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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)

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION
AND
(2) CONTINUING CONNECTED TRANSACTIONS**

DISCLOSEABLE AND CONNECTED TRANSACTION

The Board is pleased to announce that on 24 August 2009, Shanghai Gabanna, an indirect wholly-owned subsidiary of the Company, Chen Brothers and Chen Brothers' Controlled Entities entered into the Cooperation Agreement pursuant to which Shanghai Gabanna agreed to subscribe for 30% equity interest in the Joint Venture Company for RMB38,321,400 in cash. Such transaction represents the Group's sixth investment in its key distributors following its recent equity cooperation with 5 other key distributors in Hangzhou, Nanjing, Tianjin, Shanxi and Shenyang, under each of which the Group also acquired a 30% minority stake. It marks a milestone for the Group in investing direct in the distributors and establishing a closer relationship with them.

Listing Rules Implications

Mr. Chen Yihong is the chairman and an executive Director and is also a substantial Shareholder interested in approximately 49.28% issued share capital of the Company. 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 Yiliang, Mr. Chen Yiyong and Mr. Chen Yizhong are brothers of Mr. Chen Yihong and are therefore associates of Mr. Chen Yihong.

As Dong Gan Jing Ji is owned as to 45%, 35% and 20% by Mr. Chen Yiliang, Mr. Chen Yiyong and Mr. Chen Yizhong respectively and Dong Gan Jiu Liu is owned as to 70% and 30% by Mr. Chen Yiliang and Mr. Chen Yiyong respectively, pursuant to the Listing Rules, Dong Gan Jing Ji and Dong Gan Jiu Liu are associates of Mr. Chen Yihong and are therefore connected persons of the Company, hence, the transactions contemplated under the Cooperation Agreement constitute a connected transaction of the Company.

As one of the applicable ratios (other than the profits ratio) in respect of the investment by Shanghai Gabanna under the Cooperation Agreement is higher than 5%, the transaction constitutes a discloseable and non-exempt connected transaction of the Company under the Listing Rules and is subject to Independent Shareholders' approval, reporting and announcement requirements under Chapter 14A of the Listing Rules.

Mr. Chen Yihong and his associates are required to abstain from voting at the EGM to approve the entering into of the Cooperation Agreement and the transactions contemplated thereunder.

CONTINUING CONNECTED TRANSACTIONS

The Cooperation Agreement contemplated a Reorganisation by Chen Brothers and the Chen Brothers' Controlled Entities whereby they shall transfer the Target Assets and Business to the Operating Company, and as a result, the continuing connected transaction arrangement currently entered into with Dong Gan Jing Ji and the underlying waiver from the strict compliance with the Listing Rules would need to be revised. As it is difficult to ascertain the time required for the Reorganisation, hence, the completion of the investment by Shanghai Gabanna in the Joint Venture Company, in order to preserve business continuity and the fact that the underlying distribution arrangement currently conducted by Dong Gan Jing Ji is essentially the same business as those to be conducted by the Operating Company, the Directors propose that the New Framework Agreement to be entered into between the Company, Dong Gan Jing Ji and the Operating Company and the related the Annual Caps shall be applicable to Dong Gan Jing Ji and/or the Operating Company in case that the proposed investment under the Cooperation Agreement is not completed by the end of 2009 or at all for whatever reasons.

Listing Rules Implications

As each of the applicable percentage ratios (other than the profits ratio) on the Annual Caps is higher than 2.5% and the Annual Caps are more than HK\$10,000,000, according to Rule 14A.35 of the Listing Rules, the transactions contemplated under the New Framework Agreement constitute non-exempt continuing connected transactions and are subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

Mr. Chen Yihong and his associates are required to abstain from voting at the EGM to approve the entering into of the New Framework Agreement, the Annual Caps and the transactions contemplated thereunder.

GENERAL

An Independent Board Committee and an Independent Financial Advisor have been appointed by the Company to provide its opinion to the Independent Shareholders in respect of the entering into of the Cooperation Agreement, the entering into the New Framework Agreement, the Annual Caps and the transactions contemplated thereunder.

A circular containing, among other things (i) further details of the Cooperation Agreement, the New Framework Agreement, the Annual Caps and the transactions contemplated thereunder, (ii) a letter from the Independent Board Committee, (iii) the recommendations of the Independent Financial Advisor, and (iv) a notice to convene the EGM to approve, among other things, the entering into of the Cooperation Agreement, the entering into the New Framework Agreement, the Annual Caps and the transactions contemplated thereunder, will be despatched to the Shareholders within 21 days after the publication of this announcement pursuant to the Listing Rules.

DISCLOSEABLE AND CONNECTED TRANSACTION

Cooperation Agreement

A summary of the principal terms of the Cooperation Agreement is set out below:

Date

24 August 2009

Parties

- (1) Shanghai Gabanna
- (2) Chen Brothers
- (3) Chen Brothers' Controlled Entities

Effectiveness of the Cooperation Agreement

The Cooperation Agreement shall take effect subject to the Company obtaining the Independent Shareholders' approval at the EGM and the compliance with the requirements under the Listing Rules with regards to connected transactions.

Investment by Shanghai Gabanna

Completion of the subscription of 30% equity interest in the Joint Venture Company by Shanghai Gabanna by way of cash injection of the Cash Injection Amount, i.e. RMB38,321,400, shall be subject to certain conditions precedent which include:

- (a) all representations and warranties given by Chen Brothers in relation to the Operating Company and the Joint Venture Company remain true and accurate on the date of completion of the Cooperation Agreement and no material omission in relation thereto;

- (b) no charge or mortgage interest whatsoever has been created on any equity interest of the Joint Venture Company. The subscription of 30% equity interests in the Joint Venture Company by Shanghai Gabanna in the form of capital injection is not in contravention with any entitlement, pre-emptive right, and/or similar rights of any third party;
- (c) all necessary third party and government consents and approvals in relation to the Reorganisation and the subscription by Shanghai Gabanna have been obtained;
- (d) other than the Reorganisation, there has not been (i) any material adverse change in the nature of the Target Assets and Business and (ii) neither the Operating Company nor the Joint Venture Company is under or subject to any bankruptcy, insolvency or repayment schedule or proceedings; and
- (e) the completion of the Reorganisation by Chen Brothers and Chen Brothers' Controlled Entities.

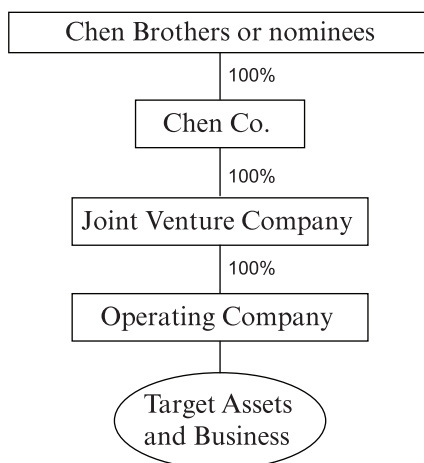
provided that all the conditions precedent shall be satisfied within 6 months from the date of the Cooperation Agreement taking effect, and Shanghai Gabanna shall be entitled to opt for completion even if some of the conditions precedent remain outstanding. The Cash Injection Amount shall be settled by Shanghai Gabanna within 14 days from the completion or satisfaction of the above conditions precedent.

The Cash Injection Amount is determined after arm's length negotiations calculated with reference to the aggregate net profits attributable to the Target Assets and Business after tax of the year ended 31 December 2008 of Chen Brothers' Controlled Entities ("**2008 Profits**") times a price earning multiple of 4.42. The Directors compare the price earning multiples with those of a number of Hong Kong listed PRC sportswear companies and are of the view that such price earning multiple is fair and reasonable due to two reasons, (a) the profit ratio is in the same band as those with independent third party distributor in the PRC which the Group concluded transaction with earlier this year and (b) such price earning multiple of 4.42 is lower than that of a number of the Hong Kong listed PRC sportswear companies, which range from approximately 11.9 times to above 13 times as of 11 August 2009.

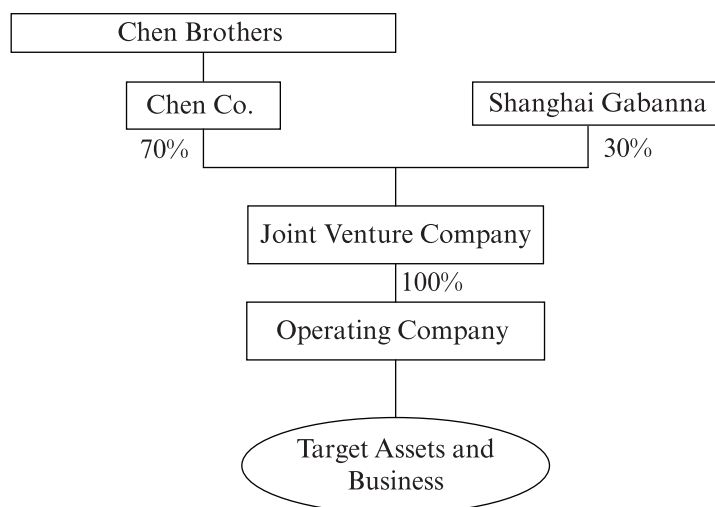
The aggregate unaudited net profits attributable to the Target Assets and Business (both before and after taxation and extraordinary items) of Chen Brothers' Controlled Entities for the year ended 31 December 2008 prepared in accordance with the PRC GAAP were RMB38,542,300 and RMB28,906,725 respectively. The aggregate unaudited net profits attributable to the Target Assets and Business (both before and after taxation and extraordinary items) of Chen Brothers' Controlled Entities for the year ended 31 December 2007 prepared in accordance with the PRC GAAP were RMB33,250,000 and RMB22,300,000 respectively. The aggregate net profits figures for the year ended 31 December 2007 as disclosed above are unaudited figures and they were provided by the Chen Brothers' Controlled Entities. The Company has not undertaken any independent due diligence works in verifying these figures.

Reorganisation

The Cooperation Agreement required Chen Brothers, Chen Brothers' Controlled Entities or their nominees (as approved by Shanghai Gabanna) to undertake Reorganisation by incorporating several new companies in the PRC. Such companies will be established and will upon the Cooperation Agreement taking effect acquire the Target Assets and Businesses from the Chen Brothers' Controlled Entities. Upon completion of the Reorganisation, the equity-holding structure of these companies will be as follows:



Immediately following the completion of the Reorganisation and the investment by Shanghai Gabanna, the equity-holding structure of the Joint Venture Company will be as follows:



Each of the Chen Brothers guaranteed that the net assets value of the Operating Company shall not be less than RMB40,000,000 upon completion of the Reorganisation. If the net assets value of the Operating Company upon completion of the Reorganisation as verified by an independent valuer is less than RMB40,000,000, Chen Brothers shall transfer cash or such assets as approved by Shanghai Gabanna to the Operating Company to make up the shortfall. The net assets value of the Target Assets and Business to be transferred to the Operating Company should be in any event not less than RMB40,000,000.

Registered capital

The initial registered capital of the Joint Venture Company upon incorporation shall be RMB20,000,000.

Purpose of the Joint Venture Company

The Joint Venture Company will act as the holding company of the Operating Company and its underlying Target Assets and Business. The Operating Company will be principally engaged in the distribution of sportswear products in major cities and provinces of the PRC, namely Beijing and nearby areas, Shandong, Shaanxi and Ningxia, including but not limited to Kappa brand products and operation of sportswear shopping centres in Beijing.

Equity holding adjustment arrangement

Profits guarantee

Chen Brothers undertake that the aggregate profits of the Joint Venture Company and as generated by the Target Assets and Business (as the case may be) as shown in its audited consolidated financial statements for the two years ending 31 December 2009 and 2010 to be prepared in accordance with the PRC GAAP shall not be less than 258.75% of 2008 Profits, i.e. RMB74,796,151 (the “**Target Profits**”).

A. Actual Profits fell below the Target Profits

If the actual aggregate profits of the Joint Venture Company and as generated by the Target Assets and Business (as the case may be) as shown in its audited consolidated financial statements for the two years ending 31 December 2009 and 2010 to be prepared in accordance with the PRC GAAP (the “**Actual Profits**”) are lower than the Target Profits, Shanghai Gabanna will be entitled to additional equity interest in the Joint Venture Company calculated in accordance with the following formula in consideration of RMB1, provided that at no time shall Shanghai Gabanna’s equity interest in the Joint Venture Company exceed 45%:

$$\text{Additional equity interest} = \frac{(\text{Target Profits} - \text{Actual Profits}) \times 30\%}{\text{Actual Profits}}$$

provided that if the Actual Profits is less than RMB1, it should be deemed as RMB1 for the purposes of calculating the additional equity interest of Shanghai Gabanna.

Given that the maximum equity interest of Shanghai Gabanna in the Joint Venture Company shall not exceed 45%, the additional equity interest which Chen Brothers will transfer to Shanghai Gabanna in any event shall not exceed 15%, however, if the shortfall in profits allows Shanghai Gabanna to entitle to more than 45% equity interest in the Joint Venture Company, Chen Brothers shall provide compensation to Shanghai Gabanna in cash, at the same price per each percent of equity interest paid by Shanghai Gabanna with reference to the Cash Injection Amount subject to a maximum limit a cash equivalent of 55% of the entire equity holding in the Joint Venture Company, which would amount to RMB70,255,900. In other words, Chen Brothers shall at least retain a minimum of 55% equity-holding in the Joint Venture if such incident occurs.

B. Actual Profits exceeded the Target Profits

If the Actual Profits exceeded the Target Profits, Shanghai Gabanna shall grant monetary award to Chen Brothers, calculated in accordance with the following formula:

$$\text{Monetary Award} = \frac{(\text{Actual Profits} - \text{Target Profits}) \times 30\%}{2}$$

provided that the above monetary payment will not exceed the aggregate amount of dividends received by Shanghai Gabanna from the Joint Venture Company in respect of the two financial years ending 31 December 2010.

Right of first refusal and put option

Any transfer, sale or disposal of equity interest in the Joint Venture Company by Chen Brothers shall be subject to the right of first refusal by Shanghai Gabanna. In addition, in the event that Chen Brothers sell any or all of their equity interest in the Joint Venture Company to a third party, Shanghai Gabanna has the right to put to Chen Brothers all or part of its equity interest in the Joint Venture Company at the higher price of either (1) the cash injection paid by Shanghai Gabanna plus the interest calculated according to the one year lending interest rate set by The People's Bank of China or (2) the valuation according to an independent valuer of the actual price of the equity interest of Shanghai Gabanna in the Joint Venture Company at the time when Chen Brothers notify Shanghai Gabanna of their intention of such transfer. Neither the right of first refusal nor the put option restriction shall be applicable to Shanghai Gabanna.

The exercise of the right of first refusal and the exercise or non-exercise of the put option shall be subject to the compliance with the then applicable Listing Rules.

Board composition

The board of directors of the Joint Venture Company will consist of three directors. Shanghai Gabanna will have the right to appoint one director whereas Chen Brothers will have the right to appoint the remaining two directors. Each shall be appointed for a term of three years. The operations, financial and management of the Operating Company shall be managed by the Joint Venture Company as its sole equity holder.

Reserved matters

The following reserved matters in relation to Joint Venture Company require the unanimous consent of its board of directors:

- (i) the approval of annual operation plan;
- (ii) the appointment, resignation and remuneration of the general manager and financial controller;
- (iii) the acquisition, merger, restructuring, consolidation, spin-off or any joint venture with any third parties;
- (iv) the expansion and investment in business other than the wholesale and distribution business;

- (v) any dealing with all or substantial amount of assets of the Joint Venture Company or its subsidiaries outside its normal course of business;
- (vi) entering into any connected transaction with dealing amount exceeding the amount previously approved by Shanghai Gabanna;
- (vii) any financial liabilities such as borrowing, guarantee, warranty, pledge, charge which are not previously approved and included in the annual operation plan;
- (viii) the issuance, redemption or repurchase of any securities of the Joint Venture Company or its subsidiaries;
- (ix) the change of registered capital;
- (x) the amendment to major accountant policy;
- (xi) the appointment of auditors;
- (xii) the amendment to the articles of association;
- (xiii) the amendment to the dividend policy;
- (xiv) the distributing of dividends which exceeds the payout ratio of 30%; and
- (xv) the winding up, insolvency or dismissal of the Joint Venture Company and the Operating Company.

Reasons for entering into the Cooperation Agreement

The reasons for entering into the Cooperation Agreement are four-folds, firstly, the Group sees the investment as a way to monitor and exercise influence to enhance the operation of the distribution network, the direction and execution of business strategy and financial control of its key distributors; secondly, the Group considers that retail sector is a high value sector in the industry chain of sportswear business, the investment in retail sector will enable the Group to enjoy the benefit from such sector; thirdly, the investment by the Group in its key distributors helps increasing cash resources of the distributors to further develop their distribution network and business; and fourthly, in recent years, the sportswear retail industry in the PRC has been undergoing consolidation whereby smaller retail groups have been acquired by large retail groups with a view to strengthening market share and bargaining power, as such, the Group sees an increasing need to form closer relationship with its key distributors and get a minority shareholding interest in such distributors to maintain certain degree of influence over them and also to prevent them from being acquired by other retail groups.

The Group has been acquiring a minority interest in its other distributors in the PRC since 2009 with the same investment structure as the Cooperation Agreement and under substantially similar commercial terms. However, as the scale of those investments did not trigger the thresholds for any notifiable transaction under the Listing Rules, no reporting or disclosure of such investments for the purposes of the Listing Rules has been made so far.

The board of Directors (excluding the independent non-executive Directors (whose views will be made known after taking the advice from the Independent Financial Advisor)) is of the view that the terms of the Cooperation Agreement are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Information on Shanghai Gabanna, Dong Gan Ji Jing and Dong Gan Jiu Liu

Shanghai Gabanna is an indirect wholly-owned subsidiary of the Company. The Group is primarily engaged in the design, development, marketing and wholesale of branded sportswear in the PRC.

Mr. Chen Yiliang, Mr. Chen Yiyong and Mr. Chen Yizhong are brothers of Mr. Chen Yihong, the chairman and an executive Director and a substantial Shareholder.

Dong Gan Jiu Liu and Dong Gan Jing Ji are limited liability companies incorporated in the PRC. They are both principally engaged in the distribution of sporting goods for a number of sports brands in China, including the Kappa brand and the operation of sportswear shopping centres. Dong Gan Jing Ji is also a distributor of the Group pursuant to the Framework Agreement.

Listing Rules Implications

Mr. Chen Yihong is the chairman and an executive Director of the Company and is also a substantial Shareholder interested in approximately 49.28% issued share capital of the Company. 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 Yiliang, Mr. Chen Yiyong and Mr. Chen Yizhong are brothers of Mr. Chen Yihong and therefore they are associates of Mr. Chen Yihong. As Dong Gan Jing Ji is owned as to 45%, 35% and 20% by Mr. Chen Yiliang, Mr. Chen Yiyong and Mr. Chen Yizhong respectively and Dong Gan Jiu Liu is owned as to 70% and 30% by Mr. Chen Yiliang and Mr. Chen Yiyong respectively, pursuant to the Listing Rules, Dong Gan Jing Ji and Dong Gan Jiu Liu are associates of Mr. Chen Yihong and are therefore connected persons of the Company, hence, the transactions contemplated under the Cooperation Agreement constitute a connected transaction of the Company.

As one of the applicable ratios (other than the profits ratio) in respect of the investment by Shanghai Gabanna under the Cooperation Agreement is higher than 5%, the transaction constitutes a discloseable and non-exempt connected transaction of the Company under the Listing Rules and is subject to Independent Shareholders' approval, reporting and announcement requirements under Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

As disclosed in the section headed "Connected Transactions" in the Prospectus, in order to regulate the distribution relationships between Dong Gan Jing Ji and the Company, the Company entered into the Framework Agreement on 18 September 2007 with Dong Gan Jing Ji, with effect from the Listing Date for a period of 3 years until 31 December 2009.

As a result of the transfer of the Target Assets and Business to the Operating Company as part of the Reorganisation contemplated under the Cooperation Agreement, it is proposed that the Company shall enter into the New Framework Agreement with Dong Gan Jing Ji and the Operating Company to continue to grant the non-exclusive right to Dong Gan Jing Ji and/or the Operating Company to distribute Kappa brand and other sporting brand products in the PRC subject to the Annual Caps. As it is difficult to ascertain the time required for the

Reorganisation, hence, the completion of the investment by Shanghai Gabanna in the Joint Venture Company, in order to preserve business continuity and the fact that the underlying distribution arrangement currently conducted by Dong Gan Jing Ji is essentially the same business as those to be conducted by the Operating Company, the Directors propose that the New Framework Agreement to be entered into between the Company, Dong Gan Jing Ji and the Operating Company and the related the Annual Caps shall be applicable to Dong Gan Jing Ji and/or the Operating Company in case that the proposed investment under the Cooperation Agreement is not completed by the end of 2009 or at all for whatever reasons. In view of the continuing development of the business of the Group and the expected increase in consumer spending in sportswear and sporting goods in the PRC, the Directors propose the Annual Caps for transactions to be effected pursuant to the New Framework Agreement for the three years ending 31 December 2010, 2011 and 2012, subject to the Independent Shareholders' approval at the EGM.

New Framework Agreement

Parties

- (1) The Company
- (2) Dong Gan Jing Ji
- (3) Operating Company

Term

3 years from 1 January 2010 to 31 December 2012

Transactions under the New Framework Agreement

A non-exclusive right to distribute Kappa brand and other brands sportswear products of Group in the PRC.

Pricing

Pursuant to the New 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 and the Operating Company. The consideration for the transactions under the New Framework Agreement will not be more favourable or less favourable than those granted to independent distributors or consignees.

Historical amounts and Annual Caps

For the years ended 31 December 2007, 2008 and the five months ended 31 May 2009, the Company's sales to Dong Gan Jing Ji for the distribution of the Kappa brand and other brands products of the Group under the Framework Agreement amounted to RMB157,513,000, RMB304,626,000 and RMB172,336,000, respectively. The Company's sales to Dong Gan Jing Ji for the distribution of the Kappa brand and other brands products of the Group for the years ended 31 December 2007 and 2008 represented 9.21% and 9.17% of the Group's total revenue for the same period, respectively. The historic annual caps in respect of the transactions under the Framework Agreement for the three years ending 31 December 2007, 2008 and 2009 were RMB162,000,000, RMB315,000,000 and RMB475,000,000 respectively. The Directors believe that sales of the Kappa brand products

will continue to grow for the next three years due to the growth in the reputation of and strong demand for the Kappa Brand as a result of the continuous marketing efforts and promotional activities of the Group in the PRC, especially in the major cities and provinces such as Beijing, Shandong, Shaanxi and Ningxia. Based on the above assumptions, the Directors estimate that the Company's sales to the Operating Company and/or Dong Gan Jing Ji will continue to grow significantly and the Annual Caps proposed by the Company for the transactions under the New Framework Agreement for the three years ending 31 December 2010, 2011 and 2012 are set out below:

	Year ending 31 December		
	2010 <i>(RMB)</i>	2011 <i>(RMB)</i>	2012 <i>(RMB)</i>
Annual Caps	455,000,000	591,000,000	769,000,000

Reasons for the entering into the New Framework Agreement and the Annual Caps

As set out above, the Operating Company will be the holding company of the Target Assets and Business which will continue the distribution business previously conducted by Chen Brothers' Controlled Entities, in particular, the distribution of the Kappa brand in the PRC for the Group. The Company proposes the Annual Caps for transactions to be effected pursuant to the New Framework Agreement for the three years ending 31 December 2010, 2011 and 2012. The Annual Caps have been determined by reference to (i) the historical transaction amount under the Framework Agreement for the years ended 31 December 2007, 2008 and the five months period ended 31 May 2009 and (ii) the projected increase in sales volume of Kappa brand and other brand sportswear products in the PRC.

Dong Gan Jing Ji is one of the top three distributors of the Group, it maintains a very good business relationship with the Group due to its sales performance, reputation for reliability as a distributor, experience in sporting goods retail, and extensive network in Beijing and nearby areas, Shandong, Shaanxi and Ningxia, the Directors consider the continue business relationship with Dong Gan Jing Ji and the Operating Company will contribute to the continue development of the Group's sportswear business in the PRC.

Listing Rules Implications

As each of the applicable percentage ratios (other than the profits ratio) on the Annual Caps is higher than 2.5% and the Annual Caps are more than HK\$10,000,000, according to Rule 14A.35 of the Listing Rules, the transactions contemplated under the New Framework Agreement constitute non-exempt continuing connected transactions of the Company and are subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

The Directors (other than the independent non-executive Directors (whose views will be made known after taking the advice from the Independent Financial Advisor)) consider that (i) the New Framework Agreement was entered into in the ordinary and usual course of business and on normal commercial terms; (ii) the terms of the New Framework Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (iii) the Annual Caps for the transactions under the New Framework Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The views of the independent non-executive Directors will be stated in the circular to be despatched to the Shareholders in due course.

Information on the Joint Venture Company and the Operating Company

The Joint Venture Company will be owned as to 30% by Shanghai Gabanna and 70% jointly by Chen Co. and is controlled by Chen Brothers who are connected persons of the Company. The Operating Company is held as to 100% by the Joint Venture Company and will upon incorporation, be the company carrying out the distribution and retail of sportswear business in Beijing and nearby areas, Shandong, Shaanxi and Ningxia. The Operating Company is therefore deemed to be a connected person of the Company for purposes of the Listing Rules.

APPROVAL BY INDEPENDENT SHAREHOLDERS

An Independent Board Committee has been formed to advise the Independent Shareholders and an Independent Financial Advisor has been appointed by the Company to provide its opinion to the Independent Board Committee and the Independent Shareholders in respect of entering into of the Cooperation Agreement, the New Framework Agreement and the Annual Caps.

Mr. Chen Yihong and his associates are required to abstain from voting at the EGM to approve the entering into of the Cooperation Agreement, the New Framework Agreement, the Annual Caps and the transactions contemplated thereunder.

GENERAL

A circular containing, among other things, (i) further details of the Cooperation Agreement, the New Framework Agreement, the Annual Caps and the transactions contemplated thereunder, (ii) a letter from the Independent Board Committee, (iii) the recommendations of the Independent Financial Advisor, and (iv) a notice to convene the EGM to approve, among other things, the entering into of the Cooperation Agreement, the entering into the New Framework Agreement, the Annual Caps and the transactions contemplated thereunder, will be despatched to the Shareholders within 21 days after the publication of this announcement pursuant to the Listing Rules.

DEFINITIONS

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

“Annual Caps”	the Annual Caps of the New Framework Agreement in the amount of RMB455,000,000, RMB591,000,000 and RMB769,000,000 for the three years ending 31 December 2010, 2011 and 2012
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Cash Injection Amount”	RMB38,321,400, the cash injection amount for the subscription of 30% equity interest in the Joint Venture Company by Shanghai Gabanna pursuant to the Cooperation Agreement
“Chen Brothers”	Mr. Chen Yiliang, Mr. Chen Yiyong, Mr. Chen Yizhong, each a brother of Mr. Chen Yihong and a connected person of the Company
“Chen Brothers’ Controlled Entities”	Dong Gan Jing Ji and Dong Gan Jiu Liu, each controlled by the Chen Brothers and also a connected person of the Company
“Chen Co.”	a limited liability company to be incorporated in the PRC by Chen Brothers or their nominees as part of the Reorganisation
“Company”	China Dongxiang (Group) Co., Ltd. (中國動向 (集團) 有限公司) a limited liability company incorporated in the Cayman Islands, the shares of which are listed on the main board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Cooperation Agreement”	an agreement dated 24 August 2009 entered into between Shanghai Gabanna and the Joint Venture Partners in relation to the formation of the Joint Venture Company and the proposed subscription by Shanghai Gabanna of 30% equity interest therein
“Director(s)”	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, owned by Mr. Chen Yiliang, Mr. Chen Yiyong and Mr. Chen Yizhong as to 45%, 35% and 20% respectively. It is a major distributor of KAPPA brand products.
“Dong Gan Jiu Liu”	北京動感九六體育用品有限責任公司 (Dong Gan Jiu Liu Sportswear Company Limited*), a limited liability company established in the PRC, owned by Mr. Chen Yiliang and Mr. Chen Yiyong as to 70% and 30%, respectively

“EGM”	an extraordinary general meeting of the Company to be convened to approve, among other things, the entering into of the Cooperation Agreement, the entering into the New Framework Agreement, the Annual Caps and the transactions contemplated thereunder
“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 ending 31 December 2009
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, lawful currency of Hong Kong Special Administrative Region of the PRC
“Hong Kong”	the Hong Kong Special Administrative Region of PRC
“Independent Board Committee”	an independent committee of the Board comprising only independent non-executive Directors established to advise the Independent Shareholders in respect of the entering into of the Cooperation Agreement, the entering into the New Framework Agreement, the Annual Caps and the transactions contemplated thereunder
“Independent Financial Advisor”	Somerley Limited, a corporation licensed under the SFO to engage in types 1, 4, 6 and 9 of the regulated activities as defined under the SFO, appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the entering into of the Cooperation Agreement, the entering into the New Framework Agreement, the Annual Caps and the transactions contemplated thereunder
“Independent Shareholders”	the shareholders of the Company, excluding Mr. Chen Yihong and his associates
“Joint Venture Company”	上海億博韜厲經貿有限公司 (Shanghai Yi Bo Tu Li Company Limited*), a limited liability company to be established under the laws of the PRC to act as the holding company of the Operating Company pursuant to the terms of the Cooperation Agreement
“Joint Venture Partners” or “Joint Venture Partner”	Mr. Chen Yiliang, Mr. Chen Yiyong, Mr. Chen Yizhong, Chen Brothers’ Controlled Entities
“Listing Date”	10 October 2007, on which the trading of the shares of the Company first commenced on the main board of the Stock Exchange
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange

“New Framework Agreement”	the new framework agreement to be entered into between the Company, Dong Gan Jing Ji and the Operating Company pursuant to which the Company agreed to sell, or procure its subsidiaries to sell Kappa brand and other brand products to the Dong Gan Jing Ji and/or the Operating Company for a period of 3 years
“Operating Company”	翰博嘉業（北京）貿易有限公司 (Han Bo Jia Ye (Beijing) Company Limited*), a limited liability company to be established under the laws of the PRC as part of the Reorganisation
“PRC”	the People’s Republic of China and for the purposes of this announcement, excludes Hong Kong, Macau Special Administrative Region and Taiwan
“PRC GAAP”	generally accepted accounting principles in the PRC
“Prospectus”	the prospectus issued by the Company dated 25 September 2007 in relation to the listing of the Shares on the main board of the Stock Exchange
“Reorganisation”	the reorganisation steps taken or procured by Chen Brothers and Chen Brothers’ Controlled Entities to enable the Joint Venture Company to legally and beneficially owns the Target Assets and Business through Operating Company as set out in the section headed “Cooperation Agreement” of this announcement
“RMB”	Renminbi, lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“Shanghai Gabanna”	上海嘉班納體育用品有限公司 (Shanghai Gabanna Sporting Goods Co., Limited*), a company established in the PRC on 12 September 2008 and a indirect wholly-owned subsidiary of the Company
“Shares”	shares of the Company
“Shareholder(s)”	the holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Target Assets and Business”

such assets and business, as approved by Shanghai Gabanna, to be injected or transferred into the Operating Company, including but not limited to the existing distribution business of Kappa brand products conducted pursuant to the Framework Agreement, tangible and intangible assets, inventories, equipments, moveable and immoveable assets, retail shops, sales networks, brand licensing arrangements and labour contracts etc currently owned and/or conducted by Chen Brothers’ Controlled Entities.

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

Hong Kong, 24 August 2009

As at the date of this announcement, the Board comprises two executive Directors, Mr. CHEN Yihong and Mr. QIN Dazhong; one non-executive Director, Mr. GAO Yu; and three independent non-executive Directors, Mr. MAK Kin Kwong, Dr. XIANG Bing and Mr. XU Yudi.

** denotes an English translation of a Chinese name.*

In this announcement, RMB are translated for illustration purpose only into HK\$ at RMB0.88 to HK\$1.