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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)

ANNOUNCEMENT
RENEWAL OF CONTINUING CONNECTED TRANSACTION

THE RENEWED FRAMEWORK AGREEMENT

The Board announces that on 9 October 2018, Shanghai Kappa (an indirect wholly-owned subsidiary of the Company) as supplier and Mai Sheng Yue He as purchaser entered into the Renewed Framework Agreement in relation to the supply and purchase of sport-related products from Shanghai Kappa and Mai Sheng Yue He, in order to continue with the transactions under the Existing Framework Agreement after its expiry on 31 December 2018 under the terms of the Renewed Framework Agreement.

LISTING RULES IMPLICATION

Mai Sheng Yue He is an associate of Mr. Chen Yihong, an executive Director and the Chairman of the Company, and hence a connected person of the Company. Therefore, the transactions contemplated under the Renewed Framework Agreement will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined under the Listing Rules) calculated with reference to the Annual Caps exceed(s) 5%, the transactions contemplated under the Renewed Framework Agreement are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. Chen Yihong and his associates are required to abstain from voting at the EGM to approve the Renewed Framework Agreement and the Annual Caps.

GENERAL

The Independent Board Committee has been formed and the Independent Financial Advisor has been appointed to provide its opinion to the Independent Board Committee and the Independent Shareholders in respect of the Renewed Framework Agreement and the Annual Caps.

A circular containing, among other things (i) further details of the Renewed Framework Agreement, the Annual Caps and the transactions contemplated thereunder, (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 Renewed Framework Agreement and the Annual Caps, will be despatched to the Shareholders on or before 12 November 2018, so as to allow sufficient time for the preparation of the relevant information for inclusion in the circular.

BACKGROUND

Reference is made to the announcement of the Company dated 11 March 2016. On 11 March 2016, Shanghai Kappa (an indirect wholly-owned subsidiary of the Company) as supplier and Mai Sheng Yue He (a connected person of the Company) as purchaser entered into the Existing Framework Agreement pursuant to which Shanghai Kappa agreed to supply sport-related products to Mai Sheng Yue He, which constituted continuing connected transactions of the Company under the Listing Rules.

As the Existing Framework Agreement is due to expire on 31 December 2018, on 9 October 2018, Shanghai Kappa as supplier and Mai Sheng Yue He as purchaser entered into the Renewed Framework Agreement in relation to the supply and purchase of sport-related products from Shanghai Kappa and Mai Sheng Yue He, in order to continue with the transactions under the Existing Framework Agreement after 31 December 2018 under the terms of the Renewed Framework Agreement.

THE RENEWED FRAMEWORK AGREEMENT

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

Date

9 October 2018 (after trading hours)

Parties

- (i) Shanghai Kappa (an indirect wholly-owned subsidiary of the Company), as the supplier; and
- (ii) Mai Sheng Yue He, as the purchaser.

Term

The Renewed Framework Agreement shall be subject to the approval by the Independent Shareholders at the EGM and shall be valid from 1 January 2019 to 31 March 2021, unless terminated earlier in accordance with the terms and conditions of the Renewed Framework Agreement.

Transactions under the Renewed Framework Agreement

Pursuant to the Renewed Framework Agreement, Shanghai Kappa has granted Mai Sheng Yue He a non-exclusive right to distribute sport-related products of the Group, including sportswear and related products of the “Kappa” and “Kappa Kids” brands and other brands of the Group.

The Renewed Framework Agreement is a framework agreement which contains the principles, mechanisms and terms and conditions upon which the parties thereto are to carry out the transactions contemplated thereunder. Shanghai Kappa and Mai Sheng Yue He may from time to time enter into specific agreements in respect of the supply of goods from Shanghai Kappa to Mai Sheng Yue He, provided that the terms and conditions of such specific agreements shall not be inconsistent with the terms of the Renewed Framework Agreement. The supply of goods from Shanghai Kappa to Mai Sheng Yue He will be carried out in accordance with such specific agreements to be entered into between Shanghai Kappa and Mai Sheng Yue He from time to time during the term of the Renewed Framework Agreement.

Consideration and payment

Pursuant to the Renewed Framework Agreement, the prices for the goods to be supplied by Shanghai Kappa to Mai Sheng Yue He under the Renewed Framework Agreement are to be agreed upon and determined between the parties from time to time on an arm’s length basis according to the principles of fairness and reasonableness, which shall be comparable to, or no less favourable than, the fair market prices for similar goods offered to independent distributors by Shanghai Kappa.

Shanghai Kappa shall, before entering into specific agreements with Mai Sheng Yue He in respect of the supply of goods pursuant to the Renewed Framework Agreement, obtain sales records on the supply of the same or similar goods by Shanghai Kappa to independent distributors for the purpose of determining the reference market prices for such goods, and the terms of the specific agreements to be entered into between Shanghai Kappa and Mai Sheng Yue He (including the prices) shall not be less favourable from the perspective of Shanghai Kappa than such reference market prices.

Historical amounts

The annual caps under the Existing Framework Agreement are set out below:

For the year ended/ending	<i>RMB ('000)</i>
31 December 2016	251,316
31 December 2017	301,579
31 December 2018	361,895

The historical transaction amounts (including the Kappa Brand business and the Kappa Kids business) under the Existing Framework Agreement are set out below:

	<i>RMB ('000)</i>
Twelve months ended 31 December 2016	177,423
Twelve months ended 31 December 2017	124,958
From 1 January 2018 up to 31 August 2018	84,176

Annual Caps and basis

Pursuant to the Renewed Framework Agreement, the aggregate amount to be paid by Mai Sheng Yue He to Shanghai Kappa for the supply of goods under the Renewed Framework Agreement shall be subject to the Annual Caps as follows:

	<i>RMB ('000)</i>
Three months ending 31 March 2019 (<i>Note</i>)	51,000
Twelve months ending 31 March 2020	228,000
Twelve months ending 31 March 2021	285,000

Note: Due to the change of the financial year end date of the Company from 31 December to 31 March (as announced in the Company's announcement dated 4 July 2018), the Annual Cap shall be for a 3-month period commencing on 1 January 2019 and ending on 31 March 2019.

The Annual Caps have been determined with reference to, among others, (i) the historical transaction amount in respect of the supply of goods from Shanghai Kappa to Mai Sheng Yue He for the the period from 1 January 2018 up to 31 August 2018 and the estimated transaction amount in respect of the period from 1 September 2018 to 31 December 2018; (ii) the expected increase in sales performance of "Kappa" and "Kappa Kids" products in view of recent product improvements and enhancement of retail store efficiency; and (iii) the expected introduction of new brand(s) by the Group.

INTERNAL CONTROL MEASURES

In order to ensure that the terms for the supply of goods by Shanghai Kappa to Mai Sheng Yue He under the Renewed Framework Agreement are not less favourable than the terms offered by Shanghai Kappa to independent distributors, the Company has adopted the following measures:

- (i) the relevant personnel of the Company will keep track of the sales records on the supply of goods by Shanghai Kappa to independent distributors for the purpose of ensuring that the prices for goods to be supplied by Shanghai Kappa to Mai Sheng Yue He will be comparable to, or no less favourable than, the fair market prices for similar goods offered to independent distributors by Shanghai Kappa;
- (ii) the relevant personnel of the Company will keep track of the aggregate amount paid by Mai Sheng Yue He to Shanghai Kappa for the supply of goods under the Renewed Framework Agreement for the purpose of ensuring that the Annual Caps will not be exceeded; and
- (iii) the Company has adopted relevant reporting and record-keeping procedures to allow independent non-executive Directors and auditors of the Company to perform annual review of the supply of goods under the Renewed Framework Agreement.

REASONS FOR AND BENEFITS OF ENTERING INTO THE RENEWED FRAMEWORK AGREEMENT

Mai Sheng Yue He has been one of the largest distributors of the Group since 2010 and has maintained a very good business relationship with the Group due to its sales performance, reputation for reliability as a distributor, experience in retail of sporting goods and extensive distributorship network in Beijing and nearby areas, Shandong, Shaanxi and Inner Mongolia. The Directors consider that Mai Sheng Yue He will remain as one of the Group's key distributors and the continuing business relationship with Mai Sheng Yue He will contribute to the stable development of the business of the Group.

Having considered the reasons for and benefits of entering into the Renewed Framework Agreement, the Directors (including the independent non-executive Directors) consider that the Renewed Framework Agreement was entered into in the ordinary and usual course of business of the Company on normal commercial terms and the terms of the Renewed Framework Agreement (including the Annual Caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE GROUP AND SHANGHAI KAPPA

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.

Shanghai Kappa is a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company. It is principally engaged in design, sales and production of sport-related footwear, apparel and accessories in the PRC.

INFORMATION ON MAI SHENG YUE HE

Mai Sheng Yue He is a company incorporated in the PRC with limited liability and is principally engaged in distribution and retail of sportswear including products of the Group principally in Beijing and nearby areas, Shandong, Shaanxi and Inner Mongolia.

As of the date of this announcement, Mai Sheng Yue He is owned by Shanghai Gabbana Sporting Goods Co., Ltd.* (上海嘉班納體育用品有限公司) (an indirect wholly-owned subsidiary of the Company) as to 30% and Beijing Yi Tian Bo You Investment Co., Ltd.* (北京億天博佑投資有限公司) (“Chen Co.”) as to 70%. Chen Co. is owned as to 45%, 35% and 20%, respectively, by Mr. Chen Yiliang, Mr. Chen Yiyong and Mr. Chen Yizhong, each being a brother of Mr. Chen Yihong, an executive Director and the Chairman of the Company. Therefore, Mai Sheng Yue He is a connected person of the Company under Chapter 14A of the Listing Rules by virtue of it being an associate of Mr. Chen Yihong.

LISTING RULES IMPLICATION

As stated above, Mai Sheng Yue He is a connected person of the Company under Chapter 14A of the Listing Rules. Therefore, the transactions contemplated under the Renewed Framework Agreement will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined under the Listing Rules) calculated with reference to the Annual Caps exceed(s) 5%, the transactions contemplated under the Renewed Framework Agreement are subject to the reporting, annual review, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Mr. Chen Yihong and his associates are required to abstain from voting at the EGM to approve the Renewed Framework Agreement and the Annual Caps.

GENERAL

The Independent Board Committee has been formed and the Independent Financial Advisor has been appointed to provide its opinion to the Independent Board Committee and the Independent Shareholders in respect of the Renewed Framework Agreement and the Annual Caps.

A circular containing, among other things (i) further details of the Renewed Framework Agreement, the Annual Caps and the transactions contemplated thereunder, (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 Renewed Framework Agreement and the Annual Caps, will be despatched to the Shareholders on or before 12 November 2018, so as to allow sufficient time for the preparation of the relevant information for inclusion in the circular.

DEFINITION

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

“Annual Caps”	the annual caps under the Renewed Framework Agreement in the amounts of RMB51,000,000, RMB228,000,000 and RMB285,000,000 for each of the period of the three months ending 31 March 2019, the twelve months ending 31 March 2020 and the twelve months ending 31 March 2021
“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
“Directors”	the directors of the Company
“EGM”	an extraordinary general meeting of the Company to be convened for the purpose of considering, and if thought fit, approving the Renewed Framework Agreement and the Annual Caps
“Existing Framework Agreement”	an agreement dated 11 March 2016 entered into between Shanghai Kappa and Mai Sheng Yue He in relation to the supply of sport-related products from Shanghai Kappa to Mai Sheng Yue He for the three years ending 31 December 2018
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board, comprising all the independent non-executive Directors, formed for the purpose of advising the Independent Shareholders in respect of the Renewed Framework Agreement and the Annual Caps

“Independent Financial Adviser”	VMS Securities Limited, a corporation licensed to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities as defined under the Securities and Futures Ordinance (Cap 571 of the laws of Hong Kong), being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Renewed Framework Agreement and the Annual Caps
“Independent Shareholders”	the Shareholders, excluding Mr. Chen Yihong and his associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mai Sheng Yue He”	Mai Sheng Yue He Sportswear Company Limited* (邁盛悅合體育用品有限公司), a company incorporated in the PRC with limited liability, a connected person of the Company
“PRC”	the People’s Republic of China, which for the purposes of this announcement, shall not include Hong Kong, the Macau Special Administrative Region and Taiwan
“Renewed Framework Agreement”	a conditional agreement dated 9 October 2018 entered into between Shanghai Kappa and Mai Sheng Yue He in relation to the supply of sport-related products from Shanghai Kappa to Mai Sheng Yue He from 1 January 2019 to 31 March 2021
“RMB”	renminbi, the lawful currency of the PRC
“Shanghai Kappa”	Shanghai Kappa Sporting Goods Co., Ltd.* (上海卡帕體育用品有限公司), a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“Shareholder(s)”	the holder(s) of the Shares
“Shares”	ordinary shares of HK\$0.01 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent.

* denotes as English translation of a Chinese name and is provided for identification purposes only.

In this announcement, unless the context otherwise requires, the terms “associate(s)”, “close associate(s)”, “connected person(s)”, “connected subsidiary(ies)”, “connected transaction(s)”, “controlling shareholder(s)”, “subsidiary(ies)” and “substantial shareholder(s)” shall have the meanings given to such terms in the Listing Rules, as modified by the Stock Exchange from time to time.

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

Hong Kong, 9 October 2018

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