

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*

**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**

### **CONTINUING CONNECTED TRANSACTIONS**

The Board was informed that there had been a reorganisation of the capital structure of Mai Sheng Yue He, one of the largest distributors of the Group, as a result of which Mai Sheng Yue He had become a connected person of the Company. In compliance with the Listing Rules, on 11 March 2016, Shanghai Kappa, an indirect wholly-owned subsidiary of the Company, entered into the Framework Agreement with Mai Sheng Yue He regulating the terms for the supply of goods from Shanghai Kappa to Mai Sheng Yue He.

#### **Listing Rules Implications**

As at the date of this announcement, Mai Sheng Yue He is owned by Shanghai Gabanna (an indirect wholly-owned subsidiary of the Company) as to approximately 32.6% and by Chen Co as to approximately 67.4%. Chen Co is a company owned by Mr. Chen Yiliang, Mr. Chen Yiyong and Mr. Chen Yizhong, who are brothers of Mr. Chen Yihong, the Chairman and an executive Director. Hence, Mai Sheng Yue He is a connected person of the Company by virtue of it being an associate of Mr. Chen Yihong and the continuing transactions contemplated under the Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one of the applicable percentage ratios in respect of the Annual Caps for the transactions contemplated under the Framework Agreement is more than 5%, the transactions contemplated under the 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 Continuing Connected Transactions 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 Continuing Connected Transactions and the Annual Caps.

A circular containing, among other things (i) further details of the 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 Continuing Connected Transactions and the Annual Caps, will be despatched to the Shareholders on or before 22 April 2016, so as to allow sufficient time for the preparation of the relevant information for inclusion in the Circular.

## **CONTINUING CONNECTED TRANSACTIONS**

Mai Sheng Yue He has been one of the largest distributors of the Group, following the merger of the then six key distributors of the Group (including Chen Co) into Mai Sheng Yue He in 2010 as discussed in the Company's announcement dated 7 September 2010. Immediately after the completion of the merger in November 2010, Mai Sheng Yue He was held by Shanghai Gabanna (an indirect wholly-owned subsidiary of the Company) as to approximately 22.05%, by Chen Co (a connected person of the Company) as to approximately 13.35% and by the other JV Partners (all being Independent Third Parties) as to an aggregate of approximately 64.6%. Mai Sheng Yue He had not been a connected person of the Company as Chen Co had remained to control less than 30% interest in Mai Sheng Yue He until the reorganisation described below.

The Board was informed that there had been a reorganisation of the capital structure of Mai Sheng Yue He, as a result of which Chen Co's interest in Mai Sheng Yue He increased to approximately 67.4% and hence, Mai Sheng Yue He had become a connected person of the Company. After such reorganization, Mai Sheng Yue He continues to be a distributor of the Group through the distributor network principally in Beijing and nearby areas, Shandong, Shaanxi and Inner Mongolia whereas the JV Partners who have ceased to be the shareholders of Mai Sheng Yue He continue to distribute the Group's products in other provinces in the PRC through their own companies.

As Mai Sheng Yue He continues to be a distributor of the Group, in compliance with the Listing Rules, on 11 March 2016, Shanghai Kappa, an indirect wholly-owned subsidiary of the Company, entered into the Framework Agreement with Mai Sheng Yue He for regulating the terms for the supply of goods from Shanghai Kappa to Mai Sheng Yue He.

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

### **Date**

11 March 2016

### **Parties**

(1) Shanghai Kappa; and

(2) Mai Sheng Yue He.

### **Term**

The Framework Agreement is valid until 31 December 2018, which can be renewed on terms to be agreed upon between parties stated therein subject to compliance with the applicable Listing Rules. The transactions contemplated under the Framework Agreement shall be conducted in compliance with the Annual Caps and the applicable Listing Rules.

### **Transactions under the Framework Agreement**

A non-exclusive right to distribute Kappa brand and other brands sportswear products of the Group in the PRC.

The Framework Agreement is a framework agreement which contains general terms and conditions upon which the parties stated therein are to carry out the transaction 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 of such detailed agreements are not inconsistent with the terms of the Framework Agreement. The actual supply of goods from Shanghai Kappa to Mai Sheng Yue He will be subject to such detailed agreements to be entered into between Shanghai Kappa and Mai Sheng Yue He from time to time during the terms of the Framework Agreement.

### **Consideration and Payment**

Pursuant to Framework Agreement, the price for the goods to be supplied under the Framework Agreement are to be agreed and determined on an arm's length basis according to the principles of fairness and reasonableness between the parties from time to time, 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 it enters into specific agreements in respect of the supply of goods pursuant to the Framework Agreement, obtain sales records on the supply of the same or similar goods by Shanghai Kappa to independent distributors, as the reference market price of such supply of goods.

If Shanghai Kappa enters into a transaction with Mai Sheng Yue He for the supply of goods contemplated under the Framework Agreement, the price and other conditions at which such goods are to be supplied shall be no less favourable than any of the abovementioned sales records obtained.

### **Historical Amounts**

For the financial year ended 31 December 2013, 2014 and 2015, the amount paid to Shanghai Kappa by Mai Sheng Yue He adjusted to reflect the supply of goods attributable to Chen Co only was RMB160,048,000, RMB134,916,000 and RMB192,953,000, respectively. As discussed above, prior to the reorganisation, Mai Sheng Yue He was an entity formed by the merger of the then six key distributors (comprising Chen Co). Hence, the total sales to Mai Sheng Yue He in the past three years were related to the supply of goods by Shanghai Kappa to Chen Co and the JV Partners. In order to form a more comparable basis when determining the Annual Caps after the reorganisation of Mai Sheng Yue He which is now controlled by

Chen Co, the historical amounts stated above have been adjusted to reflect the amount paid to Shanghai Kappa by Mai Sheng Yue He in respect of the supply of goods attributable to Chen Co.

### **Annual Caps and basis**

The amount to be paid by Mai Sheng Yue He to Shanghai Kappa for the supply of goods under the Framework Agreement for each of the financial years ending 31 December 2016, 2017 and 2018 will not exceed the following Annual Caps:

	<i><b>RMB ('000)</b></i>
31 December 2016	251,316
31 December 2017	301,579
31 December 2018	361,895

The Annual Caps have been determined by reference to, among others, (i) the adjusted historical transaction amounts in respect of the supply of goods attributable to Chen Co for the years ended 31 December 2013, 2014 and 2015; (ii) the projected increase in sales volume of Kappa brand; and (iii) the potential co-operation opportunity for distributing the two new lines of clothing in the PRC: children's clothing under "Kappa kids" brand and ski clothing under "Phenix" brand in the coming years.

### **Internal Control Measures**

In order to ensure that the terms for the supply of goods by Shanghai Kappa to Mai Sheng Yue He are not less favourable than those offered to Independent Third Parties, the Company has adopted the following measures:

1. the prices for the goods to be supplied by Shanghai Kappa to Mai Sheng Yue He will be negotiated on arm's length basis according to the principles of fairness and reasonableness and shall be comparable to, or no less favourable than, the fair market prices for similar goods offered to independent distributors by the Company;
2. the relevant personnel of the Company will monitor the Annual Caps so that such Annual Caps will not be exceeded and will obtain the relevant sales records to ensure that the pricing monitoring procedures are duly carried out so that the supply of goods under the Framework Agreement will be conducted in accordance to its pricing terms; and
3. adopt reporting and record-keeping procedures to allow independent non-executive Directors and auditors of the Company to properly review the supply of goods under the Framework Agreement annually.

### **INFORMATION ON THE COMPANY, SHANGHAI KAPPA AND MAI SHENG YUE HE**

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 PRC, Macau and Japan.

Shanghai Kappa is a limited liability company incorporated in the PRC engaging in design, sales and production of sport-related footwear, apparel and accessories in the PRC.

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

## **REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS**

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 sporting goods retail, and extensive network. Despite its recent reorganisation whereby Chen Co has become its controlling shareholder, the Directors consider that Mai Sheng Yue He will remain as one of the Group's key distributors as Chen Co has been a distributor of the Group prior to the merger with the other distributors to form Mai Sheng Yue He in 2010 and has an extensive distributorship network in Beijing and nearby areas, Shandong, Shaanxi and Inner Mongolia.

Further, with the potential co-operation opportunity for distributing the children's and ski's clothing in the coming years, the Directors consider that the continuing business relationship with Mai Sheng Yue He will contribute to the stable development of the Group's existing sportswear business and provide a solid foundation to the development of its two new lines of clothing in the coming years.

The view of the independent non-executive Directors will be made known after taking the advice from the Independent Financial Advisor and will be stated in the Circular to be despatched to the Shareholders in due course. Mr. Chen Yihong was abstained in voting in the board meeting approving the Framework Agreement as his associates are interested in the Continuing Connected Transactions. The remaining Directors considered that (i) the Framework Agreement was entered into in the ordinary and usual course of business and on normal commercial terms; (ii) the terms of the Framework Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (iii) the Annual Caps for the transactions under the Framework Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## **IMPLICATIONS OF THE CONTINUING CONNECTED TRANSACTIONS UNDER THE LISTING RULES**

As at the date of this announcement, Mai Sheng Yue He is owned by Shanghai Gabanna (an indirect wholly-owned subsidiary of the Company) as to approximately 32.6% and by Chen Co as to approximately 67.4%. Chen Co is a company owned by Mr. Chen Yiliang, Mr. Chen Yiyong and Mr. Chen Yizhong, who are brothers of Mr. Chen Yihong, the Chairman and an executive Director. Hence, Mai Shen Yue He is a connected person of the Company by virtue of it being an associate of Mr. Chen Yihong and the continuing transactions contemplated under the Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one of the applicable percentage ratios in respect of the Annual Caps for the transactions contemplated under the Framework Agreement is more than 5%, the transactions contemplated under the 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 Continuing Connected Transactions 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 Continuing Connected Transactions and the Annual Caps.

A circular containing, among other things (i) further details of the 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 Continuing Connected Transactions and the Annual Caps, will be despatched to the Shareholders on or before 22 April 2016, so as to allow sufficient time for the preparation of the relevant information for inclusion in the Circular.

## DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following respective meanings.

“Annual Caps”	the annual caps of the Framework Agreement in the amount of RMB251,316,000, RMB301,579,000 and RMB361,895,000 for each of the financial years ending 31 December 2016, 2017 and 2018, respectively
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“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, owned by Mr. Chen Yiliang, Mr. Chen Yiyong and Mr. Chen Yizhong as to 45%, 35% and 20% respectively
“China” or “PRC”	The People’s Republic of China, which shall, for the purposes of this announcement, exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Circular”	the circular to be despatched to the Shareholders in relation to the Framework Agreement, the Annual Caps and the Continuing Connected Transactions
“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

“Continuing Connected Transactions”	the transactions to be carried out pursuant to the Framework Agreement, which are subject to the reporting, annual review, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules
“Director(s)”	director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be convened for the purpose of considering, and if thought fit, approving, among other things, the Continuing Connected Transactions and the Annual Caps
“Framework Agreement”	an agreement dated 11 March 2016 entered into by Shanghai Kappa and Mai Sheng Yue He which regulates the terms for the supply of goods from Shanghai Kappa to Mai Sheng Yue He
“Group”	the Company and its subsidiaries
“Hong Kong”	the 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 Continuing Connected Transactions 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, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions and the Annual Caps
“Independent Shareholders”	the Shareholders, excluding Mr. Chen Yihong and his associates
“Independent Third Party(ies)”	party(ies) that is/are independent of the Company and its connected persons
“JV Partners”	the other shareholders of Mai Sheng Yue He prior to the reorganisation of Mai Sheng Yue He as discussed in this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mai Sheng Yue He”	邁盛悅合體育用品有限公司 (Mai Sheng Yue He Sportswear Company Limited*, previously known as 翰博嘉業(北京)貿易有限公司 (Han Bo Jia Ye (Beijing) Company Limited*), a limited liability company established in the PRC
“percentage ratios”	any of the five ratios set out in Rule 14.07 of the Listing Rules

“RMB”	Renminbi, the lawful currency of the PRC
“Shanghai Gabbana”	上海嘉班納體育用品有限公司 (Shanghai Gabbana Sporting Goods Co., Limited)*, a company established in the PRC and is an indirect wholly-owned subsidiary of the Company
“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 and is an indirect wholly-owned subsidiary of the Company
“Share(s)”	shares of the Company
“Shareholder(s)”	the holder(s) of the Shares
“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  
**China Dongxiang (Group) Co., Ltd.**  
**CHEN Yihong**  
*Chairman*

Hong Kong, 11 March 2016

*As at the date of this announcement, the executive directors of the Company are Mr. Chen Yihong and Ms. Chen Chen, and the independent non-executive directors of the Company are Mr. Gao Yu, Dr. Xiang Bing and Mr. Xu Yudi.*