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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)**

**CONTINUING CONNECTED TRANSACTIONS —  
FRAMEWORK LEASE AGREEMENT WITH DONG GAN JING JI**

Shanghai Kappa, an indirect wholly-owned subsidiary of the Company, had on 31 December 2008 entered into the Framework Lease Agreement with Dong Gan Jing Ji to regulate the future lease arrangements between the Group (as lessor) and Dong Gan Jing Ji (or its nominees) (as lessee).

Mr. Chen is a substantial shareholder and connected person 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 is also the chairman and executive Director of the Company. Accordingly, Mr. Chen is a connected person of the Company. Mr. Chen, 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 and is therefore a connected person of the Company for purposes of the Listing Rules.

As the applicable percentage ratios (other than the profit ratio) for the Framework Lease Agreement are higher than 0.1% but less than 2.5% of the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules, pursuant to Rule 14A.34 of the Listing Rules, the Framework Lease Agreement is exempted from the independent shareholders' approval requirement but is subject to reporting and announcement requirements under Chapter 14A of the Listing Rules.

**THE FRAMEWORK LEASE AGREEMENT**

**Background**

As disclosed in the Prospectus and the Announcement, Dong Gan Jing Ji is one of the Group's non-exclusive distributors of the Group's 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 constituted continuing connected transactions of the Company. As part of the distribution arrangement between the Group and its distributors and as an incentive to its distributors and to indirectly boost the Group's business, the Group has agreed to provide rental-free shop spaces in the PRC to its distributors to operate flagship

stores of the Group. As opposed to the original plan of provision of rental-free shops, the Group has been able to negotiate a better deal by which the Group will rent shop spaces in the PRC from independent third party landlords and sub-lease those shop spaces to its distributors (including Dong Gan Jing Ji) at subsidised rent. The rental receivable from the distributors will cover a substantial portion of the rental payable to the landlords by the Group. The distributors would be obliged to manage and operate such shops as the Group's flagship stores selling the Group's Brand Products only.

As at the date of this announcement, Dong Gan Jing Ji operates one flagship store of the Group in Beijing. Details of this lease arrangement were set out in the Announcement. Based on the performance of the flagship store in Beijing in 2008 and the current market conditions, Dong Gan Jing Ji plans to open and operate up to seven additional flagship stores by the end of 2010 to sell the Group's Brand Products. All of these additional stores will be located in first tier cities in the PRC. On 31 December 2008, Shanghai Kappa, an indirect wholly-owned subsidiary of the Company, entered into the Framework Lease Agreement with Dong Gan Jing Ji to regulate the lease of future flagship stores to Dong Gan Jing Ji (or its nominees).

### **Terms of the Framework Lease Agreement**

The principal terms of the Framework Lease Agreement are as follows:

- Date: 31 December 2008
- Parties: (a) Shanghai Kappa (as lessor)  
(b) Dong Gan Jing Ji (as lessee)
- Term: The Framework Lease Agreement shall take effect upon the date of signing and shall expire on 31 December 2010.
- Consideration: The rental for the lease of flagship stores shall be payable by Dong Gan Jing Ji and or its nominees (as lessee) to the Group in cash on either monthly or quarterly basis. Specific payment terms of each flagship store shall be set out in more details under separate sub-lease agreement. The duration of each sub-lease agreement shall not be longer than that of the Framework Lease Agreement. The percentage of rental subsidies given by the Group to Dong Gan Jing Ji (or its nominees) (such amount was determined with reference to projected sales of each store in the respective financial year) which shall in any event be comparable to the percentage of rental subsidies provided to independent third party distributors for similar premises to operate as the Group's flagship stores and will not be more or less favourable.

## THE ANNUAL CAPS UNDER THE FRAMEWORK LEASE AGREEMENT

The following are the annual caps proposed by the Company for the rental receivable under the Framework Lease Agreement for the two years ending 31 December 2009 and 31 December 2010:

	<b>Year ending 31 December 2009 (RMB)</b>	<b>Year ending 31 December 2010 (RMB)</b>
Annual Caps	30,000,000	40,000,000

## BASIS OF THE RENTAL UNDER THE FRAMEWORK LEASE AGREEMENT

As set out in the Announcement, for the period from 1 March 2008 to 31 December 2008, the aggregate value of the lease transactions between the Group and Dong Gan Jing Ji was RMB4,640,000. The annual caps stated above are calculated with reference to the total number of flagship stores opened and to be opened by Dong Gan Jing Ji (or its nominees) in 2009 and 2010 which represent the annual aggregate rental of the flagship stores in the years ending 2009 and 2010 and were determined after arm's length negotiations between the parties with reference to the prevailing market rental for comparable premises of the flagship stores in first tier cities in the PRC, the projected market rental of those stores in 2009 and 2010, the percentage of subsidies given by the Group to Dong Gan Jing Ji (or its nominees) for the operation and management of the Group's flagship stores (such amount was determined with reference to projected sales of each stores in the respective financial year) which shall in any event be comparable to the percentage of rental subsidies given by the Group to independent third party distributors for similar premises to operate as the Group's flagship stores and will not be more or less favourable.

## REASONS FOR ENTERING INTO THE FRAMEWORK LEASE AGREEMENT

Dong Gan Jing Ji is a distributor of the Group's Brand Products in the PRC. The entering into of the Framework Lease Agreement is to facilitate the establishment of flagship stores by Dong Gan Jing Ji (or its nominees) to strengthen the sales network and to promote the sales of the Group's Brand Products in the PRC. The Framework Lease Agreement also ensures the Group maintains control on the sales of its products in the flagship stores as Dong Gan Jing Ji is obliged to sell only the Group's Brand Products in the flagship stores. The Directors (including the Independent Non-Executive Directors) are of the view that the Framework Lease Agreement are on normal commercial terms and in the ordinary and usual course of business of the Company, and the terms of the Framework Lease Agreement are fair and reasonable and in the interests of the shareholders and the Company as a whole. The Directors (including the Independent Non-executive Directors) also consider that the Framework Lease Agreement was entered into after arm's length negotiations with Dong Gan Jing Ji and with reference to the distribution arrangements between the parties.

## **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 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 is also the chairman and an executive Director of the Company. Accordingly, Mr. Chen is a connected person of the Company. Mr. Chen, 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 and is therefore a connected person of the Company for purposes of the Listing Rules.

As the applicable percentage ratios (other than the profit ratio) for the Framework Lease Agreement are higher than 0.1% but less than 2.5% of the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules, pursuant to Rule 14A.34 of the Listing Rules, the Framework Lease Agreement is exempted from the independent shareholders' approval requirement but is 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:

“Announcement”	the announcement of the Company issued on 21 July 2008 in relation to continuing connected transaction of lease of property
“associate”	has the meaning ascribed to it under the Listing Rules
“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 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
“Framework Lease Agreement”	the framework lease agreement entered into between Shanghai Kappa and Dong Gan Jing Ji dated 31 December 2008 to regulate the lease of future flagship stores in the PRC by Shanghai Kappa to Dong Gan Jing Ji (or its nominees)
“Gaea Sports”	Gaea Sports Limited, a private limited company incorporated in Hong Kong on 4 April 2006
“Group”	the Company and its subsidiaries
“Group’s Brand Products”	brands of products sold by the Group from time to time including the Kappa brand products
“Hong Kong”	the Hong Kong Special Administrative Region of PRC
“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
“Independent Non-executive Directors”	the independent non-executive Directors of the Company, namely Dr. Xiang Bing, Mr. Xu Yudi and Mr. Mak Kin Kwong
“Kappa brand”	means Kappa and Robe Di Kappa brands
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Mr. Chen”	Mr. Chen Yihong, the chairman and an executive Director of the Company

“PRC”	the People’s Republic of China excluding, for the purpose of this announcement only, Hong Kong, Macau and Taiwan
“Prospectus”	the prospectus of the Company issued on 25 September 2007 in relation to the listing of shares of the Company on the main board of the Stock Exchange
“RMB”	Renminbi, the lawful currency of the PRC
“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
“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
“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, 31 December 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.*