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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 AND CONNECTED TRANSACTIONS
IN RELATION TO
THE AMENDMENT OF THE SUBSCRIPTION LOANS**

**THE CONNECTED AMENDMENT LETTERS AND THE MANAGEMENT
AMENDMENT LETTERS**

Reference is made to the Announcements in relation to, among others, the grant of the Subscription Loans to the Connected Borrowers and the Management Borrowers in relation to their respective subscription of new Shares pursuant to the Company's incentive scheme.

As the Subscription Loans will expire in the coming months, on 29 July 2022, GSL (a wholly-owned subsidiary of the Company) and each of the Connected Borrowers and the Management Borrowers entered into the Connected Amendment Letters and the Management Amendment Letters respectively pursuant to which GSL agreed to extend the term of the respective Subscription Loans for a further five years from the original repayment dates and amend the interest rate and certain other terms of such loans.

All Amendment Letters became effective immediately upon execution except for the ZZY Amendment Letters which shall only become effective upon obtaining the Independent Shareholders' approval as required under Chapter 14A of the Listing Rules.

As of the date of the Amendment Letters, the aggregate outstanding principal amount of the Subscription Loans was HK\$348,894,267.90.

THE LISTING RULES IMPLICATIONS

As the Connected Borrowers are directors of the Company or the Company's subsidiaries (as the case may be), they are connected persons of the Company under Chapter 14A of the Listing Rules. Accordingly, the entering into of each of the Connected Amendment Letters constitutes a connected transaction of the Company.

As one of the applicable percentage ratios in respect of the two Extended Subscription Loans granted to Mr. Zhang (an executive Director), when aggregated, is more than 5%, the entering into of the ZZY Amendment Letters with Mr. Zhang is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the Extended Subscription Loan granted to each of (i) Mr. Lyu Guanghong (an executive Director) is more than 0.1% and all applicable ratios are less than 5% and (ii) Mr. Ren Yi (a director at the subsidiary level of the Company as at the date of this announcement) is more than 1% and all applicable ratios are less than 5%, the entering into of the Amendment Letters with each of Mr. Lyu Guanghong and Mr. Ren Yi is subject to the reporting and announcement requirements but is exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

As all of the applicable percentage ratios in respect of the Extended Subscription Loan granted to Ms. Sun Wei (who was a supervisor at the subsidiary level of the Company) are less than 1%, the entering into of the Amendment Letter with Ms. Sun Wei is exempt from the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As one of the applicable percentage ratios in relation to the grant of the Extended Subscription Loans, when aggregated, is more than 5% and all applicable ratios are less than 25%, the entering into of the Amendment Letters with the Connected Borrowers and the Management Borrowers when aggregated constitute discloseable transactions of the Company and are subject to the reporting and announcement requirements but are exempt from Shareholders' approval requirements under Chapter 14 of the Listing Rules.

EGM

The EGM will be proposed for the Independent Shareholders to consider and, if thought fit, pass the requisite resolutions to approve, *inter alia*, the ZZY Amendment Letters and the transactions contemplated thereunder.

GENERAL

The Independent Board Committee comprising all independent non-executive Directors has been formed to advise the Independent Shareholders in relation to, among other things, whether the terms of the ZZY Amendment Letters entered into with Mr. Zhang are fair and reasonable and in the interests of the Company and the Shareholders as a whole and to advise the Independent Shareholders on voting, taking into account the recommendation of the Independent Financial Adviser. The Company has appointed the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, (i) further details of the ZZY Amendment Letters entered into between GSL and Mr. Zhang; (ii) a letter of advice from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders and (iv) a notice of the EGM, is expected to be despatched by the Company to the Shareholders. As the Company requires additional time to finalise certain information for inclusion in the circular, it is expected that the circular will be despatched on or before 9 September 2022.

BACKGROUND

Reference is made to the Announcements in relation to, among others, the grant of the Subscription Loans to the Connected Borrowers and the Management Borrowers in relation to their respective subscription of new Shares pursuant to the Company's incentive scheme.

As disclosed in the Announcements, the Subscription Loans were granted to the Connected Borrowers and the Management Borrowers for settlement of part of the consideration for their respective subscription of new Shares. Each of these Subscription Loans was for a term of 5 years from the date of drawdown at the interest rate of one-month HIBOR + 1% per annum (which may be adjusted according to the benchmark interest rate). Each Subscription Loan was secured by the new Shares subscribed for and (where applicable) additional Shares acquired by such Connected Borrower or Management Borrower (as the case may be) using their own funding. Each Subscription Loan was subject to mandatory repayment upon sale of any of the Charged Shares by the Connected Borrower or Management Borrower (as the case may be), and the amount of Subscription Loan so repaid shall be proportional to the number of Charged Shares sold.

During the term of the Subscription Loans and up to the date of the Amendment Letters, the Connected Borrowers and Management Borrowers have partially repaid their respective Subscription Loans by dividends declared and paid in respect of the Charged Shares in accordance with the terms of the Original Loan Agreements. None of them has disposed of any of the Charged Shares during the period.

Details of the Subscription Loans are set out below:

	Original principal amount of the Subscription Loan under the Original Loan Agreement (HK\$)	Outstanding principal amount of the Subscription Loan as at the date of the Amendment Letter (HK\$)	Number of Charged Shares as at the date of the Amendment Letter	Repayment date under the Original Loan Agreement
Connected Borrowers				
Mr. Zhang	156,956,969.00	151,390,892.89 ^(Note 1)	138,410,025	31 October 2022
	33,628,500.00	31,502,277.41 ^(Note 2)	27,680,000	25 April 2023
Mr. Lyu Guanghong	12,150,000.00	11,381,856.00	10,000,000	25 April 2023
Mr. Ren Yi	34,020,000.00	31,869,196.80	28,000,000	25 April 2023
Ms. Sun Wei	12,150,000.00	11,381,856.00	10,000,000	25 April 2023
Management Borrowers				
Mr. Chen Shaowen	34,020,000.00	31,869,196.80	28,000,000	25 April 2023
Mr. Song Li	34,020,000.00	31,869,196.80	28,000,000	25 April 2023
Mr. Nan Peng	19,440,000.00	18,210,969.60	16,000,000	25 April 2023
Mr. Wang Yalei	19,440,000.00	18,210,969.60	16,000,000	25 April 2023
Mr. Yang Gang	11,610,000.00	11,207,856.00	10,000,000	25 April 2023
Total	<u>367,435,469.00</u>	<u>348,894,267.90</u>		

Note:

1. This represents the Subscription Loan granted to Mr. Zhang pursuant to the ZZY Original Loan Agreement entered into on 9 October 2017, details of which are set out in the Announcement dated 9 October 2017.
2. This represents the Subscription Loan granted to Mr. Zhang pursuant to the ZZY Original Loan Agreement entered into on 19 January 2018, details of which are set out in the Announcement dated 19 January 2018.

THE CONNECTED AMENDMENT LETTERS AND THE MANAGEMENT AMENDMENT LETTERS

As the Subscription Loans will expire in the coming months, on 29 July 2022, GSL (a wholly-owned subsidiary of the Company) and each of the Connected Borrowers and the Management Borrowers entered into the Connected Amendment Letters and the Management Amendment Letters respectively to amend certain provisions of the respective Original Connected Loan Agreements or Original Management Loan Agreements (as the case may be).

Key terms of the Amendment Letters are as follows:

Date : 29 July 2022

Parties : (i) GSL (as lender); and

(ii) each of the Connected Borrowers and the Management Borrowers (as borrower)

Subject Matter:

The parties agreed that (i) the respective Subscription Loans shall be extended for a further term of 5 years from the original repayment date under the respective Original Loan Agreements; (ii) the principal amount of the respective Subscription Loans shall be such an amount equal to the reduced outstanding amount as at the date of the respective Amendment Letters; (iii) the interest rate of the respective Subscription Loans shall be adjusted to a fixed rate of 1% per annum; (iv) to the extent that the borrower was appointed as an executive director and the chief executive officer, it shall constitute an event of default if the relevant borrower ceases to be an executive director, the chief executive officer and/or hold any key positions in the Company (as determined by the Company); and (v) all dividends to be received in respect of the Charged Shares shall only be used to settle the interest payments and/or to partially repay the principal amount of the respective Subscription Loans. Save for the abovementioned amendments, all other terms of the respective Original Loan Agreements shall remain unchanged and continue in full force and effect.

Please refer to the section headed “Background” in this announcement for details of the original repayment dates, the outstanding principal amount of the Subscription Loans as at the date of the Amendment Letters and other key terms of the Subscription Loans.

All Amendment Letters became effective immediately upon execution except for the ZZY Amendment Letters which shall only become effective upon obtaining the Independent Shareholders’ approval as required under Chapter 14A of the Listing Rules.

INFORMATION OF GSL AND THE COMPANY

GSL is a limited liability company incorporated in Hong Kong and an indirect wholly-owned subsidiary of the Company. It is principally engaged in investment holding activities.

The Company and its subsidiaries are principally engaged in brand development, design and sales of sport-related apparel, footwear and accessories and investment activities in Mainland of the People’s Republic of China and abroad.

REASONS FOR AND BENEFITS OF ENTERING INTO THE CONNECTED AMENDMENT LETTERS AND THE MANAGEMENT AMENDMENT LETTERS

As discussed in the Announcements, it is the intention and objective of the Company to incentivize, reward and ensure the long-term service of the Connected Borrowers and the Management Borrowers who have throughout their service shown tremendous contribution to the Group and are considered by the Company to be vital to the success and the long-term growth of the Group. Accordingly, the subscription of new Shares, and the taking out of the Subscription Loans by the Connected Borrowers and the Management Borrowers will enable the Company to achieve such objective.

It is the belief of the Company that through such substantial personal capital commitment in investing in the Shares, the management's interests would align with that of the Shareholders; the management would have a stronger incentive and motivation to stay and perform well in the Company and continue to make long-term contributions to the Company. Against such backdrop, the Board is of the view that the grant of the Extended Subscription Loans is consistent with the Company's original belief and intention of setting up such incentive scheme and such grant will continue to retain and motivate the management in developing the Group's business and maximising Shareholders' return. In addition, the outbreak of coronavirus, the partially related impact of the volatility of the financial market and the general weak market sentiment have affected the share price of the Company in the past years. Extension of the repayment dates of the Subscription Loans will provide greater incentive and flexibility for the Connected Borrowers and the Management Borrowers to work towards growing the value of the Shares continuously. Given that all of the Shares subscribed or acquired using the proceeds from the Subscription Loans were charged to GSL as security, while part of the dividends paid out during the term of the loans in respect of the Charged Shares were applied to settle the interest payments and partially repay the principal amount of the loans, the Connected Borrowers and the Management Borrowers have not benefited greatly from such scheme in the past years. The Group has adequate cash reserve for its operation and the extension of repayment dates of the Subscription Loans will not have negative impact on the financial conditions of the Group.

Having considered the reasons for and benefits of entering into the Original Loan Agreements and the Amendment Letters:

- (i) with regard to the ZZY Amendment Letters, subject to the advice of the Independent Financial Adviser, the Directors (excluding Mr. Zhang and Mr. Lyu Guanghong who have abstained from voting on the Board resolutions) consider that the terms of the ZZY Amendment Letters are on normal commercial terms, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole;
- (ii) with regard to the Connected Amendment Letters other than the ZZY Amendment Letters, the Directors (excluding Mr. Zhang and Mr. Lyu Guanghong who have abstained from voting on the Board resolutions) consider that the terms of the Connected Amendment Letters other than the ZZY Amendment Letters are on normal commercial terms, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and
- (iii) with regard to the Management Amendment Letters, the Directors consider that the terms of the Management Amendment Letters are on normal commercial terms, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

THE LISTING RULES IMPLICATIONS

Connected Transactions

As the Connected Borrowers are directors of the Company or the Company's subsidiaries (as the case may be), they are connected persons of the Company under Chapter 14A of the Listing Rules. Accordingly, the entering into of each of the Connected Amendment Letters with the Connected Borrowers constitutes a connected transaction of the Company.

As one or more of the applicable percentage ratios in respect of the two Extended Subscription Loans granted to Mr. Zhang (an executive Director), when aggregated, is more than 5%, the entering into of the ZZY Amendment Letters with Mr. Zhang is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the Extended Subscription Loan granted to each of (i) Mr. Lyu Guanghong (an executive Director) is more than 0.1% and all applicable ratios are less than 5% and (ii) Mr. Ren Yi (a director at the subsidiary level of the Company as at the date of this announcement) is more than 1% and all applicable ratios are less than 5%, the entering into of the Amendment Letters with each of Mr. Lyu Guanghong and Mr. Ren Yi is subject to the reporting and announcement requirements but is exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

As all of the applicable percentage ratios in respect of the Extended Subscription Loan granted to Ms. Sun Wei (who was a supervisor at the subsidiary level of the Company) are less than 1%, the entering into of the Amendment Letter with Ms. Sun Wei is exempt from the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Discloseable Transactions

As one of the applicable percentage ratios in respect of the grant of the Extended Subscription Loans, when aggregated, is more than 5% and all applicable ratios are less than 25%, the entering into of the Amendment Letters with the Connected Borrowers and the Management Borrowers when aggregated constitute discloseable transactions of the Company and are therefore subject to the reporting and announcement requirements but are exempted from Shareholders' approval requirement under Chapter 14 of the Listing Rules.

EGM

The EGM will be proposed for the Independent Shareholders to consider and, if thought fit, pass the requisite resolutions to approve, *inter alia*, the ZZY Amendment Letters and the transactions contemplated thereunder.

GENERAL

The Independent Board Committee comprising all independent non-executive Directors has been formed to advise the Independent Shareholders in relation to, among other things, whether the terms of the ZZY Amendment Letters are fair and reasonable and in the interests of the Company and the Shareholders as a whole and to advise the Independent Shareholders on voting, taking into account the recommendation of the Independent Financial Adviser. The Company has appointed the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, (i) further details of ZZY Amendment Letters entered into between GSL and Mr. Zhang; (ii) a letter of advice from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders and (iv) a notice of the EGM, is expected to be despatched by the Company to the Shareholders. As the Company requires additional time to finalise certain information for inclusion in the circular, it is expected that the circular will be despatched on or before 9 September 2022.

DEFINITIONS

Unless the context otherwise requires, the following terms in this announcement shall have the meanings set out below:

“Amendment Letters”	the Connected Amendment Letters and the Management Amendment Letters
“Announcements”	the announcements of the Company dated 9 October 2017, 19 January 2018, 11 April 2018, 27 April 2018 and 9 May 2018 and the circular of the Company dated 9 March 2018 in relation to the Subscriptions Loans
“Board”	the board of Directors
“BPEL”	Bright Pacific Enterprises Limited, a limited liability company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company
“Charged Shares”	the Shares owned by the respective Connected Borrower or Management Borrower (as the case may be) that are charged as security to the respective Subscription Loans pursuant to the terms of the respective Original Loan Agreements

“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 Amendment Letters”	the ZZY Amendment Letters and three amendment letters entered into between GSL and each of the Connected Borrowers except Mr. Zhang, all dated 29 July 2022 in relation to the amendment of certain terms of the Original Connected Loan Agreements
“Connected Borrowers”	Mr. Zhang and Mr. Lyu Guanghong, each a Director; Mr. Ren Yi, a director at the subsidiary level of the Company; and Ms. Sun Wei, a former supervisor at the subsidiary level of the Company
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened for the Independent Shareholders to consider and, if thought fit, approve the ZZY Amendment Letters
“Extended Subscription Loan(s)”	the Subscription Loan(s) as amended by the Amendment Letters
“Group”	the Company and its subsidiaries
“GSL”	Gaea Sports Limited, a limited liability company incorporated in Hong Kong and an indirect wholly-owned subsidiary of the Company
“HIBOR”	Hong Kong interbank offered rate
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Shareholders”	Shareholders who do not have any material interest in the relevant transactions contemplated under the ZZY Amendment Letters

“Independent Board Committee”	an independent board committee of the Board comprising all the independent non-executive Directors, namely Dr. Chen Guogang, Mr. Gao Yu and Mr. Liu Xiaosong, established for the purpose of advising the Independent Shareholders in respect of, among other things, the ZZY Amendment Letters
“Independent Financial Adviser”	Platinum Securities Company Limited, a licensed corporation registered under the SFO to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of, among other things, the ZZY Amendment Letters and the transactions contemplated thereunder
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Management Amendment Letters”	a total of five amendment letters entered into between GSL and each of the Management Borrowers, all dated 29 July 2022, in relation to the amendment of certain terms of the Original Management Loan Agreements
“Management Borrowers”	Mr. Chen Shaowen, Mr. Song Li and Mr. Nan Peng (each a member of the senior management of the Group), Mr. Wang Yalei and Mr. Yang Gang (each a member of the former senior management of the Group)
“Mr. Zhang”	Mr. Zhang Zhiyong
“Original Connected Loan Agreements”	(i) the ZZY Original Loan Agreements; and (ii) three loan agreements all dated 19 January 2018 entered into between BPEL (as lender) and each Connected Borrower except Mr. Zhang (as borrower) in relation to the grant of loans by BPEL to the Connected Borrowers for their subscriptions of Shares, details of which are set out in the Announcements, and, in each case, as amended by an assignment entered into between BPEL and GSL dated 29 June 2020
“Original Loan Agreements”	the Original Connected Loan Agreements and the Original Management Loan Agreements

“Original Management Loan Agreements”	(i) four loan agreements all dated 19 January 2018 entered into between BPEL (as lender) and each Management Borrower except Mr. Yang Gang (as borrower); and (ii) a loan agreement dated 11 April 2018 entered into between BPEL (as lender) and Mr. Yang Gang, (as borrower) in relation to the grant of loans by BPEL to the Management Borrowers for their subscriptions of Shares, details of which are set out in the Announcements, and in each case, as amended by an assignment entered into between BPEL and GSL dated 29 June 2020
“Share(s)”	ordinary shares of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Loans”	the loans granted under the Original Loan Agreements
“ZZY Amendment Letters”	the amendment letters dated 29 July 2022 entered into between GSL and Mr. Zhang in relation to the amendments of certain terms of the ZZY Original Loan Agreements
“ZZY Original Loan Agreements”	the two loan agreements dated 9 October 2017 and 19 January 2018 respectively entered into between BPEL (as lender) and Mr. Zhang (as borrower) in relation to the grant of loans by BPEL to Mr. Zhang for his subscriptions of Shares, details of which are set out in the Announcements, and in each case, as amended by an assignment entered into between BPEL and GSL dated 29 June 2020
“%”	per cent

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

Hong Kong, 29 July 2022

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