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China Dongxiang (Group) Co., Ltd.

中國動向（集團）有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 3818)

**CONTINUING CONNECTED TRANSACTION
LEASE OF PROPERTY**

On 21 July 2008, Shanghai Kappa, an indirect wholly-owned subsidiary of the Company, entered into the Lease with Dong Gan Jing Ji, pursuant to which Shanghai Kappa leased the Property in Wangfujing region in Beijing to Dong Gan Jing Ji, one of the Group's distributors of Kappa brand products.

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.

As one of the applicable percentage ratios (other than the profit ratio) for the Lease is higher than 0.1% but less than 2.5%, the Lease constitutes a continuing connected transaction of the Company under the Listing Rules. In accordance with Rule 14A.34 of the Listing Rules, the Lease is exempt from the independent shareholders' approval requirement and is only subject to reporting and announcement requirements under Chapter 14A of the Listing Rules.

BACKGROUND

As disclosed in the Prospectus, Dong Gan Jing Ji is one of the Group's distributors of the Kappa brand products. In order to regulate the relationship between the parties, the Company entered into the framework agreement with Dong Gan Jing Ji on 18 September 2007 which constitutes continuing connected transactions of the Company. As part of the distribution arrangement between the Group and its distributors, the Group has agreed to provide rental-free shop spaces to its distributors as an incentive to boost the business if any

of its distributors operates flagship Kappa brand outlets in major PRC cities selected by the Group. For details of the Framework Agreement and analysis on the connected transaction, please refer to the Prospectus.

In early 2008, Dong Gan Jing Ji decided to operate a flagship store for Kappa brand in Beijing. As opposed to providing a rental-free retail shop, the Group has been able to negotiate a better deal by leasing the Property to Dong Gan Jing Ji in return for a substantial amount of rental.

The particulars of the Lease are set out below:

Date of agreement:	21 July 2008
Parties to the agreement:	Shanghai Kappa as lessor Dong Gan Jing Ji as lessee
Premises:	1/F and 2/F, Northeast corner, Temporary Commercial Facilities Building of Wangfu International Commercial City, Beijing, PRC
Term:	1 July 2008 to 31 December 2008
Consideration:	RMB3,160,000 for the whole period of the Lease. Rental for the third quarter of 2008 shall be payable in cash on or before 10 October 2008 and the rental for the fourth quarter of 2008 shall be payable in cash on or before 20 December 2008.

The consideration is exclusive of utilities fees and air-conditioning fees. The rent specified in the Lease was based on arm's length negotiations with reference to the distribution arrangements between Dong Gan Jing Ji and the Group. The rent was negotiated based on the estimated retail sales volume.

The Property is rented from independent third party landlord by Shanghai Kappa at RMB9,000,000 per annum from 1 January 2008 for a term of two years. In order to give incentive to Dong Gan Jing Ji to operate the flagship store, Shanghai Kappa has leased the Property from its landlord (which is an independent third party) and sub-leased it to Dong Gan Jing Ji at a lower rent, the difference is a rental subsidy to Dong Gan Jing Ji.

The Property has been rented to Dong Gan Jing Ji since 1 March 2008 for 4 months on a trial basis for operation of a flagship store. Nominal rental of RMB1,480,000 has been received from Dong Gan Jing Ji for the Trial Period. No written agreement in respect of the rental arrangement of the Trial Period was entered into between Shanghai Kappa and Dong Gan Jing Ji. The rental for the Trial Period was determined with reference to the then estimated retail sales volume and the Directors are of the view that such arrangement was made on normal commercial terms. As each of the applicable percentage ratio (other than the profit ratio) of the transaction is less than 0.1%, such transaction is a de minimis transaction and is exempt from the reporting, announcement and independent shareholders' approval

requirements pursuant to rule 14A.33 of the Listing Rules. For the purpose of 14A.25 of the Listing Rules, the Lease is aggregated with the rental arrangement between the parties from 1 March 2008 to 30 June 2008.

REASONS FOR ENTERING INTO THE LEASE

Dong Gan Jing Ji is a distributor of the Group's Kappa brand products in the Beijing region. The entering into of the Lease is to facilitate the establishment of a flagship store by Dong Gan Jing Ji to strengthen the sales network and to promote the sales of Kappa brand products of the Group in Beijing. The Lease also ensures the Group maintain control on the sales of products in the flagship store as Dong Gan Jing Ji is obliged to sell only Kappa brand products in the Property. The Directors (including the Independent Non-Executive Directors) are of the view that the Lease and the terms of the Lease are on normal commercial terms, and are fair and reasonable and in the commercial interests of the Group. The Directors (including the Independent Non-executive Directors) also consider that the Lease was entered into after arm's length negotiations with Dong Gan Jing Ji and with reference to the distribution arrangements between parties. The Directors (including the Independent Non-executive Directors) also consider that the rental and its corresponding subsidy to Dong Gan Jing Ji is fair and reasonable as compared with other flagship stores opened by independent third party distributors.

LISTING RULES IMPLICATIONS

Shanghai Kappa is wholly owned by Shanghai Taitan, which is in turn wholly-owned by Gaea Sports, a wholly-owned subsidiary of Hong Kong Dongxiang. Hong Kong Dongxiang is a wholly-owned subsidiary of the Company. Shanghai Kappa is therefore an indirect wholly-owned subsidiary of the Company.

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.

As one of the applicable percentage ratios (other than the profit ratio) for the Lease is higher than 0.1% but less than 2.5%, the Lease constitutes a continuing connected transaction of the Company under the Listing Rules. In accordance with Rule 14A.34 of the Listing Rules, the Lease is exempt from the independent shareholders' approval requirement and is only subject to reporting and announcement requirements under Chapter 14A of the Listing Rules.

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.

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.

DEFINITIONS

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

“associate”	has the same meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“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”	has the same meaning ascribed to it under the Listing Rules
“Director(s)”	the directors 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
“Gaea Sports”	Gaea Sports Limited, a private limited company incorporated in Hong Kong on 4 April 2006
“Group”	the Company and its subsidiaries
“Hong Kong Dongxiang”	Hong Kong Dongxiang Sports Development Holdings Limited (香港動向體育發展有限公司) (previously known as China Dongxiang Sports Development Holdings Limited and before then Gaea Sports Holdings Limited), a company incorporated in Hong Kong on 4 April 2006 as an investment holding company and our wholly-owned subsidiary
“Independent Non-executive Directors”	the independent non-executive Directors of the Company, namely Dr. Xiang Bing, Mr. Xu Yudi and Mr. Mak Kin Kwong
“Lease”	the lease agreement between Shanghai Kappa and Dong Gan Jing Ji dated 21 July 2008 in respect of the lease of the Property by Shanghai Kappa to Dong Gan Jing Ji
“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, as amended from time to time
“PRC”	the People’s Republic of China excluding, for the purpose of this announcement only, Hong Kong, Macau and Taiwan
“Property”	1/F and 2/F, Northeast corner, Temporary Commercial Facilities Building of Wangfu International Commercial City, Beijing, PRC
“Prospectus”	the prospectus of the Company issued on 25 September 2007 in relation to the listing of Shares on the main board of the Stock Exchange
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“Shanghai Kappa”	上海卡帕體育用品有限公司 (Shanghai Kappa Sporting Goods Co., Limited)*, a company established in the PRC on 26 January 2007 and our indirect wholly-owned subsidiary
“Shanghai Taitan”	上海泰坦體育用品有限公司 (Shanghai Taitan Sporting Goods Co., Limited)*, a limited liability company established in the PRC on 14 March 2005 and our indirect wholly-owned operating subsidiary
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Trial Period”	1 March 2008 to 30 June 2008, the trial period of the rental arrangement in respect of the Property between Shanghai Kappa and Dong Gan Jing Ji
“%”	per cent.

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

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

Hong Kong, 21 July 2008

As at the date of this announcement, the executive Directors of the Company are Mr. Chen Yihong and Mr. Qin Dazhong, the non-executive Director of the Company is Mr. Gao Yu, and the independent non-executive Directors of the Company are Dr. Xiang Bing, Mr. Xu Yudi and Mr. Mak Kin Kwong.