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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)**

## **REVISED ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTION**

Reference is made to the waiver 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.

As disclosed in the section headed "Connected Transactions" in the Prospectus, the Company entered into the Framework Agreement with Dong Gan Jing Ji on 18 September 2007. The Framework Agreement took effect from the Listing Date and has a term of 3 years.

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 upcoming Beijing Olympic Games 2008, the Directors expect that the Existing Annual Caps for the two years ending 31 December 2008 and 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 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 the Revised Annual Caps.

A circular containing, among other things (i) further details of the Revised Annual Caps, (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 Revised Annual Caps, will be despatched to the Shareholders within 21 days after the publication of this announcement pursuant to the Listing Rules.

## **INTRODUCTION**

Reference is made to the waiver 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.

As disclosed in the section headed "Connected Transactions" in the Prospectus, Dong Gan Jing Ji is one of the Group's distributors and consignees for the Kappa brand and Rukka 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. The Framework Agreement took effect from the Listing Date and has a term of 3 years.

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 upcoming Beijing Olympic Games 2008, the Directors expect that the Existing Annual Caps for the two years ending 31 December 2008 and 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.

## **FRAMEWORK AGREEMENT**

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 sell 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 Listing Date 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.

## 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:

	<b>Year ending 31 December 2008</b>	<b>Year ending 31 December 2009</b>
	<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 financial 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. Also, in view of the continued development of the business of the Group, the expected increase in customer spending in sportswear and sporting goods as a result of the upcoming Beijing Olympic Games 2008 and taking into account the actual value of transactions under the Framework Agreement for the year ended 31 December 2007, the Directors are of the view that the Existing Annual Caps for the two years ending 31 December 2008 and 2009 for the transactions under the Framework Agreement will no longer be sufficient for the growing demand for Kappa brand products from Dong Gan Jing Ji, and therefore propose to revise the Existing Annual Caps for the two years ending 31 December 2008 and 2009.

The Revised Annual Caps in respect of the year ending 31 December 2008 and 2009 for the transactions under the Framework Agreement are determined on the basis of the relevant historical figures for the year ended 31 December 2007 and the six months period ended 30 June 2008 and in particular, (a) the increase in consumer spending in the PRC and particularly in sportswear and sporting goods as a result of a change in consumption pattern towards premium products and to a certain extent 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, subdistributors 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.

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. After the Listing, such transactions between the Group and Dong Gan Jing Ji have been 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 (other than the independent non-executive Directors) consider that (i) the Framework Agreement was entered into in the ordinary and usual course of business and on normal commercial terms; (ii) the terms of the Framework Agreement are fair and reasonable and in the interests of the Shareholders as a whole; and (iii) the Revised Annual Caps for the transactions under the Framework Agreement are fair and reasonable and in the interests of 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.

## **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 our 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 are required to abstain from voting on the Revised Annual Caps. As at the date of this announcement, Mr. Chen Yihong and his associates are interested in approximately 56.95% 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 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 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 the Revised Annual Caps.

A circular containing, among other things, (i) further details of the Revised Annual Caps, (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 Revised Annual Caps will be despatched to the Shareholders within 21 days after the publication of this announcement pursuant to 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
“EGM”	extraordinary general meeting of the Company to be convened to approve, among other things, 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 established to advise the independent Shareholders in respect of the Revised Annual Caps
“Independent Financial Advisor”	a licensed financial institution under the SFO, to be appointed to advise the Independent Board Committee and the independent Shareholders in respect of the Revised Annual Caps
“Kappa brand”	the Kappa brand and Robe Di Kappa brand

“Listing”	the listing of the shares of the Company on the main board of the Stock Exchange
“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”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“PRC”	People’s Republic of China excluding, for the purpose of this announcement only, Hong Kong, Macau 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 RMB 315 million and RMB 475 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 (Chapter 571 of the laws of Hong Kong)
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	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, 1 August 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.*