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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)**

**DISCLOSEABLE TRANSACTION  
DISPOSAL OF KAPPA JAPAN TRADEMARKS AND  
IP MISCELLANEOUS ASSETS**

**THE SALE AGREEMENT**

The Board announces that on 31 July 2020 (after trading hours), the Seller (a non-wholly owned subsidiary of the Company), the Company (as the Seller's guarantor), the Purchaser and the Purchaser's Guarantor entered into the Sale Agreement, pursuant to which the Seller agreed to sell and the Purchaser agreed to purchase the Kappa Japan Trademarks and the IP Miscellaneous Assets for a consideration of US\$13 million (equivalent to approximately RMB91.26 million). The Kappa Japan Trademarks and the IP Miscellaneous Assets are used by the Seller to conduct the business of manufacturing, purchasing, selling, promoting and distributing products under the Kappa Japan Trademarks in Japan.

**LISTING RULES IMPLICATION**

As one or more of the applicable percentage ratios (as defined under the Listing Rules) for the Disposal exceed(s) 5% but are less than 25%, the Disposal constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements under the Listing Rules.

## **INTRODUCTION**

The Board announces that on 31 July 2020 (after trading hours), the Seller (a non-wholly owned subsidiary of the Company), the Company (as the Seller's guarantor), the Purchaser and the Purchaser's Guarantor entered into the Sale Agreement, pursuant to which the Seller agreed to sell and the Purchaser agreed to purchase the Kappa Japan Trademarks and the IP Miscellaneous Assets for a consideration of US\$13 million (equivalent to approximately RMB91.26 million).

## **THE SALE AGREEMENT**

The principal terms of the Sale Agreement are set out as follows:

### **Date**

31 July 2020 (after trading hours)

### **Parties**

- (i) Phenix Co., Ltd, a non-wholly owned subsidiary of the Company, as the Seller;
- (ii) Basic Trademark S.r.l. con socio unico, a wholly-owned subsidiary of the Purchaser's Guarantor, as the Purchaser;
- (iii) the Company, as the Seller's guarantor; and
- (iv) BasicNet S.p.A., as the Purchaser's Guarantor.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of the Purchaser, the Purchaser's Guarantor and their ultimate beneficial owner(s) is third party independent of and not connected with the Company and its connected persons (as defined under the Listing Rules).

### **Assets to be disposed of**

Subject to the terms and conditions of the Sale Agreement, the Seller agreed to sell and the Purchaser agreed to purchase the Kappa Japan Trademarks and the IP Miscellaneous Assets used in the Japan Business. Any liability in connection with the Kappa Japan Trademarks, the IP Miscellaneous Assets and the Japan Business on the part of the Seller or the Company arising before the date of Closing shall remain with the Seller or the Company (as the case may be).

The Seller and the Company agreed to jointly and severally indemnify the Purchaser and the Purchaser's Guarantor for any loss and damages arising from, among others, any breach of or failure to perform the Sale Agreement by the Seller or the Company; whereas the Purchaser and the Purchaser's Guarantor agreed to jointly and severally indemnify the Seller and the Company for any loss and damages arising from, among others, any breach of or failure to perform the Sale Agreement by the Purchaser or the Purchaser's Guarantor.

Except for the Existing Licence Agreements, other contracts relating to the Japan Business entered into by the Seller or the Company prior to the date of the Sale Agreement, including sponsorship agreements and agreements with suppliers, wholesalers or distributors, shall not form part of the assets to be disposed of by the Seller to the Purchaser pursuant to the Sale Agreement.

### **Consideration**

Pursuant to the Sale Agreement, the consideration of the Disposal amounts to US\$13 million (equivalent to approximately RMB91.26 million), which shall be payable by the Purchaser to the Seller in cash at Closing.

The consideration of the Disposal was determined after arm's length negotiations between the parties to the Sale Agreement and on normal commercial terms, taking into consideration of, among others, (i) the unaudited book value of the Kappa Japan Trademarks and the IP Miscellaneous Assets of US\$1.98 million as at 30 June 2020 (equivalent to approximately RMB13.9 million), and (ii) the estimated revenue generated by the Kappa Japan Trademarks and the IP Miscellaneous Assets.

### **Closing**

Closing shall take place on 15 September 2020 or such other date as may be agreed between the parties to the Sale Agreement, but in any event no later than 15 October 2020.

### **Transitional arrangement**

To facilitate transition of the Japan Business, from the date of the Sale Agreement until 31 December 2021, the Seller shall be authorised to use the Kappa Japan Trademarks for the purpose of disposing its inventories of products bearing the Kappa Japan Trademarks through its distribution channels in place as at the date of the Sale Agreement according to the terms and conditions of the Sale Agreement. Further, the Seller shall also be authorised to continue to perform its duties under the sponsorship agreements and the co-branding agreements relating to the Japan Business entered into by the Seller prior to the date of the Sale Agreement, from the date of the Sale Agreement until the respective expiry date of such sponsorship agreements and co-branding agreements.

## **Other covenants**

Pursuant to the Sale Agreement, the Seller and the Company undertook to assign to the Purchaser the Existing Licence Agreements with effect from the date of Closing as soon as possible after the date of the Sale Agreement.

If any of the two licencees refuses to accept the assignment of the relevant Existing Licence Agreement from the Seller to the Purchaser within four weeks after the date of the Sale Agreement, the Seller shall continue to perform its obligations under such Existing Licence Agreement and collect the licencing fees from the relevant licensee for and on behalf of the Purchaser, and pay to the Purchaser all such licencing fees received.

## **REASONS FOR AND BENEFITS OF ENTERING INTO THE SALE AGREEMENT**

The Company has been reviewing the development of its Japan Business in relation to the Kappa Japan Trademarks in Japan. The Board is of the view that the Disposal will enable the Group to focus and accelerate its growth of its core businesses in the PRC with the aim to become one of the best multi-brand sportswear enterprises in the PRC.

Taking into account of the consideration of US\$13 million, the unaudited book value of the Kappa Japan Trademarks and the IP Miscellaneous Assets of US\$1.98 million as at 30 June 2020 (equivalent to approximately RMB13.9 million), and the estimated transaction costs of US\$0.09 million (equivalent to approximately RMB0.63 million), the Group is expected to record an unaudited estimated gain on the Disposal of approximately US\$10.93 million (equivalent to approximately RMB76.73 million).

The net proceeds from the Disposal will be applied for production and operation, as well as external investment of the Group.

Having regard to the reasons and benefits mentioned above, the Board is of the view that the terms of the Sale Agreement, which have been reached after arm's length negotiations between the parties, are on normal commercial terms, fair and reasonable and in the interests of the Company and its shareholders as a whole.

## **INFORMATION OF THE ASSETS TO BE DISPOSED OF**

As of 30 June 2020, the unaudited book value of the Kappa Japan Trademarks and the IP Miscellaneous Assets was US\$1.98 million (equivalent to approximately RMB13.9 million).

Pursuant to the unaudited management accounts of the Group for the two financial years ended 31 March 2019 and 31 March 2020, the net loss (both before and after taxation) attributable to the Japan Business in connection with the Kappa Japan Trademarks and the IP Miscellaneous Assets for the two financial years ended 31 March 2019 and 31 March 2020 were as follows:

	<b>For the financial year ended 31 March 2019</b> <i>(unaudited)</i> <i>(RMB'000)</i>	<b>For the financial year ended 31 March 2020</b> <i>(unaudited)</i> <i>(RMB'000)</i>
Net loss before taxation	(14,548)	(15,243)
Net loss after taxation	(14,817)	(15,211)

## **INFORMATION ON THE GROUP AND THE SELLER**

The Company is an investment company, whose subsidiaries are principally engaged in brand development, design and sales of sport-related apparel, footwear and accessories in the PRC, Macau and Japan, as well as investment activities in the PRC and abroad.

The Seller is a company incorporated in Japan with limited liability and a non-wholly owned subsidiary of the Company. It is principally engaged in brand development, design and sales of sport-related apparel in Japan.

## **INFORMATION ON THE PURCHASER AND THE PURCHASER'S GUARANTOR**

The Purchaser is a company incorporated in Italy and a wholly-owned subsidiary of the Purchaser's Guarantor with limited liability and is principally engaged in the ownership and management of trademarks.

The Purchaser Guarantor is a company incorporated in Italy and is principally engaged in the sector of branded leisurewear and sportswear, footwear and accessories with a collection of market-leading registered trademarks. It is a listed company which shares are listed on MTA, the Italian Stock Exchange.

## **LISTING RULES IMPLICATION**

As one or more of the applicable percentage ratios (as defined under the Listing Rules) for the Disposal exceed(s) 5% but are less than 25%, the Disposal constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements under the Listing Rules.

## DEFINITION

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“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
“Closing”	the completion of the Disposal pursuant to the Sale Agreement
“Directors”	the directors of the Company
“Disposal”	the disposal of the Kappa Japan Trademarks and the IP Miscellaneous Assets by the Seller to the Purchaser on the terms and conditions of the Sale Agreement
“Existing Licence Agreements”	the two licencing agreements entered into between the Seller and two licencees in relation to the licencing of rights to use the Kappa Japan Trademarks and the IP Miscellaneous Assets, both of which remained effective as at the date of the Sale Agreement
“Group”	the Company and its subsidiaries
“IP Miscellaneous Assets”	other intellectual properties owned by the Seller and used in the Japan Business, including copyrights on marketing materials, domain names and digital assets, products specifications and design rights on products and goodwill in relation to the Japan Business
“Japan Business”	the Seller’s business of manufacturing, purchasing, selling, promoting and distributing products under the Kappa Japan Trademarks in Japan
“Kappa Japan Trademarks”	the registered trademarks of “Kappa” and “Robe di Kappa” and intellectual property rights in connection with such registered trademarks used in the Japan Business
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China

“Purchaser”	Basic Trademark S.r.l. con socio unico, a company incorporated in Italy with limited liability and a wholly-owned subsidiary of the Purchaser’s Guarantor as at the date of this announcement
“Purchaser’s Guarantor”	BasicNet S.p.A., a company incorporated in Italy with limited liability, the Purchaser’s guarantor
“RMB”	renminbi, the lawful currency of the PRC
“Sale Agreement”	the sale agreement dated 31 July 2020 entered into between the Seller, the Company as the Seller’s guarantor, the Purchaser and the Purchaser’s Guarantor in relation to the Disposal
“Seller”	Phenix Co., Ltd, a company incorporated in Japan with limited liability and a non-wholly owned subsidiary of the Company, which is held as to 91% by the Company as at the date of this announcement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent.

*For the purpose of this announcement, conversions of US\$ into RMB are based on the approximate exchange rate of US\$1 to RMB7.02 for the purpose of illustration only. No representation is made that any amount of US\$ or RMB, as the case may be, could have been or could be converted at the above rate or at any other particular rates.*

By Order of the Board  
**China Dongxiang (Group) Co., Ltd.**  
**Chen Yihong**  
*Chairman*

Hong Kong, 31 July 2020

*As at the date of this announcement, the executive directors of the Company are Mr. Chen Yihong, Mr. Zhang Zhiyong, Ms. Chen Chen and Mr. Lyu Guanghong, and the independent non-executive directors of the Company are Dr. Chen Guogang, Mr. Gao Yu and Mr. Liu Xiaosong.*