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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)

ANNOUNCEMENT

**CONTINUING CONNECTED TRANSACTION
IN RELATION TO
MASTER SUPPLY AGREEMENT**

THE MASTER SUPPLY AGREEMENT

On 11 January 2018 (after trading hours), Shanghai Kappa (an indirect wholly-owned subsidiary of the Company) as supplier and Tianjin Mai Sheng Yue He as purchaser entered into the Master Supply Agreement in relation to the supply and purchase of sport-related products from Shanghai Kappa to Tianjin Mai Sheng Yue He.

LISTING RULES IMPLICATIONS

As Tianjin Mai Sheng Yue He will become a connected subsidiary of the Company under Rule 14A.16 of the Listing Rules upon completion of the Sale and Purchase Agreement (as defined below), the transactions contemplated under the Master Supply 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) 0.1% but is/are less than 5%, the transactions contemplated under the Master Supply Agreement are subject to the reporting, annual review and announcement requirements but exempt from the circular, independent financial advice and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

INTRODUCTION

On 11 January 2018 (after trading hours), Shanghai Kappa (an indirect wholly-owned subsidiary of the Company) as supplier and Tianjin Mai Sheng Yue He as purchaser entered into the Master Supply Agreement in relation to the supply and purchase of sport-related products from Shanghai Kappa to Tianjin Mai Sheng Yue He.

THE MASTER SUPPLY AGREEMENT

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

Date

11 January 2018 (after trading hours)

Parties

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

Term

The Master Supply Agreement shall be valid until 31 December 2020, unless terminated earlier in accordance with the terms and conditions of the Master Supply Agreement.

Transactions under the Master Supply Agreement

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

The Master Supply 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 Tianjin Mai Sheng Yue He may from time to time enter into specific agreements in respect of the supply of goods from Shanghai Kappa to Tianjin Mai Sheng Yue He, provided that the terms and conditions of such specific agreements shall not be inconsistent with the terms of the Master Supply Agreement. The supply of goods from Shanghai Kappa to Tianjin Mai Sheng Yue He will be carried out in accordance with such specific agreements to be entered into between Shanghai Kappa and Tianjin Mai Sheng Yue He from time to time during the term of the Master Supply Agreement.

Consideration and payment

Pursuant to Master Supply Agreement, the prices for the goods to be supplied by Shanghai Kappa to Tianjin Mai Sheng Yue He under the Master Supply 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 Tianjin Mai Sheng Yue He in respect of the supply of goods pursuant to the Master Supply 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 Tianjin Mai Sheng Yue He (including the prices) shall not be less favourable from the perspective of Shanghai Kappa than such reference market prices.

Annual Caps and basis

Pursuant to Master Supply Agreement, the annual aggregate amount to be paid by Tianjin Mai Sheng Yue He to Shanghai Kappa for the supply of goods under the Master Supply Agreement for each of the financial years ending 31 December 2018, 2019 and 2020 shall not exceed the following limits (the “**Annual Caps**”):

For the financial year ending	<i>RMB ('000)</i>
31 December 2018	22,960
31 December 2019	25,260
31 December 2020	27,780

The Annual Caps have been determined by reference to, among others, (i) the historical transaction amounts in respect of the supply of goods from Shanghai Kappa to Tianjin Mai Sheng Yue He for the financial years ended 31 December 2015, 2016 and 2017, being RMB32,559,103.94, RMB27,548,408.86 and RMB20,556,000.22, respectively; and (ii) the projected sales volume of products of the “Kappa” brand and other brands of the Group.

INTERNAL CONTROL MEASURES

In order to ensure that the terms for the supply of goods by Shanghai Kappa to Tianjin Mai Sheng Yue He under the Master Supply 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 Tianjin 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 Tianjin Mai Sheng Yue He to Shanghai Kappa for the supply of goods under the Master Supply 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 Master Supply Agreement.

REASONS FOR AND BENEFITS OF ENTERING INTO THE MASTER SUPPLY AGREEMENT

Tianjin Mai Sheng Yue He has been one of the distributors of the Group since 2010 and has proven sales performance, reputation and experience in retail of sporting goods in Tianjin and Hebei districts. The Directors consider that by entering into the Master Supply Agreement, the Group will be able to leverage the extensive distributorship network of Tianjin Mai Sheng Yue He in Tianjin and Hebei districts to increase market share of its products in the districts, and thereby contributing to the stable development of the business of the Group.

Having considered the reasons for and benefits of entering into the Master Supply Agreement, the Directors (including the independent non-executive Directors) consider that the Master Supply Agreement was entered into in the ordinary and usual course of business of the Company on normal commercial terms and the terms of the Master Supply 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 TIANJIN MAI SHENG YUE HE

Tianjin 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 and other third parties in Tianjin and Hebei districts.

As of the date of this announcement, Tianjin 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) (“**Shanghai Gabbana**”) as to 30%, Tianjin Fushengbang Enterprise Management Consulting Co., Ltd.* (天津市富盛邦企業管理諮詢有限公司) (an Independent Third Party) (“**Tianjin Fushengbang**”) as to 57% 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 13%.

As disclosed in another announcement of the Company on the date of this announcement, Shanghai Gabbana and Tianjin Fushengbang entered into a sale and purchase agreement dated 11 January 2018 (the “**Sale and Purchase Agreement**”), pursuant to which Shanghai Gabbana agreed to purchase, and Tianjin Fushengbang agreed to sell, 47% equity interest in Tianjin Mai Sheng Yue He. As such, upon completion of the Sale and Purchase Agreement, Tianjin Mai Sheng Yue He will be owned by Shanghai Gabbana, Tianjin Fushengbang and Chen Co. as to 77%, 10% and 13%, respectively, and will be accounted for as a subsidiary of the Company.

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 (and thus an associate) of Mr. Chen Yihong, an executive Director and the Chairman of the Company. Therefore, upon completion of the Sale and Purchase Agreement, Tianjin Mai Sheng Yue He will become a connected subsidiary of the Company under Rule 14A.16 of the Listing Rules.

LISTING RULES IMPLICATION

As stated above, Tianjin Mai Sheng Yue He will become a connected subsidiary of the Company under Rule 14A.16 of the Listing Rules upon completion of the Sale and Purchase Agreement. Therefore, the transactions contemplated under the Master Supply 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) 0.1% but is/are less than 5%, the transactions contemplated under the Master Supply Agreement are subject to the

reporting, annual review and announcement requirements but exempt from the circular, independent financial advice and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Apart from Mr. Chen Yihong who has abstained from voting on the Board resolutions approving the Master Supply Agreement and the Annual Caps in view of his brothers' interest in Tianjin Mai Sheng Yue He, no other Directors were in any way materially interested in and therefore have abstained from voting on the Board resolutions approving the Master Supply Agreement and the Annual Caps.

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
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Third Party”	an independent third party not connected with the Company or its connected persons
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Master Supply Agreement”	a master supply agreement dated 11 January 2018 and entered into between Shanghai Kappa as supplier and Tianjin Mai Sheng Yue He as purchaser in relation to the supply and purchase of sport-related products from Shanghai Kappa to Tianjin Mai Sheng Yue He
“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
“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
“Tianjin Mai Sheng Yue He”	Tianjin Mai Sheng Yue He Sporting Goods Co., Ltd.* (天津邁盛悅合體育用品有限公司), a company incorporated in the PRC with limited liability
“%”	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

11 January 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.