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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)**

**DISCLOSEABLE AND CONNECTED TRANSACTION**

**DISCLOSEABLE AND CONNECTED TRANSACTION**

The Board is pleased to announce that on 7 September 2010, Shanghai Gabanna, an indirect wholly-owned subsidiary of the Company, Chen Co, five Joint Venture Partners, four individuals (being Independent Third Parties) and Han Bo Jia Ye entered into the Reorganisation Agreement for the purpose of implementing the Reorganisation. Upon completion of the Reorganisation, the Group's effective interest in the Operating Assets and Business remains unchanged, but such interest will be held through its shareholding in Han Bo Jia Ye which in turn wholly-own the five Operating Companies. However, the transactions contemplated under the Reorganisation Agreement technically constitute a discloseable transaction of the Company and, in respect of the transaction with Chen Co, a connected transaction for Listing Rules compliances purpose.

**Listing Rules Implications**

*Connected Transaction*

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 Chen Co, being one of the parties to the Reorganisation Agreement, is owned as to 45%, 35% and 20% by Mr. Chen Yiliang, Mr. Chen Yiyong and Mr. Chen Yizhong respectively, pursuant to the Listing Rules, Chen Co is an associate of Mr. Chen Yihong and is therefore a connected person of the Company, hence, the entering into the Reorganisation Agreement by Shanghai Gabanna with Chen Co, being one of the parties to the agreement, constitute a connected transaction of the Company.

As three of the applicable percentage ratios (other than the profits ratio) in respect of the transaction between Shanghai Gabanna and Chen Co under the Reorganisation Agreement is higher than 0.1% but lower than 5%, the transaction constitutes a connected transaction of the Company under the Listing Rules and is subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules but is exempt from the Independent Shareholders approval requirements.

*Discloseable Transaction*

As one of the applicable percentage ratios of the transaction contemplated in the Reorganisation Agreement on an aggregate basis is higher than 5% but lower than 25%, according to Chapter 14 of the Listing Rules, the transactions contemplated under the Reorganisation Agreement, in aggregate, constitute a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Rules 14.34 to 14.37 but is exempt from Shareholders' approval requirement under the Listing Rules.

## **DISCLOSEABLE AND CONNECTED TRANSACTION**

### **Reorganisation Agreement**

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

#### **Date**

7 September 2010

#### **Parties**

- (1) Shanghai Gabanna
- (2) Chen Co
- (3) 5 Joint Venture Partners
- (4) 4 individuals, being Independent third Parties
- (5) Han Bo Jia Ye

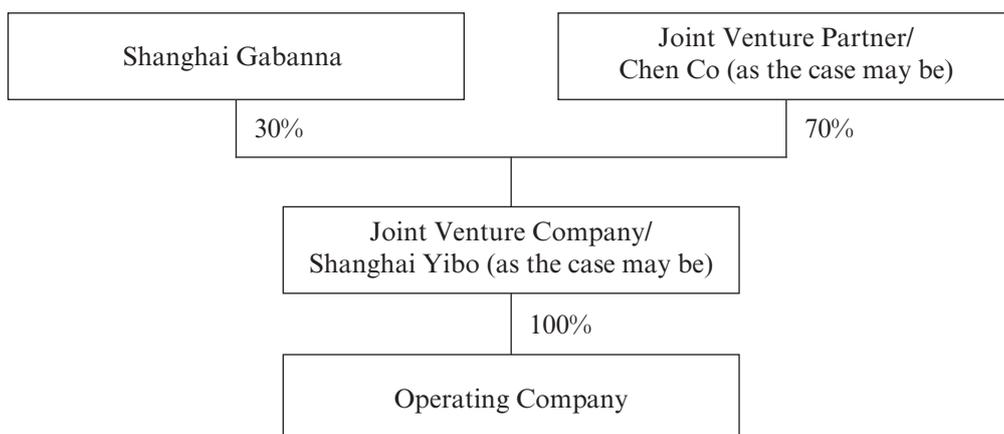
#### **Effectiveness of the Reorganisation Agreement**

From the date of signing, i.e. 7 September 2010.

#### **Existing Structure**

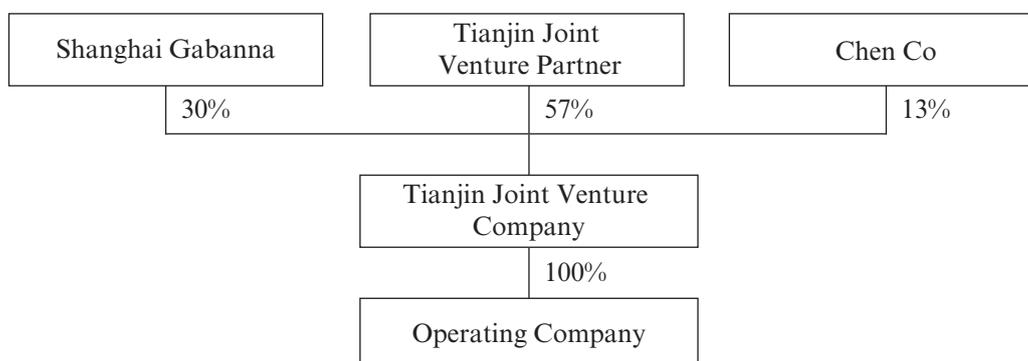
As disclosed in the 2009 Announcement, the Group, through Shanghai Gabanna, had since 2009 invested in six of its key distributors (i.e. the Joint Venture Companies and Shanghai Yibo) in Beijing and nearby areas, Shangdong, Shaanxi, Ningxia, Hangzhou, Nanjing, Tianjin, Shanxi and Shenyang, under each of which the Group holds a 30% minority stake. One of these investments, being the investment in Shanghai Yibo was with its connected persons, Chen Brothers and its controlled entity, Chen Co, the investment constituted a connected transaction of the Company and the transaction was duly announced in the 2009 Announcement and approved by Independent Shareholders in 2009.

With the exception of the Joint Venture Company in Tianjin, the existing shareholding structure in each of these Joint Venture Companies and/or Shanghai Yibo (as the case may be) is as follows:



#### *Tianjin Joint Venture Company*

The existing shareholding structure of the Tianjin Joint Venture Company is as follows:

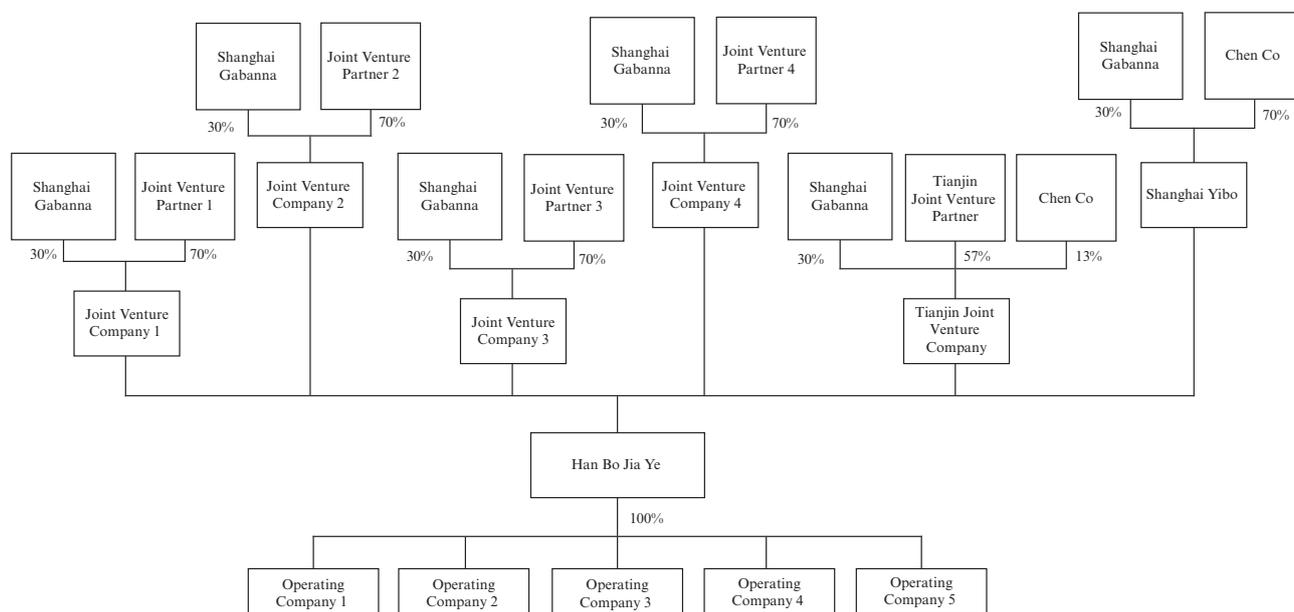


## Reorganisation

In order to capitalise on the distribution network in major provinces and cities of the PRC, to enhance competitiveness and strengthen market shares as described in more details in the paragraph headed “Reasons for entering into the Reorganisation Agreement” of this announcement, the parties to the Reorganisation Agreement, have agreed to effectively merge the Joint Venture Companies with Han Bo Jia Ye to form a distribution union by way of the following steps:

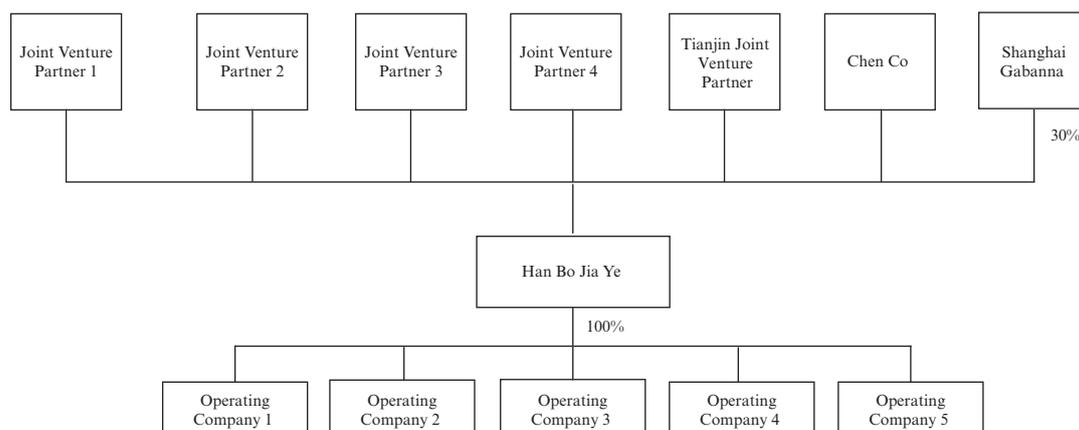
### Step 1

Each Joint Venture Company shall simultaneously inject its wholly-owned subsidiary, the Operating Company, into Han Bo Jia Ye in return for a stake in Han Bo Jia Ye. As Shanghai Gabanna owns a 30% interest in each of the Joint Venture Company and Shanghai Yibo, upon completion of this asset injection step, Shanghai Gabanna’s equity interest in Han Bo Jia Ye will remain 30%. Immediately following the completion of this step, the shareholding structure of Han Bo Jia Ye will be as follows:



## Step 2

To simplify the shareholding structure of Han Bo Jia Ye, each Joint Venture Company and Shanghai Yibo will transfer its equity interest in Han Bo Jia Ye to its shareholders pro-rated to their shareholdings, all at the nominal cash consideration of RMB1 on the date of registration of local Administration of Industrial and Commercial Bureau of PRC. Immediately upon completion of this step, the shareholding structure of Han Bo Jia Ye will be as follows:



The Company was advised by its PRC legal adviser that the transfer at nominal cash consideration of RMB1 is practicable under the relevant PRC laws and without breach of the relevant PRC laws and is acknowledged by the relevant regulatory authorities in the PRC.

The above reorganisation merely simplifies the shareholding structure of Han Bo Jia Ye but without effecting or divesting any underlying interest. Upon completion of this step, each of Chen Co, Joint Venture Partners and Shanghai Gabanna will become direct shareholders of Han Bo Jia Ye as opposed to indirect shareholders through Shanghai Yibo or the Joint Venture Companies. However, there will be no change in their underlying interests in Han Bo Jia Ye, hence, the nominal cash consideration of RMB1 was agreed by the relevant parties. Although the transactions contemplated under the Reorganisation Agreement technically constitute a connected and discloseable transaction of the Company for Listing Rules compliances purpose, there is no change in the Group's effective interest in Operating Assets and Business held by Han Bo Jia Ye and the Operating Companies before the Reorganisation.

It is anticipated under the Reorganisation Agreement that (1) Shanghai Gabanna will, in the future, further invest in Han Bo Jia Ye to increase its shareholding stake by way of cash injection. The size of the cash injection or the investment has not yet been agreed at the date of this announcement. The Company will ensure full compliance with the Listing Rules with regard to reporting, announcement and shareholders approval requirements as and when such investment terms be materialised and definitive agreement be entered into; and (2) the four individuals will inject into Han Bo Jia Ye by companies controlled by them which are engaged in similar line of business as those of the Operating Companies and as a result of which, Shanghai Gabanna's interest in Han Bo Jia Ye will be further diluted.

The unaudited book value of Shanghai Yibo for the year ended 31 December 2009 prepared in accordance with the PRC GAAP was RMB64,968,158.

The unaudited book value of Shanghai Yibo and the Joint Venture Companies on an aggregate basis for the year ended 31 December 2009 prepared in accordance with the PRC GAAP was RMB357,666,380.

The unaudited net profits (both before and after taxation and extraordinary items) attributable to Shanghai Yibo which are the subject of the transaction for the year ended 31 December 2009 prepared in accordance with the PRC GAAP were RMB46,202,579 and RMB34,651,934 respectively.

The unaudited net profits (both before and after taxation and extraordinary items) attributable to Shanghai Yibo and the five Joint Venture Companies on an aggregate basis for the year ended 31 December 2009 prepared in accordance with the PRC GAAP were RMB126,244,300 and RMB93,770,113 respectively.

No figures in respect of the year ended 31 December 2008 were provided as those companies had not been operated in 2008.

### **Purpose of Han Bo Jia Ye**

Han Bo Jia Ye will act as the holding company of the Operating Companies and the underlying Operating Assets and Business. The Operating Companies are principally engaged in the distribution of sportswear products in major provinces and cities of the PRC, including but not limited to Kappa brand products, and operation of sportswear shopping centres in the major provinces and cities of the PRC.

### **Reasons for entering into the Reorganisation Agreement**

The reasons for entering into the Reorganisation Agreement are as follows:

- (i) to strengthen market share and bargaining power by forming distribution union;
- (ii) to enhance the efficiency of utilization of cash and other resources through the centralized management of the distribution union;
- (iii) to enhance the ability for sales channel expansion and promotion of new branded sportswear products by utilizing local commercial resources and strengths of distribution union;
- (iv) to make the distribution union achieve higher profit margin as compared to the peers and benefit both Company and distributors by providing the distribution union unique products by the Company.

The board of Directors (except Mr. Chen Yihong who was abstained from voting at the relevant resolution of the Board meeting as he was considered to be material interested in the transactions due to his relationship with the Chen Brothers) including the independent non-executive Directors is of the view that the terms of the Reorganisation Agreement are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

### **Information on the parties to the Reorganisation Agreement**

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 and Macau.

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 of the Company.

Chen Co is a limited liability company incorporated in the PRC and owned as to 45%, 35% and 20% by Chen Yiliang, Chen Yiyong and Chen Yizhong respectively. It is principally engaged in the distribution of sporting goods for a number of sportswear brands in PRC, including but not limited to Kappa brand, and the operation of sportswear shopping centres in the major provinces and cities in PRC.

With the exception of the Tianjin Joint Venture Partner which holds 57% equity interest in the Tianjin Joint Venture Company, each of the Joint Venture Partners is a 70% equity holder of the Joint Venture Company. All of the Joint Venture Partners are Independent Third Parties.

The four individuals are Independent Third Parties and citizens of the PRC who own and operate distribution and sales channels of sportswear products in the PRC.

### **Listing Rules Implications**

#### *Connected Transaction*

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 Chen Co, being one of the parties to the Reorganisation Agreement, is owned as to 45%, 35% and 20% by Mr. Chen Yiliang, Mr. Chen Yiyong and Mr. Chen Yizhong respectively, pursuant to the Listing Rules, Chen Co is an associate of Mr. Chen Yihong and is therefore a connected person of the Company, hence, the entering into the Reorganisation Agreement by Shanghai Gabanna with Chen Co, being one of the parties to the agreement constitute a connected transaction of the Company.

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#### *Discloseable Transaction*

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## DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“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 Co”	北京億天博佑投資有限公司 (Beijing Yi Tian Bo You Investment Co., Limited*), a limited liability company incorporated on 4 June 2009 in the PRC by Chen Brothers, owned by Mr. Chen Yiliang, Mr. Chen Yiyong and Mr. Chen Yizhong as to 45%, 35% and 20% respectively.
“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
“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries
“Han Bo Jia Ye”	翰博嘉業(北京)貿易有限公司 (Han Bo Jia Ye (Beijing) Company Limited*), a limited liability company established under the laws of the PRC on 4 June 2009, a wholly-owned subsidiary of Shanghai Yibo as at the date of this announcement
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong Special Administrative Region of the PRC
“Hong Kong”	the Hong Kong Special Administrative Region of PRC
“Independent Shareholders”	the shareholders of the Company, excluding Mr. Chen Yihong and his associates
“Independent Third Parties”	persons or entities who are independent from the Company, its connected persons or their respective associates
“Joint Venture Company/ Companies”	the five Shanghai Joint Venture Companies, each being the holding company of the relevant wholly-owned operating company in Hangzhou, Nanjing, Tianjin, Shanxi and Shenyang

“Joint Venture Partners” or “Joint Venture Partner”	the Hangzhou Joint Venture Partner, the Nanjing Joint Venture Partner, the Shanxi Joint Venture Partner and the Shenyang Joint Venture Partner, each being a 70% equity holder of the relevant Joint Venture Company, the Tianjin Joint Venture Partner being a 57% equity holder of the Tianjin Joint Venture Company, other shareholding of which is held by Chen Co and Shanghai Gabanna as to 13% and 30% respectively
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Operating Assets and Business”	such assets and business owned and operated by the five Operating Companies, including but not limited to the existing distribution business of Kappa brand products, tangible and intangible assets, inventories, equipments, moveable and immovable assets, retail shops, sales networks, brand licensing arrangements and labour contracts etc
“Operating Company/ Companies”	the five operating companies, each of which owns the relevant Operating Assets and Business in Hangzhou, Nanjing, Tianjin, Shanxi and Shenyang
“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
“Reorganisation”	the reorganisation steps to be taken or procured by the parties to the Reorganisation Agreement and as described in the section headed “Reorganisation” in this announcement with the effect to enable Han Bo Jia Ye to hold the five Operating Companies
“Reorganisation Agreement”	an agreement dated 7 September 2010 entered into between Shanghai Gabanna, Chen Co, the Joint Venture Partners, four individuals (being Independent Third Parties) and Han Bo Jia Ye, in relation to, among other things, the Reorganisation
“RMB”	Renminbi, lawful currency of the PRC
“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 an indirect wholly-owned subsidiary of the Company
“Shanghai Yibo”	上海億博韜厲經貿有限公司 (Shanghai Yi Bo Tu Li Company Limited*), a limited liability company established under the laws of the PRC on 11 August 2009 which is owned as to 30% by Shanghai Gabanna and 70% by Chen Co as the holding company of Han Bo Jia Ye
“Shares”	shares of the Company
“Shareholder(s)”	the holder(s) of Shares

“Stock Exchange” The Stock Exchange of Hong Kong Limited

“2009  
Announcement” the announcement published by the Company on 24 August 2009 in relation to, amongst other thing, the entering into of the Cooperation Agreement by Shanghai Gabanna with Chen Brothers, 北京動感競技經貿有限公司 (Dong Gan Jing Ji Company Limited\*) and 北京動感九六體育用品有限責任公司 (Dong Ga Jiu Liu Sportswear Company Limited\*)

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

Hong Kong, 7 September 2010

*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 Mr. Jin Zhi Guo, Dr. Xiang Bing and Mr. Xu Yudi.*

\* denotes an English translation of a Chinese name.