
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 and the accompanying form of proxy 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.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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)

**REVISED ANNUAL CAPS FOR
CONTINUING CONNECTED TRANSACTIONS**

Independent financial adviser

To the Independent Board Committee and the Independent Shareholders



A letter from the Board is set out on pages 3 to 8 of this circular. A letter from the Independent Board Committee containing its advice to the Independent Shareholders (as defined herein) is set out on page 9 of this circular. A letter from Somerley containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 10 to 21 of this circular.

A notice convening the EGM to be held at Elbrus Room, Pacific Place Conference Centre, Level 5, One Pacific Place, 88 Queensway, Hong Kong on Wednesday, 10 September 2008 at 2:30 p.m. is set out on pages 28 to 29 of this circular.

Whether or not you are able to attend the EGM, please complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1806–1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time of the EGM or any adjournment thereof. Completion and delivery of the form of proxy will not preclude you from attending and voting at the EGM in person should you so wish.

21 August 2008

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	3
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	9
LETTER FROM SOMERLEY	10
APPENDIX — GENERAL INFORMATION	22
NOTICE OF EXTRAORDINARY GENERAL MEETING	28

DEFINITIONS

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

“Announcement”	the Company’s announcement dated 1 August 2008 in relation to the Revised Annual Caps
“associate(s)”	has the meaning given to that term under the Listing Rules
“Board”	the board of Directors of the Company
“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 main board of the Stock Exchange
“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
“Dong Gan Jing Ji”	北京動感競技經貿有限公司 (Dong Gan Jing Ji Company Limited*), a limited liability company established in the PRC
“EGM”	extraordinary general meeting of the Company to be convened on Wednesday, 10 September 2008, to approve the Revised Annual Caps
“Existing Annual Caps”	the existing annual caps of the Framework Agreement in the amount of RMB249 million and RMB278 million for the two years ending 31 December 2008 and 31 December 2009, respectively
“Framework Agreement”	the framework agreement dated 18 September 2007 entered into between the Company and Dong Gan Jing Ji pursuant to which the Company agreed to sell, or procure its subsidiaries to sell, Kappa brand and Rukka brand products to Dong Gan Jing Ji for a period of 3 years
“Group”	the Company and its subsidiaries
“Independent Board Committee”	an independent committee of the Board, consisting of Dr. Xiang Bing, Mr. Xu Yudi and Mr. Mak Kin Kwong, being the independent non-executive Directors, established to advise the Independent Shareholders in respect of the Revised Annual Caps
“Independent Shareholders”	the independent shareholders of the Company other than those required to abstain from voting at the EGM
“Kappa brand”	the Kappa brand and Robe Di Kappa brand

DEFINITIONS

“Latest Practicable Date”	14 August 2008, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining relevant information contained herein
“Listing”	the listing of the Shares of the Company on the main board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China, and for the purposes of this circular, excluding Hong Kong, the Macau Special Administrative Region and Taiwan
“Prospectus”	the prospectus issued by the Company dated 25 September 2007 in relation to its Listing
“Revised Annual Caps”	the revised annual caps of the Framework Agreement in the amount of RMB315 million and RMB475 million for the two years ending 31 December 2008 and 31 December 2009, respectively
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
“Shareholder(s)”	the shareholder(s) of the Company
“Share(s)”	the ordinary share(s) in the share capital of the Company with a nominal value of HK\$0.01 each
“Sommerley”	Sommerley Limited, a corporation licensed under the SFO which is permitted to engage in types 1, 4, 6 and 9 of the regulated activities as defined under the SFO, and which is appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Revised Annual Caps
“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
“%”	percent

* *Denotes an English translation of a Chinese name and is provided for identification purposes only.*

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)

Executive Directors:

Mr. Chen Yihong
Mr. Qin Dazhong

Non-executive Director:

Mr. Gao Yu

Independent non-executive Directors:

Dr. Xiang Bing
Mr. Xu Yudi
Mr. Mak Kin Kwong

Registered Office:

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

Principal Place of Business

in Hong Kong:
Office Unit 9
13/F Tower Two
Lippo Centre
No. 89 Queensway
Hong Kong

21 August 2008

To the Shareholders

Dear Sir or Madam,

**REVISED ANNUAL CAPS FOR
CONTINUING CONNECTED TRANSACTIONS**

INTRODUCTION

Reference is made to the Announcement regarding the Revised Annual Caps dated 1 August 2008.

As disclosed in the section headed “Connected Transactions” in the Prospectus and in the Announcement, the Company entered into the Framework Agreement with Dong Gan Jing Ji on 18 September 2007. The Framework Agreement took effect from the date of the Listing and has a term of three years. A waiver was granted by the Stock Exchange to the Company on 7 September 2007 from strict compliance with the announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules for the transactions contemplated under the Framework Agreement.

LETTER FROM THE BOARD

For the period from 1 January 2008 to 30 June 2008, the aggregate value of the transactions between the parties under the Framework Agreement amounted to approximately RMB127,796,000, representing 51.3% of the Existing Annual Cap for the year ending 31 December 2008. Also, in view of the continued development of the business of the Group and the expected increase in consumer spending in sportswear and sporting goods as a result of the Beijing Olympic Games 2008, the Directors expect that the Existing Annual Caps for the two years ending 31 December 2008 and 31 December 2009 will no longer be sufficient for the Group's requirements. The Directors therefore propose the Revised Annual Caps. As each of the applicable percentage ratios (other than the profit ratio) on the Revised Annual Caps are higher than 2.5%, according to Rule 14A.35 of the Listing Rules, the transactions contemplated under the Framework Agreement with the Revised Annual Caps are subject to the reporting, announcement and Independent Shareholders' approval requirements. Accordingly, the Group will seek the Independent Shareholders' approval of the Revised Annual Caps by way of poll at the EGM.

An Independent Board Committee has been formed to advise the Independent Shareholders in connection with the Revised Annual Caps and Somerley has been appointed as an independent financial adviser by the Company to provide its opinion to the Independent Board Committee and the Independent Shareholders in respect of the Revised Annual Caps.

FRAMEWORK AGREEMENT

As disclosed in the Announcement, before the Listing, Dong Gan Jing Ji had been purchasing Kappa brand and Rukka brand products from the Group for distribution purposes and onward sale to retail customers. After the Listing, such transactions between the Group and Dong Gan Jing Ji are regulated by the Framework Agreement entered into between the Company and Dong Gan Jing Ji on 18 September 2007. The Framework Agreement took effect from the date of the Listing and has a term of three years.

Pricing

Pursuant to the Framework Agreement, the pricing or consideration for the transactions between the parties shall be comparable to other distributors or consignees belonging to the same tier as Dong Gan Jing Ji. The consideration for the transactions under the Framework Agreement will not be more favourable or less favourable than those granted to independent distributors or consignees. For most of the sales made under the Framework Agreement, Dong Gan Jing Ji made payment to the Group within 45 days after the delivery of the products by the Group.

LETTER FROM THE BOARD

Caps

The following are the Existing Annual Caps and the Revised Annual Caps proposed by the Company for the transactions under the Framework Agreement for the two years ending 31 December 2008 and 2009:

	Year ending 31 December 2008	Year ending 31 December 2009
	<i>RMB Million</i>	<i>RMB Million</i>
Existing Annual Caps	249	278
Revised Annual Caps	315	475

Given the dynamic change in market condition and demand of the Kappa brand and Rukka brand products, the Company is currently unable to make a reasonable estimate for the annual cap for the period ending 9 October 2010. The Company will consider proposing an annual cap for such period at a later stage, and will ensure compliance with the applicable Listing Rules when such annual cap is being proposed.

REASONS FOR REVISING THE EXISTING ANNUAL CAPS AND ENTERING INTO THE FRAMEWORK AGREEMENT

For the year ended 31 December 2007, the Group recorded a total sales of RMB157,513,000 under the Framework Agreement. For the period from 1 January 2008 to 30 June 2008, the aggregate value of the transactions between the parties under the Framework Agreement amounted to approximately RMB127,796,000, representing 51.3% of the Existing Annual Cap for the year ending 31 December 2008.

The Directors are of the view that the Existing Annual Caps for the two years ending 31 December 2008 and 31 December 2009 for the transactions under the Framework Agreement will no longer be sufficient, and therefore propose to revise the Existing Annual Caps. The Revised Annual Caps are determined on the basis of the continued development of the business of the Group, the relevant historical figures for the year ended 31 December 2007 and the six months ended 30 June 2008, the confirmed pre-orders the Group received from Dong Gan Jing Ji and ad hoc sales contributing 7% of the total sales to Dong Gan Jing Ji and in particular, (a) the increase in consumer spending in the PRC, particularly in sportswear and sporting goods as a result of a change in consumption pattern towards premium products and the Beijing Olympic Games in 2008; (b) the growth in the reputation of the Kappa brand as a result of the Group's continuous marketing efforts and promotional activities; (c) the expansion in the distribution channels and the increase in the number of retail outlets selling Kappa brand products operated by the Group's distributors, sub-distributors and consignees; (d) the experience of the Group's sales and operation teams in managing the sales of the Kappa brand products; and (e) the Group's focus in defining a clear brand-positioning and designing fashionable and trendy Kappa brand products.

LETTER FROM THE BOARD

As disclosed in the Prospectus, before the Listing, Dong Gan Jing Ji had been purchasing Kappa brand and Rukka brand products from the Group for distribution purposes and onward sale to retail customers in the PRC. After the Listing, such transactions between the Group and Dong Gan Jing Ji have been continuing and are intended to continue. The terms of the Framework Agreement were made after arm's lengths negotiations between the Company and Dong Gan Jing Ji.

The Directors (including the independent non-executive Directors) consider that (i) the transactions contemplated under the Framework Agreement are in the ordinary and usual course of business of the Group and the terms of the Framework Agreement are on normal commercial terms; (ii) the terms of the Framework Agreement and the Revised Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned; and (iii) the entering into of the Framework Agreement is in the interests of the Company and its Shareholders as a whole.

LISTING RULES IMPLICATIONS

Mr. Chen Yihong is a substantial Shareholder of the Company as he is indirectly entitled to exercise, or control the exercise of, more than 10% of the voting power at the general meetings of the Company. Mr. Chen Yihong is also the chairman and executive Director of the Company. Accordingly, Mr. Chen Yihong is a connected person of the Company. Mr. Chen Yihong, Mr. Chen Yiliang, Mr. Chen Yiyong and Mr. Chen Yizhong are brothers. Mr. Chen Yiliang, Mr. Chen Yiyong and Mr. Chen Yizhong own Dong Gan Jing Ji as to 45%, 35% and 20%, respectively. Pursuant to the Listing Rules, Dong Gan Jing Ji is therefore an associate of Mr. Chen Yihong and is therefore a connected person of the Company for purposes of the Listing Rules. Accordingly, Mr. Chen Yihong and his associates (all of whom can control or are entitled to exercise control over the voting rights in respect of the Shares held by them) are required to abstain from voting on the Revised Annual Caps. In addition, Forever Step Investment Limited, Talent Hill Group Limited and Ease Luck Group Limited (which are Shareholders of the Company wholly-owned by Mr. Chen Yiliang) and their associates are required to abstain from voting on the Revised Annual Caps as a result of Mr. Chen Yiliang's material interest in the transactions under the Framework Agreement.

As at the Latest Practicable Date, Mr. Chen Yihong through his indirect wholly-owned subsidiary, Poseidon Sports Limited, is interested in approximately 45.88% of the issued share capital of the Company. Ms. Liu Peiying, the wife of Mr. Chen Yihong, is interested in 6.10% of the issued share capital of the Company through Colour Billion Limited. Mr. Chen Yiliang, through Forever Step Investment Limited, Talent Hill Group Limited and Ease Luck Group Limited, is interested in 4.97% of the issued share capital of the Company.

As each of the applicable percentage ratios (other than the profit ratio) on the Revised Annual Caps are higher than 2.5% of the applicable percentage ratio as defined under Rule 14.07 of the Listing Rules, the transactions under the Framework Agreement with the Revised Annual Caps will constitute non-exempt continuing connected transactions of the

LETTER FROM THE BOARD

Company under Rule 14A.35 of the Listing Rules and are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

APPROVAL BY INDEPENDENT SHAREHOLDERS

An Independent Board Committee has been formed to advise the Independent Shareholders in connection with the Revised Annual Caps and Somerley has been appointed as the independent financial advisor by the Company to provide its opinion to the Independent Board Committee and the Independent Shareholders in respect of the Revised Annual Caps.

GENERAL INFORMATION ON THE GROUP AND DONG GAN JING JI

The Group is a leading international sportswear brand enterprise based in the PRC. It is primarily engaged in the design, development, marketing and wholesale of branded sportswear in the PRC and Macau.

Dong Gan Jing Ji is a company incorporated in the PRC with limited liability. It is principally engaged in the distribution of sporting goods for a number of sports brands in the PRC.

EGM

A notice convening the EGM to be held at Elbrus Room, Pacific Place Conference Centre, Level 5, One Pacific Place, 88 Queensway, Hong Kong on Wednesday, 10 September 2008 at 2:30 p.m. is set out on pages 28 to 29 of this circular. At the EGM, an ordinary resolution will be proposed for the Independent Shareholders to consider and, if thought fit, to approve the Revised Annual Caps.

The ordinary resolution (approving the Revised Annual Caps) to be proposed at the EGM will be determined by way of poll by the Independent Shareholders.

A form of proxy for use in connection with the EGM is enclosed with this circular. Whether or not you are able to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1806–1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event not later than 48 hours before the time of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM should you so wish.

LETTER FROM THE BOARD

RECOMMENDATION

The Independent Board Committee, having taken into account the advice of Somerley, is of the opinion that the Revised Annual Caps are fair and reasonable so far as the Company and the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution to approve the Revised Annual Caps to be proposed at the EGM.

The Board notes and considers that the Revised Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Board also recommends the Independent Shareholders to vote in favour of the ordinary resolution to approve the Revised Annual Caps to be proposed at the EGM.

GENERAL

Your attention is drawn to the letter from the Independent Board Committee, the letter from Somerley and the additional information set out in the appendix to this circular and the notice of the EGM.

Yours faithfully,
By order of the Board
Qin Dazhong
Executive Director

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)

21 August 2008

Dear Independent Shareholders,

**REVISED ANNUAL CAPS FOR
CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular (the “**Circular**”) dated 21 August 2008 of the Company of which this letter forms a part of. Terms defined in the Circular shall bear the same meaning herein unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the fairness and reasonableness of the Revised Annual Caps. Somerley has been appointed as the independent financial adviser to advise us and the Independent Shareholders in this regard.

Having taken into account the advice of Somerley, we are of the opinion that (i) the transactions contemplated under the Framework Agreement are in the ordinary and usual course of business of the Group and the terms of the Framework Agreement are on normal commercial terms; (ii) the terms of the Framework Agreement and the Revised Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned; and (iii) the entering into of the Framework Agreement is in the interests of the Company and its Shareholders as a whole. Accordingly, we would advise the Independent Shareholders to vote in favour of the ordinary resolution to approve the Revised Annual Caps at the EGM.

We also draw the attention of the Independent Shareholders to (i) the letter from the Board, (ii) the letter from Somerley, and (iii) the appendix to the Circular.

Yours faithfully,

For and on behalf of the Independent Board Committee

XIANG Bing
*Independent non-executive
Director*

XU Yudi
*Independent non-executive
Director*

MAK Kin Kwong
*Independent non-executive
Director*

LETTER FROM SOMERLEY

The following is the letter of advice from the independent financial adviser, Somerley Limited, to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



SOMERLEY LIMITED
10th Floor
The Hong Kong Club Building
3A Chater Road
Central
Hong Kong

21 August 2008

*To: the Independent Board Committee and
the Independent Shareholders*

Dear Sirs,

REVISED ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS

We refer to our appointment as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the Revised Annual Caps for certain continuing connected transactions contemplated under the Framework Agreement for 2008 and 2009, in respect of which the Independent Shareholders' approval is being sought (the "Continuing Connected Transactions"). Details of the Revised Annual Caps are set out in the letter from the Board contained in the circular of the Company to the Shareholders dated 21 August 2008 (the "Circular"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

We are informed by the Company that Mr. Chen Yihong, the chairman and an executive Director of the Company, and his associates were interested in approximately 56.95% of the issued share capital of the Company as at the Latest Practicable Date. Accordingly, Mr. Chen Yihong is a connected person of the Company under the Listing Rules. Dong Gan Jing Ji is wholly-owned by three brothers of Mr. Chen Yihong. Dong Gan Jing Ji is therefore an associate of Mr. Chen Yihong and a connected person (as defined under the Listing Rules) of the Company. Accordingly, the transactions contemplated under the Framework Agreement constitute continuing connected transactions for the Company under the Listing Rules. At the time of the Listing, the Stock Exchange granted waivers to the Company from strict compliance with the relevant requirements under Chapter 14A of the Listing Rules in respect of the aforesaid continuing connected transactions for each of the three financial years ending 31 December 2007, 2008 and 2009 subject to certain annual caps. However, due to the continued growth of the Group's businesses and the expected increase in consumer spending in sportswear and sporting products as a result of the Beijing Olympic Games 2008, the Company anticipates that the respective cap amounts for 2008 and 2009 for the Continuing Connected Transactions will

LETTER FROM SOMERLEY

not be sufficient for the Group's requirements for 2008 and 2009 respectively, and therefore proposes to revise the relevant cap amounts. As each of the applicable percentage ratios (other than profit ratio) represented by the aggregate amounts for the transactions contemplated under the Framework Agreement exceed 2.5% on an annual basis, in accordance with Rule 14A.36(1) of the Listing Rules, the Company must comply with the Independent Shareholders' approval requirements contained in Rule 14A.48 in respect of the Continuing Connected Transactions, in addition to the reporting and announcement requirements as stipulated in Rules 14A.45 to 14A.47 of the Listing Rules. In this connection, the Company will seek the Independent Shareholders' approval for the Revised Annual Caps for 2008 and 2009 at the EGM.

The Independent Board Committee, comprising all of the three independent non-executive Directors, namely Dr. Xiang Bing, Mr. Xu Yudi and Mr. Mak Kin Kwong, has been established to consider and make a recommendation to the Independent Shareholders on whether (1) the Continuing Connected Transactions are in the Group's ordinary and usual course of business; (2) the terms of the Framework Agreement in relation to the Continuing Connected Transactions are on normal commercial terms and are fair and reasonable; and (3) the Revised Annual Caps are fair and reasonable in so far as the Independent Shareholders are concerned. We, Somerley Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the executive Directors and management of the Company and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects at the time they were made and will remain so up to the time of the EGM. We have also sought and received confirmation from the executive Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach our advice and recommendation as set out in this letter and to justify our reliance on such information. We have no reason to believe that any material information has been withheld, nor doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the Group and Dong Gan Jing Ji, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the Revised Annual Caps and the terms of the Continuing Connected Transactions are fair and reasonable in so far as the Independent Shareholders are concerned, we have taken into account the principal factors and reasons set out below:

1. Business and strategy of the Group

The Group is principally engaged in the design, development, marketing and wholesale of branded sportswear in the PRC and Macau and positions itself as a brand management enterprise. The Group aims to increase its shareholder value through, among other things, multi-brand strategy and improvement in its existing operations for its brands.

LETTER FROM SOMERLEY

It was disclosed in the Prospectus that the Group was the owner of all rights to the Kappa brand in the PRC and Macau and the exclusive distributor and licensee of Rukka brand in the PRC. After the Listing, the Group has expanded its brand management business. Following the respective acquisition and subscription of shares in April and May 2008, Phenix Co., Ltd. (“Phenix”) became a 91%-owned subsidiary of the Group. 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.

In addition to the brand management business, the Group acts as a sourcing centre for BasicNet S.p.A., the owner of the Kappa brand worldwide other than in the PRC, Macau and Japan.

It was stated in the 2007 annual report of the Group that the respective sales generated from the Kappa brand, international sourcing and the Rukka brand contributed approximately 96.1%, 3.6% and 0.3% to the total sales of the Group for the year ended 31 December 2007.

The Group adopts an “asset-light” business model to run its brand management business by outsourcing its manufacturing and end distribution to third parties. By outsourcing retail and manufacturing functions, the executive Directors believe that the Group is able to focus on its core strengths.

The Group also implements a “primary distributor” policy to appoint only one distributor in one defined geographical area of its market instead of multiple competing distributors because the executive Directors consider that the “primary distributor” policy can motivate distributors and foster loyalty of distributors towards the Group. As they do not have to be unduly distracted by local competition among distributors, the Group’s distributors and their sub-distributors are better able to maintain the Group’s brand image at retail outlets. However, the Group does not bind itself with any written exclusivity provisions in the contracts so as to retain its right to appoint more than one distributor in each geographical market area.

The executive Directors are of the view that the effective supervision of distributors is one of the crucial factors for the success of the Group. In order to facilitate the supervision of distributors, a grading system was launched by the Group on 1 January 2007 for admitting and categorising its distributors. The distributors are categorised into four tiers, namely A1, A2, B and C, based on their sales revenue, sales channels, record of trade receivables settlement and pre-order fulfillment ratio. Different privileges and purchase discount for purchase made through pre-orders at sales fairs are offered to distributors based on their categorised tier with tier A1 distributors enjoying the highest discount. However, a uniform discount rate applies to all distributors for ad hoc orders regardless of their grading. The grading of distributors is reviewed by the Group semi-annually.

2. Background to and reasons for the Continuing Connected Transactions

The Kappa licensing and distribution business was set up and operated as a subsidiary of Li Ning Company Limited, a company listed on the Stock Exchange, in 2002. Following completion of a management buyout exercise in 2005, that company ceased to be a subsidiary of Li Ning Company Limited and became controlled by Mr. Chen Yihong. At the same time, the Group's Kappa licensing and distribution business was established and that company became a wholly-owned subsidiary of the Group in August 2005. In May 2006, the Group acquired the perpetual ownership of the Kappa brand in the PRC and Macau.

Before the management buyout exercise, 北京動感九六體育用品有限責任公司 (Dong Gan Jiu Liu Sportswear Company Limited) ("Dong Gan Jiu Liu") (a company wholly-owned by two brothers of Mr. Chen Yihong, namely Mr. Chen Yiliang and Mr. Chen Yiyong) was granted a non-exclusive right to distribute the Kappa brand products at its retail outlets in Beijing and Tangshan in the PRC by the subsidiary of Li Ning Company Limited referred to above pursuant to a distribution agreement dated 1 January 2004.

As disclosed in the paragraph headed "Business and strategy of the Group" above, the Group adopts an "asset-light" business model by outsourcing its manufacturing and distribution to third parties. Dong Gan Jiu Liu was a distributor of Kappa brand products in Beijing and Tangshan prior to the management buyout and recorded good business performance. Accordingly, the Group continued to appoint Mr. Chen Yiliang and Mr. Chen Yiyong as its distributors. Mr. Chen Yiliang and Mr. Chen Yiyong reorganised the shareholding structure of the business by including their brother Mr. Chen Yizhong as a business partner and forming a new company. In August 2005, the Group entered into a distribution agreement with Dong Gan Jing Ji (a company wholly-owned by three brothers of Mr. Chen Yihong, namely Mr. Chen Yiliang and Mr. Chen Yiyong (who are owners of Dong Gan Jiu Liu) together with Mr. Chen Yizhong) to appoint Dong Gan Jing Ji as its non-exclusive distributor of Kappa brand products at retail outlets in Beijing, Shandong and Shaanxi in the PRC. We are informed by the executive Directors that although Dong Gan Jing Ji is the sole distributor of the Group in Beijing, Shandong and Shaanxi, the non-exclusive distribution agreement was entered into due to the reason set out in the paragraph headed "Business and strategy of the Group" under this section above. Since January 2008, Dong Gan Jing Ji is also responsible for the Yinchuan market. Pursuant to the distribution arrangement, the Group sells the Kappa brand products to Dong Gan Jing Ji at a sale discount to the Group's uniform retail price (which is a price determined by the Group as the ultimate retail price the end consumers pay for the product). In addition, Dong Gan Jing Ji is obligated under the distribution arrangement to comply with the Group's policies regarding marketing activities, daily operations and customer service. As informed by the executive Directors, the Group normally enters into standard one-year contracts with its distributors, renewable at expiration depending on their performance in the previous contract term and the distribution agreement entered into with Dong Gan Jing Ji is, therefore, the same as

LETTER FROM SOMERLEY

distribution agreements entered into with the Group's other distributors. The distribution agreement with Dong Gan Jing Ji is valid for a term of a year up to 31 December 2008.

The Rukka brand products were introduced into the PRC market by the Group after the Group entered into a distribution and licence agreement with the owner of the Rukka brand in October 2005. Due to the lack of customer recognition of Rukka brand products and associated inventory risk for selling new brand products, the Group has adopted a consignment arrangement for the sale of Rukka brand products to mitigate the risks faced by distributors. Dong Gan Jing Ji has been appointed by the Group as a consignee for sale of the Rukka brand products since December 2006. The ownership of the Rukka brand products remains with the Group until they are sold by Dong Gan Jing Ji to end consumers. For sales to end-consumers, the retail prices shall be determined by the Group from time to time. Dong Gan Jing Ji is entitled to the consignee's fees (which are currently calculated by reference to the operating costs of Dong Gan Jing Ji including rental expenses, staff overhead and administration expenses directly attributable to the consignment arrangement) for services rendered to end-customers.

The executive Directors consider that the distribution agreement and the consignment agreement serve to provide mutual benefits to both the Group and Dong Gan Jing Ji. From the Group's point of view, the sale of products to Dong Gan Jing Ji (including direct sales of Kappa brand products and the consignment arrangement for Rukka brand products) contributes to the Group's turnover. It also allows the Group to expand its distribution network in Beijing, Shandong, Shaanxi and Yinchuan without incurring substantial capital costs and to leverage on Dong Gan Jing Ji's experience in retail of sportswear. We are informed by the executive Directors that a stable trading relationship has been maintained with Dong Gan Jing Ji since its appointment as the Group's distributor, and the Group has not encountered any difficulties in collecting sales proceeds from Dong Gan Jing Ji in the past. Moreover, the Group is satisfied with the performance of Dong Gan Jing Ji. We understand from the executive Directors that Dong Gan Jing Ji has been classified as a tier A1 distributor for two of its service regions (namely Beijing and Shandong) based on its sales performance, reputation for reliability as a distributor, experience in sporting products retail, and extensive network in these two service regions since the launch of the distributor grading system. We are further informed by the executive Directors that the Group had a total of 41 distributors (including Dong Gan Jing Ji) in the PRC for Kappa brand and Rukka brand products with three of them (including Dong Gan Jing Ji) graded as tier A1 distributors as at the Latest Practicable Date. Accordingly, the executive Directors are of the view that it is in the interests of the Company and the Shareholders as a whole to continue the Continuing Connected Transactions for selling products (including direct sales of Kappa brand products and the consignment arrangement for Rukka brand products) to Dong Gan Jing Ji.

The executive Directors have been monitoring the Continuing Connected Transactions since the Listing. In view of the increase in the level of business of the Group and the expansion of distribution network by Dong Gan Jing Ji as detailed in

LETTER FROM SOMERLEY

the paragraph headed “Revised Annual Caps” below in this section, the executive Directors consider that the respective Existing Annual Caps for the sale of products to Dong Gan Jing Ji of RMB249.0 million and RMB278.0 million in respect of 2008 and 2009 will be insufficient for the Group’s requirements. Accordingly, the executive Directors propose to revise the annual caps to RMB315.0 million and RMB475.0 million for 2008 and 2009 respectively.

In light of the principal activities of the Group, we consider that the Continuing Connected Transactions have been entered into in the ordinary and usual course of business of the Group.

3. Principal terms of the Continuing Connected Transactions

The Framework Agreement was entered into on 18 September 2007 with a view to regulating the relationship between the Group and Dong Gan Jing Ji in relation to the Continuing Connected Transactions for the aforesaid sale of products to Dong Gan Jing Ji (including direct sales of Kappa brand products and consignment arrangement for Rukka brand products). The Framework Agreement is valid for an initial term of three years from the date of Listing (which is 10 October 2007) with automatic renewal for successive terms of three years unless it is terminated by either party by giving written notice in accordance with the terms of the Framework Agreement or the renewal of three-year term is not approved by the Independent Shareholders.

The Framework Agreement sets out the major terms such as the pricing basis in respect of sales of products (including direct sales of Kappa brand products and consignment arrangement for Rukka brand products) by the Group to Dong Gan Jing Ji. Pursuant to the Framework Agreement, the detailed terms of individual sales of products to Dong Gan Jing Ji as to (1) specific products requested by Dong Gan Jing Ji; (2) detailed requirements on, among other things, (a) terms on examination of products; and (b) returns policy; and (3) the costs for products and payment terms will be agreed from time to time based on the principal provisions as set out in the Framework Agreement and on normal commercial terms. The principal terms of the Framework Agreement are as follow:

- (i) the terms of the Continuing Connected Transactions contemplated under the Framework Agreement (including but not limited to pricing) should not be more favourable or less favourable than those granted by the Group to other distributors or consignees belonging to the same tier as Dong Gan Jing Ji;
- (ii) the pricing or consideration of the transaction between the parties shall be determined after arm’s length negotiations, on normal commercial terms and comparable to other distributors or consignees belonging to the same tier as Dong Gan Jing Ji. Accordingly, the price or consideration payable by Dong Gan Jing Ji pursuant to the Framework Agreement will not be more favourable or less favourable than those granted to other independent distributors or consignees;

LETTER FROM SOMERLEY

- (iii) Dong Gan Jing Ji should allow the Company to have access to its financial records for the purpose of reporting on the transactions in accordance with the Listing Rules;
- (iv) Dong Gan Jing Ji as a Kappa distributor and Rukka consignee must sell the Kappa brand products and Rukka brand products or other brands managed by the Company at specified locations unless prior approval had been given by the Company; and
- (v) each party to the Framework Agreement acknowledges that the Company is the exclusive supplier of the brand of products owned by or licensed to the Company.

We are informed by the executive Directors that, pursuant to the Group's existing policy, Dong Gan Jing Ji is required to settle the sales payment within 45 days as with other distributors belonging the same tier.

The auditors of the Company have performed certain fact finding procedures on the Continuing Connected Transactions for the financial year ended 31 December 2007 (the "Past Transactions"). We note from the 2007 annual report of the Company that the auditors have reported the fact findings for the selected samples of the Past Transactions that such transactions were conducted in the manner stated in Rule 14A.38 of the Listing Rules (that is (a) they had received the approval of the Board; (b) they were entered into in accordance with the pricing policies of the Group; (c) they had been entered into in accordance with the relevant agreements governing them; and (d) they had not exceeded the annual cap as disclosed in the Prospectus).

Based on the analysis above and the above-mentioned report of the auditors on the Past Transactions, we consider that the Continuing Connected Transactions are being conducted on normal commercial terms.

4. Revised Annual Caps

The Continuing Connected Transactions will be subject to the Revised Annual Caps whereby for each of the two financial years ending 31 December 2008 and 2009, the amount of the Continuing Connected Transactions will not exceed the applicable annual amounts stated in the letter from the Board contained in the Circular.

In assessing the reasonableness of the Revised Annual Caps, we have discussed with the executive Directors and management of the Company the basis and underlying assumptions for the purpose of setting the Revised Annual Caps.

LETTER FROM SOMERLEY

Sales of products to Dong Gan Jing Ji

Set out below are the approximate amounts of sales of products to Dong Gan Jing Ji for each of the three financial years ended 31 December 2005, 2006 and 2007:

	Financial year ended 31 December		
	2005	2006	2007
	RMB('000)	RMB('000)	RMB('000)
Aggregate amount of sales of products	14,023	97,963	157,513
Approximate increase as compared to the previous year (%)		598.6%	60.8%

It was disclosed in the Prospectus that the sales of the Group surged by approximately 481.5%, from approximately RMB147.7 million in 2005 to approximately RMB858.9 million in 2006. As referred to in the paragraph headed “Background to and reasons for the Continuing Connected Transactions” above, the Group’s Kappa licensing and distribution business was established in August 2005 following completion of the management buyout exercise. Accordingly, the Group’s sales in 2006 included a full year’s sales generated from Kappa licensing and distribution business instead of just four months’ sales in 2005. This resulted in the surge of the Group’s sales in 2006. The significant increase of the Group’s sales of products to Dong Gan Jing Ji in 2006 was, in general, in line with the growth of business of the Group in that year. After the jump of sales of products to Dong Gan Jing Ji in 2006, the Group recorded an increase of business with Dong Gan Jing Ji in 2007 primarily as a result of a corresponding expansion of the distribution network by Dong Gan Jing Ji in 2007.

For sales of Kappa brand products, the Group plans to hold four sales fairs for its distributors this year to exhibit new product collections for spring, summer, fall and winter seasons. During sales fairs, distributors (including Dong Gan Jing Ji) review product collections and place pre-orders for the coming season. Sales fairs in respect of the 2008 fall and winter seasons have been held and pre-orders have been placed to the Group for product collections for these seasons. The confirmed pre-orders in respect of the 2008 second half sales have been received from Dong Gan Jing Ji. The Group also allows ad hoc orders from distributors (including Dong Gan Jing Ji), especially with respect to fast-moving and popular items. In 2007, approximately 93% and 7% of the Group’s sales were derived from pre-orders and ad hoc orders respectively. In determining the Revised Annual Cap for 2008, the executive Directors make reference to, among other things, the historical sales of products to Dong Gan Jing Ji for the six months ended 30 June 2008, the confirmed pre-orders the Group received from Dong Gan Jing Ji and ad hoc sales contributing 7% of the total sales to Dong Gan Jing Ji.

LETTER FROM SOMERLEY

We understand from the executive Directors that the Beijing Olympic Games 2008 has been particularly influential in focusing public interest in, and awareness of, sports and fitness which, in turn, stimulates consumer spending on sportswear products in the PRC this year. Moreover, the distribution network of Dong Gan Jing Ji and its sub-distributors will be further expanded this year. Based on the current expansion plan of Dong Gan Jing Ji as agreed between it and the Company which was provided to us by the executive Directors, the number of retail outlets of Dong Gan Jing Ji (including its sub-distributors) is expected to be increased from 201 as at 31 December 2007 to 323 as at 31 December 2008, representing an increase of over 60%. The Beijing Olympic Games 2008 and the expansion of distribution network together with the growth in reputation of Kappa brand as a result of the Group's continuing marketing efforts and marketing activities are considered by the executive Directors as the principal factors contributing to the growth of sales of products to Dong Gan Jing Ji in 2008 and the need for the Revised Annual Cap for 2008. The executive Directors propose the Revised Annual Cap of RMB315.0 million for the year ending 31 December 2008.

The Revised Annual Cap of RMB315.0 million for the year ending 31 December 2008 is double the the Group's sales amount with Dong Gan Jing Ji for the year ended 31 December 2007 of approximately RMB157.5 million. The monthly average number of retail outlets of Dong Gan Jing Ji (including its sub-distributors) (as derived from the documents showing the number of retail outlets at each month end provided to us by the executive Directors) is expected to be increased by approximately 65.9% from approximately 167 retail outlets in 2007 to approximately 277 retail outlets in 2008. It was disclosed in the annual report of the Company for the year ended 31 December 2007 that the annual sales of products to Dong Gan Jing Ji (including its sub-distributors) was approximately RMB157.5 million while the relevant sales of products to Dong Gan Jing Ji for the six months ended 30 June 2008 was approximately RMB127.8 million as disclosed in the letter from the Board as contained in the Circular. We calculated the average monthly sales of products to Dong Gan Jing Ji (including its sub-distributors) and noted that the average monthly sales of products to Dong Gan Jing Ji (including its sub-distributors) per retail outlet of Dong Gan Jing Ji (including its sub-distributors) increased by approximately 11.5% during the six months ended 30 June 2008 as compared to that for a full year in 2007. Assuming a linear growth trend which extends to the second half of 2008, such increase of approximately 11.5% during the first half of 2008 represents a growth in average monthly sales of products to Dong Gan Jing Ji (including its sub-distributors) per retail outlet (including its sub-distributors) of approximately 15.3% for the full year of 2008. This represents an expected growth of sales business of the Group with Dong Gan Jing Ji and its sub-distributors by approximately 91.3% which is mainly contributed by the stimulating effect on consumer spending on sportswear products as a result of the Beijing Olympic Games 2008, the growth in the reputation of the Kappa brand products and the expansion of distribution by establishing more retail outlets. A buffer of approximately 8.7% is built in for the purpose of setting the Revised Annual Cap of RMB315.0 million for 2008 to make allowance for possible additional sales growth. We consider the 8.7% buffer to be acceptable because (1) such buffer provides flexibility for the Group to capture the business opportunities offered by Dong Gan Jing Ji should it place more orders with the Group; and (2) the

LETTER FROM SOMERLEY

Continuing Connected Transactions contemplated under the Framework Agreement are conducted on terms no more favourable or less favourable than those granted by the Group to other distributors or consignees belonging to the same tier as Dong Gan Jing Ji.

We have been informed by the Company that Dong Gan Jing Ji will continue to expand its distribution network in 2009. Based on its current expansion plan as provided by the executive Directors, the monthly average number of retail outlets of Dong Gan Jing Ji (including its sub-distributors) will be further increased to approximately 389 retail outlets in 2009, representing a growth of approximately 40.4% as compared to that of 2008. As discussed with executive Directors, in addition to boosting sales by expanding distribution network, the Group plans to achieve sales growth by expanding the Kappa brand product lines and introducing new brand products. The Group intends to expand the Kappa brand product lines in the second half of 2009 by introducing Robe Di Kappa brand which will be positioned as a high-end casual sportswear. The Group also plans to introduce the Phenix brand products in the second half of 2009. Accordingly, it is expected by the executive Directors that the sales to Dong Gan Jing Ji will continue to grow in 2009 but at a more moderate level because of tailing off of the stimulating effects on sales of the Beijing Olympic Games. As informed by the executive Directors, the average monthly sales of products to Dong Gan Jing Ji (including its sub-distributors) per retail outlet of Dong Gan Jing Ji (including its sub-distributors) is expected to increase by approximately 7.5% in 2009 (being approximately half of the expected rate of increase in 2008 partly due to the effect of the Beijing Olympic Games being expected to tail off in 2009). As a result, an overall increase of approximately 50.8% was incorporated by the executive Directors in estimating the Revised Annual Cap of RMB475.0 million for 2009.

Taking into account the aforesaid factors, the Revised Annual Caps for the sales of products are proposed as follows:

	Existing Annual Caps		Revised Annual Caps	
	for financial year ending		for financial year ending	
	31 December		31 December	
	2008	2009	2008	2009
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Annual caps for the sales of products	249.0	278.0	315.0	475.0
Approximate increase as compared to the annual cap of previous year (%)			26.5% [#]	50.8% [*]

[#] Compared to the Existing Annual Cap of 2008

^{*} Compared to the Revised Annual Cap of 2008

LETTER FROM SOMERLEY

Having considered the basis on which the Revised Annual Caps were determined as described above, we are of the view that the Revised Annual Caps are fair and reasonable.

5. Conditions of the Continuing Connected Transactions

In compliance with the Listing Rules, the conduct of the Continuing Connected Transactions is subject to a number of conditions which include, among other things:

- (i) the Revised Annual Caps for each of the two financial years ending 31 December 2008 and 2009 will not be exceeded;
- (ii) the independent non-executive Directors must, in accordance with Rule 14A.37 of the Listing Rules, review annually the Continuing Connected Transactions and confirm in the Company's annual report and accounts that the Continuing Connected Transactions have been entered into (a) in the ordinary and usual course of business of the Company; (b) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from independent third parties; and (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (iii) the auditors of the Company will, in accordance with Rule 14A.38 of the Listing Rules, review annually the Continuing Connected Transactions and they will confirm in a letter to the Board (a copy of which letter will be provided to the Stock Exchange at least ten business days prior to the bulk printing of the annual report of the Company) whether the Continuing Connected Transactions:
 - (a) have received the approval of the Board;
 - (b) are in accordance with the pricing policies of the Group;
 - (c) have been entered into in accordance with the relevant agreement governing the Continuing Connected Transactions; and
 - (d) have not exceeded the Revised Annual Caps;
- (iv) the Company shall promptly notify the Stock Exchange and publish an announcement in accordance with the Listing Rules if it knows or has reason to believe that the independent non-executive Directors and/or the auditors will not be able to confirm the matters set out in the points (ii) and/or (iii) above respectively;

LETTER FROM SOMERLEY

- (v) the Company will allow, and procure that Dong Gan Jing Ji will allow, the auditors of the Company sufficient access to the relevant records of the Continuing Connected Transactions for the purpose of the auditors' review as referred to in point (iii) above. The Board must state in the annual report whether its auditors have confirmed the matters stated in Rule 14A.38 of the Listing Rules; and
- (vi) the Company will comply with the applicable provisions of the Listing Rules governing connected transactions in the event that the total amount of the Continuing Connected Transactions exceeds the Revised Annual Caps, or that there is any material amendment to the terms of the Framework Agreement.

In light of the conditions attached to the Continuing Connected Transactions, in particular, (1) the restriction of the amount of the Continuing Connected Transactions by way of the Revised Annual Caps; (2) the ongoing review by the independent non-executive Directors and auditors of the Company regarding the terms of the Continuing Connected Transactions; and (3) the continuing review by the auditors of the Company confirming the Revised Annual Caps not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of the Continuing Connected Transactions and safeguard the interests of Independent Shareholders.

OPINION

Having taken into account the above principal factors and reasons, we consider that the Continuing Connected Transactions are in the ordinary and usual course of business of the Group and the terms of the Framework Agreement in relation to the Continuing Connected Transactions are on normal commercial terms. We also consider that the Revised Annual Caps and the terms of the Framework Agreement in relation to the Continuing Connected Transactions are fair and reasonable so far as the Independent Shareholders are concerned and that the entering into of the Continuing Connected Transactions is in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM.

Yours faithfully,
for and on behalf of
SOMERLEY LIMITED
Ng Ming Wah, Charles
Director

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. 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 and 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 are 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⁾	2,599,581,000 Shares (L)	45.88%
	Deemed Interest ⁽³⁾	345,520,000 Shares (L)	6.10%
Mr. Qin Dazhong ("Mr. Qin")	Interest of a controlled corporation ⁽⁴⁾	246,864,000 Shares (L)	4.36%
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 (“Poseidon”) by virtue of Harvest Luck Development Limited and Talent Rainbow Far East Limited being entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of Poseidon. Both Harvest Luck Development Limited and Talent Rainbow Far East Limited are in turn wholly-owned and controlled by Mr. Chen.
3. Ms. Liu Peiyong is the spouse of Mr. Chen and Mr. Chen is therefore deemed to be interested in the Shares held by Ms. Liu Peiyong 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 (other than a Director or chief executive) have an interest or short position in the Shares and 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 are, 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 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	Corporate interest	2,599,581,000 Shares (L)	45.88%
Talent Rainbow Far East Limited ⁽²⁾	Interest in a controlled corporation	2,599,581,000 Shares (L)	45.88%
Harvest Luck Development Limited ⁽²⁾	Interest in a controlled corporation	2,599,581,000 Shares (L)	45.88%
Colour Billion Limited ⁽³⁾	Corporate interest	345,520,000 Shares (L)	6.10%
Ms. Liu Peiying ⁽³⁾	Interest in a controlled corporation, deemed interest	2,945,101,000 Shares (L)	51.98%

Notes:

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

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

Save as disclosed above, 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 Group.

3. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors nor their respective associates had any interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

4. EXPERT AND CONSENT

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

Name	Qualification
Somerley Limited	A corporation licensed under the SFO which is permitted to engage in types 1, 4, 6 and 9 of the regulated activities as defined in the SFO

As at the Latest Practicable Date, Somerley did not have any beneficial shareholding in any member of the Group or the 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 direct or indirect interests in any assets which have been since 31 December 2007, being the date to which the latest published audited consolidated financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

Somerley has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they respectively appear herein.

5. 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.

6. RIGHT TO DEMAND A POLL

Article 66 of the articles of association of the Company sets out the procedures by which Shareholders may demand a poll, and provides that, at any general meeting a resolution put to the vote of the meeting shall be decided 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 duly demanded or otherwise required under the Listing Rules. A poll may be demanded by:

- (i) the chairman of such meeting; or
- (ii) 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
- (iii) 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
- (iv) 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 up equal to not less than one-tenth of the total sum paid up on all Shares conferring such right; or
- (v) any Director or Directors who, individually or collectively, hold proxies in respect of Shares representing 5% or more of the total voting rights at such meeting.

7. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered into or is proposed to enter into a service contract with any member of the Group which does not expire or which is not determinable by such member of the Group within one year without payment of compensation, other than statutory compensation.

8. DIRECTORS' INTEREST IN ASSETS AND/OR ARRANGEMENT

As at the Latest Practicable Date, none of the Directors had any interest, either directly or indirectly, in any assets which have 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.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group, which was subsisting and was significant in relation to the business of the Group.

9. MISCELLANEOUS

The English text of this circular and the accompanying form of proxy shall prevail over the Chinese text in case of any inconsistency.

10. DOCUMENT AVAILABLE FOR INSPECTION

A copy of the Framework Agreement is available for inspection during normal business hours at the principal place of business of the Company in Hong Kong at Office Unit 9, 13/F Tower Two, Lippo Centre, No. 89 Queensway, Hong Kong from the date of this circular up to 5 September 2008 (both days inclusive) and at the EGM.

NOTICE OF EXTRAORDINARY GENERAL MEETING

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)

NOTICE IS HEREBY GIVEN that the extraordinary general meeting of shareholders of China Dongxiang (Group) Co., Ltd. (the “**Company**”) will be held at Elbrus Room, Pacific Place Conference Centre, Level 5, One Pacific Place, 88 Queensway, Hong Kong on Wednesday, 10 September 2008 at 2:30 p.m. for the purpose of considering and, if thought fit, passing the following ordinary resolution:

ORDINARY RESOLUTION

“**THAT** the revised annual caps for the years ending 31 December 2008 and 31 December 2009 in the amount of RMB315 million and RMB475 million, respectively in respect of the transactions under the framework agreement dated 18 September 2007 entered into between the Company and Dong Gan Jing Ji Company Limited (“**Dong Gan Jing Ji**”) pursuant to which the Company agrees to sell, or procure its subsidiaries to sell Kappa brand and Rukka brand products to Dong Gan Jing Ji for a period of three years be and are hereby approved.”

By order of the Board
China Dongxiang (Group) Co., Ltd.
Qin Dazhong
Executive Director

Hong Kong, 21 August 2008

Notes:

- (a) The above resolution to be proposed at the meeting will be decided by poll by the Independent Shareholders (as defined in the circular of the Company dated 21 August 2008).
- (b) Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and to vote in his stead. A proxy need not be a member of the Company. If more than one proxy is appointed, the appointment shall specify the number of Shares in respect of which each such proxy is appointed.
- (c) Where there are joint registered holders of any Share, any one of such persons may vote at the meeting, either in person or by proxy, in respect of such Share as if he were solely entitled thereto, but if more than one of such joint holders be present at the

NOTICE OF EXTRAORDINARY GENERAL MEETING

meeting personally or by proxy, that one of the said persons so present whose name stands first on the register in respect of such Share, shall alone be entitled to vote in respect thereof.

- (d) The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1806–1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time fixed for holding the meeting or any adjourned meeting. Completion and return of the proxy will not preclude members from attending and voting in person at the meeting.