assets	279,751	21,929	8,550	3(c)	310,230
Investments in jointly controlled entities	—	28,218			28,218
Deferred income tax assets	3,308	—			3,308
Other receivables	—	18,585			18,585
	407,613	87,837			506,297
Current assets					
Inventories	88,173	106,452	4,781	3(d)	199,406
Financial assets	201,505	—			201,505
Trade and notes receivables	138,319	134,150			272,469
Prepayments, deposits and other receivables	46,764	18,327			65,091
Cash and bank balances					
— Restricted bank balances	29,521	—			29,521
— Cash and cash equivalents	5,311,060	40,866			5,351,926
	5,815,342	299,795			6,119,918
Total assets	6,222,955	387,632			6,626,215

		Pro forma adjustments			
	Statement of assets and liabilities of the Group as at 31 December 2007	Statement of assets and liabilities of the Target Company as at 29 February 2008	Other pro forma adjustments	*Note*	Unaudited pro forma statement of assets and liabilities of the Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*		*RMB'000*
	(Note 2)	*(Note 3(a))*			
LIABILITIES					
Non-current liabilities					
Deferred income tax liabilities	—	(751)			(751)
Licence fees payable	(5,906)	(4,156)			(10,062)
	(5,906)	(4,907)			(10,813)
Current liabilities					
Trade and notes payables	(177,619)	(122,687)			(300,306)
Accruals and other payables	(112,804)	(38,542)	(14,000)	3(e)	(165,346)
Borrowings	—	(407,148)	407,148	3(f)	—
License fees payable — current portion	(1,557)	(2,995)			(4,552)
Provision	—	(26,633)			(26,633)
Current income tax liabilities	(23,238)	(1,586)			(24,824)
	(315,218)	(599,591)			(521,661)
Total liabilities	(321,124)	(604,498)			(532,474)
Net assets/(liabilities)	5,901,831	(216,866)			6,093,741

Notes to the unaudited pro forma statement of assets and liabilities

(1) In April 2008, Orix, OPI and the Company entered into several agreements whereby the Company, through a wholly owned subsidiary, agreed to purchase 100% equity interest in the Target Company and the assignment of the outstanding balance of the loan of Yen 5,937,000,000 provided by Orix to the Target Company. On 30 April 2008, the Company has become the holding company of the Target Company thereafter. On 30 April 2008, the Company, through a wholly owned subsidiary, and Orix also agreed to subscribe for the newly issued equity interest in the Target Company for a subscription price of Yen 499,799,993 (71,399,999 shares) and Yen 63,000,000 (9,000,000 shares), respectively. After the completion of such subscriptions on 1 May 2008, the Company and Orix owned 91% and 9%, respectively, of the issued equity interest in the Target Company.

Upon completion of the Acquisition, the identifiable assets and liabilities of the Target Company will be accounted for in the consolidated financial statements of the Group at the fair value under the purchase method of accounting in accordance with International Financial Reporting Standard 3 "Business Combination".

(2) The unadjusted statement of assets and liabilities of the Group is extracted from the audited financial statements of the Group for the year ended 31 December 2007 as set out in Appendix I to this circular.

(3) For the purpose of preparing the Unaudited Pro Forma Financial Information of the Enlarged Group, the pro forma adjustments arising from the Acquisition as if it had taken place on 31 December 2007 are set out below:

(a) The statement of assets and liabilities of the Target Company are extracted from the accountant's report of the Target Company as set out in Appendix II to this circular. For the purpose of the Unaudited Pro Forma Financial Information, the balances stated at Japanese Yen are translated into Renminbi at an exchange rate of Yen 100 to RMB6.7858.

(b) The adjustment of recognising the estimated fair value of land and building of approximately RMB2,297,000.

(c) The adjustment of recognising the estimated fair value of trademarks in the intangible asset totalling approximately RMB8,550,000.

(d) The adjustment of recognising the estimated fair value of inventories of approximately RMB4,781,000.

(e) The adjustment of accrual for estimated transaction costs of the Acquisition of approximately RMB14,000,000. The transaction costs, including costs of furnishing information to shareholders, fees to various professionals and other relates costs, are directly attributable to the Acquisition.

(f) The adjustment to the loan payable by the Target Company of Yen 6,000,000,000 (RMB407,148,000,000) as at 29 February 2008 in respect of (i) elimination of the loan payable by the Target Company to the Company of Yen 5,937,000,000 (RMB402,873,000) and (ii) repayment of Yen 63,000,000 (RMB4,275,000) to Orix and the subsequent issue of the 9,000,000 new shares to Orix at the same consideration.

(4) Upon completion of the Acquisition, a negative goodwill, which represents the excess of the aggregate amount of (i) the estimated fair value of the Target Company's the identifiable assets and liabilities as at the date of completion and (ii) the loan payable by the Target Company assigned to the Company, over the aggregate consideration of Yen 2, after deducting the estimated transaction costs of the Acquisition, will be recognised as income in the Group's consolidated income statement.

Assuming the Acquisition had taken place on 31 December 2007, based on the financial information and the fair value of the assets and liabilities of the Target Company as at 29 February 2008 estimated by the directors of the Company, the negative goodwill would be approximately RMB191,910,000, details of which are set out below:

	RMB'000
Consideration	—
add: Estimated transaction costs of the Acquisition	14,000
less: Fair value of identifiable assets acquired	
— Net deficits of the Target Company as at 29 February 2008 (Yen 3,195,877,000)	(216,866)
— Aggregate amount of adjustments to recognise fair value of identifiable assets as set out in 3(b), (c) and (d) above	15,628
— Loan payables by the Target Company as at 29 February 2008 (Yen 6,000,000,000)	407,148
	205,910
Negative goodwill	(191,910)

The fair values of the identifiable assets and liabilities of the Target Company to be recognised by the Company at the date of completion of the Acquisition may be different from the fair values and estimations used in the preparation of the Unaudited Pro Forma Financial Information of the Enlarged Group. Accordingly, the actual amount of negative goodwill may be different from the estimated amounts stated herein.

(5) Other than those adjustments mentioned above, no other adjustment has been made to reflect any trading results or other transactions of the Group and the Target Company entered into subsequent to 31 December 2007 or 29 February 2008, respectively.

B. REPORT ON UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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

**REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION
TO THE DIRECTORS OF CHINA DONGXIANG (GROUP) CO., LTD.**

We report on the unaudited pro forma financial information set out on pages III-1 to III-4 under the heading of "Unaudited Pro Forma Financial Information of the Enlarged Group" (the "Unaudited Pro Forma Financial Information") in Appendix III to the circular dated 30 June 2008 (the "Circular") of China Dongxiang (Group) Co., Ltd. (the "Company"), in connection with the acquisition of equity interest in and outstanding loans of the Target Company and the subscription of newly issued equity interest in the Target Company by the Company (the "Acquisition"). The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Acquisition might have affected the relevant financial information of the Company and its subsidiaries (hereinafter collectively referred to as the "Group"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages III-1 to III-4 of the Circular.

Respective responsibilities of directors of the Company and the reporting accountant

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by rule 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the statement of assets and liabilities of the Group as at 31 December 2007 with the audited consolidated balance sheet of the Group as at 31 December 2007, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 December 2007 or any future dates.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 June 2008

1 RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this document and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2 PROCEDURES FOR DEMANDING A POLL

In accordance with Article 66 of the Articles of Association, resolutions proposed at any general meeting shall be put to the voting at the meeting on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded, *inter alia*, by:

(a) the chairman of such meeting; or

(b) at least three shareholders present in person or in the case of a shareholder being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or

(c) a shareholder or shareholders present in person or in the case of a shareholder being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all shareholders having the right to vote at the meeting; or

(d) a shareholder or shareholders present in person or in the case of a shareholder being a corporation by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

In accordance with the requirements of the Listing Rules, the results of the poll will be published by way of an announcement on the websites of the Company (www.dxsport.com) and the Stock Exchange on the business day following the date of the meeting.

3 DISCLOSURE OF INTERESTS

(a) Interests of Directors

As at the Latest Practicable Date, the interests of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they were taken or deemed to have under such provisions of the SFO), the Model Code for

Securities Transactions by Directors of Listed Companies in the Listing Rules and which were required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO were as follows:

Name of Director	Nature of interest	Number and class of securities(1)	Approximate percentage of existing issued share capital of the Company
Mr. Chen Yihong ("Mr. Chen")	Interest of a controlled corporation(2)	2,587,081,000 Shares (L)	45.57%
	Deemed Interest(3)	345,520,000 Shares (L)	6.09%
Mr. Qin Dazhong ("Mr. Qin")	Interest of a controlled corporation(4)	241,864,000 Shares (L)	4.26%
Mr. Mak Kin Kwong	Personal Interest	200,000 Shares(5) (L)	0.0035%
Mr. Xu Yudi	Personal Interest	200,000 Shares(5) (L)	0.0035%
Dr. Xiang Bing	Personal Interest	200,000 Shares(5) (L)	0.0035%

Notes:

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

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

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

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

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

Saved as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they were taken or deemed to have under such provisions of the SFO), the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules and which were required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO.

(b) Interests of substantial Shareholders

As at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company, the following persons had an interest or short position in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register maintained by the Company pursuant to Section 336 of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other members of the Enlarged Group:

Name of Shareholders	Nature of interest	Number and class of securities[1]	Approximate percentage of existing issued share capital of the Company
Poseidon Sports Limited ("Poseidon")	Corporate interest	2,587,081,000 Shares (L)	45.57%
Talent Rainbow Far East Limited[2]	Interest in a controlled corporation	2,587,081,000 Shares (L)	45.57%
Harvest Luck Development Limited[2]	Interest in a controlled corporation	2,587,081,000 Shares (L)	45.57%
Mr. Chen[2]	Interest in a controlled corporation, deemed interest	2,932,601,000 Shares (L)	51.65%[4]
Colour Billion Limited[3]	Corporate interest	345,520,000 Shares (L)	6.09%
Ms. Liu Peiying[3]	Interest in a controlled corporation, deemed interest	2,932,601,000 Shares (L)	51.65%[4]

Notes:

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

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

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

4. The percentages may not add up due to rounding off.

Save as disclosed above, the Directors or the chief executive of the Company were not aware that there was any person (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other members of the Enlarged Group.

4 MATERIAL ADVERSE CHANGE

The Directors confirm that there is no material adverse change in the financial or trading position of the Company and its subsidiaries since 31 December 2007, being the date to which the latest published audited accounts of the Company and its subsidiaries were made up to.

5 WORKING CAPITAL

The Directors, after making due and careful enquiry, are of the opinion that after taking into account the internal resources of the Enlarged Group, the Enlarged Group will have sufficient working capital for its normal business up to 30 June 2009.

6 SERVICE AGREEMENTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Enlarged Group which is not expiring or determinable by the Enlarged Group within one year without payment of compensation (other than statutory compensation).

7 COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective associates was interested in, apart from the Group's business, any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

8 LITIGATION

From time to time, the Enlarged Group may be involved in disputes or legal proceedings in the ordinary cause of business, including claims for infringement of intellectual property rights by the Enlarged Group or by third parties, and disputes with purchasers. As far as the Directors are aware, the Enlarged Group was not engaged in any litigation or arbitration or claims of material importance which is known to the Directors to be pending or threatened by or against the Enlarged Group as at the Latest Practicable Date.

9 OTHER INTERESTS

As at the Latest Practicable Date,

1. none of the Directors had any direct or indirect interest in any assets which have, since 31 December 2007, being the date of the latest published audited accounts of the Group, been acquired or disposed of by, or leased to, or are proposed to be acquired or disposed of by, or leased to, any member of the Enlarged Group; and

2. none of the Directors was materially interested in any contract or arrangement entered into by any member of the Enlarged Group which contract or arrangement is subsisting as at the date of this circular and which is significant in relation to the business of the Enlarged Group taken as a whole.

10 QUALIFICATION OF EXPERT

The following is the qualification of the expert who has given opinion or, advice contained in this circular:

Name	Qualification
PricewaterhouseCoopers	Certified Public Accountants

As at the Latest Practicable Date, PricewaterhouseCoopers was not beneficially interested in the share capital of any member of the Group nor had it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group nor did it have any interest, either direct or indirect, in any assets which had been, since 31 December 2007, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

11 CONSENT OF EXPERT

PricewaterhouseCoopers has given and has not withdrawn its written consent as the issue of this circular with the inclusion herein of its respective letters, reports and/or reference to its name, letters or reports in the form and context in which they respectively appear.

12 MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Enlarged Group within two years immediately preceding the date of this circular that are or may be material:

(a) the mortgage and borrowing agreement dated 11 August 2006 entered into among Beijing Dongxiang Sports Development Co., Limited ("Beijing Dongxiang"), Bank of Communications, Beijing Economic Technology Development Area branch ("Bank of Communications") and 北京經開投資開發股份有限公司 (Beijing Jing Kai Investment Development Shareholding Co., Ltd.)* pursuant to which Beijing Dongxiang agreed to borrow an amount of RMB5,780,000 from the Bank of Communication and to provide its premises at 北京經濟技術開發區景園北街2號,BDA國際企業大道37號樓 (No. 37, BDA International Enterprise Road, No. 2 Jingyuanbei Street, Beijing Economic Technology Development Area)* as security for the loan;

(b) the asset transfer agreement dated 30 August 2006 entered into between Beijing Dongxiang and 廣東方德貿易有限公司 (Guangdong Fang De Trading Co., Ltd.)* ("Guangdong Fang De"), pursuant to which Beijing Dongxiang agreed to transfer certain assets under its Guangzhou branch to Guangdong Fang De for a consideration of RMB4,770,000;

(c) the agreement to purchase state-own land dated 9 November 2006 entered into between 中國江蘇省太倉市國土資源局 (Taicang Land Resources Authority, Jiangsu Province, PRC)* and Shanghai Taitan Sporting Goods Co., Limited ("Shanghai Taitan"), Taicang branch pursuant to which, Shanghai Taitan, Taicang branch agreed to purchase from Taicang Land Resources Authority the land located at 太倉市經濟開發區北京路南側 (Taicang City Economic Development Region Beijing Road South)* for a consideration of RMB3,138,263;

(d) a contribution agreement dated 20 April 2007 entered into between MS Apparel Limited ("MS I"), MS Apparel II Limited ("MS II") and Hong Kong Dongxiang pursuant to which Hong Kong Dongxiang assumes all the rights and obligations of MS I and MS II under the Notes and Trademark Recordation Notes in consideration of Hong Kong Dongxiang allotting and issuing 1,591 and 93 shares to MS I and MS II, respectively;

(e) equity interest transfer agreement dated 18 June 2007 entered into among Phenix, 上海飛達羽絨服裝總廠 (Shanghai Feida Down Garment General Factory)* ("Shanghai Feida") and Shanghai Phenix Apparel Co., Ltd. ("Shanghai Phenix") pursuant to which Phenix agreed to transfer 14% equity interest held by Phenix in Shanghai Phenix to Shanghai Feida for a total consideration of US$602,000;

(f) a share swap agreement dated 29 June 2007 entered into amongst Poseidon, MS I, MS II, Mr. Chen, Ms. Liu Peiying, Mr. Qin, Hong Kong Dongxiang and the Company pursuant to which, an aggregate of 10,000 shares of HK$1.00 each held by Poseidon, MS I and MS II in Hong Kong Dongxiang were sold to the Company in consideration of the Company allotting and issuing 7,999,000 Shares, 1,890,000 Shares and 110,000 Shares credited as fully paid to Poseidon, MS I and MS II respectively;

(g) an assignment and assumption agreement dated 29 June 2007 entered into amongst MS I, MS II, Poseidon, Mr. Chen, Mr. Chen Yiliang, Ms. Liu Peiying, Mr. Qin, Achilles, Hong Kong Dongxiang and the Company pursuant to which Hong Kong Dongxiang assigned to the Company all its rights and obligations under an investment agreement and a shareholder agreement dated 10 May 2006 for US$1.00;

(h) a placing agreement dated 3 September 2007 between the Company, China Life Insurance Company Limited, Deutsche Bank AG, Hong Kong Branch ("Deutsche Bank") and Merrill Lynch International;

(i) a placing agreement dated 3 September 2007 between the Company, Tiger Global, L.P., Tiger Global II, L.P., Tiger Global, Ltd., Deutsche Bank and Merrill Lynch International;

(j) a placing agreement dated 3 September 2007 between the Company, Intime Department Store (Group) Company Limited, Deutsche Bank and Merrill Lynch International;

(k) a deed of termination dated 12 September 2007 entered into amongst Poseidon, Mr. Chen, Mr. Chen Yiliang, Ms. Liu Peiying, Mr. Qin, Achilles Sports Pte. Ltd., the Company, MS I and MS II pursuant to which, a shareholder agreement dated 10 May 2006 was terminated with effect from the completion of the global offering;

(l) a deed of indemnity dated 12 September 2007 entered into between Mr. Chen and the Company pursuant to which, Mr. Chen agreed to give certain indemnities in relation to tax and other matters in favour of the Company;

(m) a Hong Kong underwriting agreement dated 24 September 2007 entered into amongst the Company, Mr. Chen, Poseidon, Deutsche Bank and Merrill Lynch Far East Limited in relation to the underwriting of the Hong Kong public offer by the Hong Kong Underwriters (as defined therein);

(n) the international purchase agreement dated 3 October 2007 between the Selling Shareholders, the Joint Global Coordinators, the International Representatives (as defined therein) and the Company in relation to the international offering;

(o) various loan agreements dated 20 March 2007, 29 March 2007, 26 April 2007, 30 May 2007, 30 July 2007, 24 August 2007, 25 October 2007, 29 November 2007 and 28 February 2008 respectively entered into between Orix and Phenix pursuant to which Orix agreed to advance various loans to Phenix amounting to a total of Yen 5,937,000,000;

(p) an undated assignment agreement entered into between Phenix and Sumitomo Mitsui Banking Corporation ("SMBC") pursuant to which Phenix had assigned parts of its accounts receivable from some of its business partners to SMBC for the purpose of securing any and all obligations that Phenix owed to SMBC;

(q) a PSS transfer agreement dated 7 April 2008 entered into between Phenix and ゼシト株式会社 (Zett Corporation)** pursuant to which Phenix agreed to transfer, among others, the related inventories of Phenix's sports system business to Zett Corporation for a total consideration of Yen 73,764,487 (which shall be adjusted according to the terms of the PSS transfer agreement);

(r) the Share Purchase Agreement;

(s) the Purchaser Share Subscription Agreement;

(t) the ORIX Share Subscription Agreement;

(u) the Letter Agreement; and

(v) the Assignment Agreement.

* *denotes an English translation of a Chinese name*

** *denotes an English translation of a Japanese name*

Save as disclosed herein, none of the Directors is materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Enlarged Group.

13 GENERAL

(a) The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

(b) The principal share registrar and transfer office of the Company is Butterfield Fund Services (Cayman) Limited, Butterfield House, 68 Fort Street, P.O. Box 705, Grand Cayman KY1-1107, Cayman Islands.

(c) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(d) The qualified accountant and company secretary of the Company is Mr. Wong Chi Keung, *FCCA, CPA*.

(e) The English text of this document shall prevail over their Chinese text in case of inconsistencies.

14 DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company in Hong Kong up to and including 15 July 2008:

(a) the memorandum of association and articles of association of the Company;

(b) the annual report of the Group for the year ended 31 December 2007;

(c) the accountant's report of Phenix prepared by PricewaterhouseCoopers as set out in Appendix II to this circular;

(d) the report issued by PricewaterhouseCoopers in connection with the unaudited pro forma statement of assets and liabilities of the Enlarged Group as set out in Appendix III to this circular;

(e) the copies of material contracts referred to in the paragraph headed "Material contracts" in this appendix; and

(f) the letter of consent referred to in the section headed "Consent of Expert" in this appendix.