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波司登國際控股有限公司

Bosideng International Holdings Limited

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 3998)

**CONTINUING CONNECTED TRANSACTIONS
RENEWAL OF THE FRAMEWORK MANUFACTURING
OUTSOURCING AND AGENCY AGREEMENT**

References are made to the announcement of the Company dated May 27, 2019 and the circular of the Company dated July 26, 2019 in respect of, among other things, the renewal of the Agreement, which was entered into between the Company and the Parent Group relating to the manufacturing outsourcing and agency arrangement.

RENEWAL OF THE AGREEMENT

As the Agreement will expire on September 14, 2022, on December 20, 2021, the Board resolved to propose to the Independent Shareholders to renew the Agreement and to obtain the annual caps for the transactions contemplated thereunder for the three years ending March 31, 2025 in order to comply with the Listing Rules.

LISTING RULES IMPLICATIONS

The transactions contemplated under the Agreement will be subject to the reporting, announcement and independent shareholders' approval requirements as the applicable percentage ratios under the Listing Rules in respect of the annual cap are expected to be more than 5% and the maximum annual consideration is more than HKD10 million.

A circular containing, among others, further details of the transactions contemplated under the Agreement, the respective advice of the Independent Financial Adviser and the Independent Board Committee and the notice of the EGM, will be despatched to the Shareholders on or before March 9, 2022.

FRAMEWORK MANUFACTURING OUTSOURCING AND AGENCY AGREEMENT

Scope of the Agreement

Pursuant to the Agreement, the Company has agreed to outsource its manufacturing process of down apparel, original equipment manufacturing (“OEM”) products and/or down related materials to the Parent Group on a non-exclusive basis, which currently includes the Manufacturing Companies.

Under the Agreement, the Parent Group provides labour, factory, premises, necessary equipment, water and electricity for the processing of down apparel products (including semi-finished and finished products), OEM products and down related materials. The Group provides the Parent Group with raw materials, product designs and specifications, and pays the Parent Group a processing fee based on the agreed production volume with a view to facilitating the Parent Group’s manufacturing and processing works.

In addition, the Parent Group also from time to time procures raw materials for the Group’s OEM management business from independent third party suppliers in the PRC in accordance with the Group’s instructions. No agency fee is payable by the Group to the Parent Group and the raw materials procured are used solely for the manufacturing of the Group’s OEM products. Members of the Group and the Parent Group will enter into, from time to time and as necessary, separate implementation agreements for each of the specific transactions contemplated under the Agreement during the term thereof.

Fees

The processing fee shall be payable in cash by the Group within 30 days after the completion of processing of each batch of down apparel products, OEM products and/or down related materials. The information required for estimation of the costs to be incurred for the processing services is transparent, as the Group can easily make reference to the prevailing market information relating to labour costs, rental of similar premises and the utilities expenses. The Group is also able to have access to/request for the information of the monthly salary, rental, utilities expenses incurred by the Parent Group in the previous months for estimation of the costs to be incurred for each batch of down apparel products, OEM products and/or down related materials.

After determining the costs to be incurred for the relevant batch of down apparel processed products, OEM products and/or materials relating to the processing of down apparel of the Parent Group and the applicable mark-up rate ranging from 5% to 10% (depending on location, quantity and the turnaround time of the processing services required) (the “**Estimated Costs**”), the Company will then invite independent third parties to consider if they are able to provide the processing services on similar terms (i.e. quality, turnaround time, payment terms) at a fixed price (being the Estimated Costs) or any lower price they can offer.

The non-exclusive arrangement under the Agreement allows the Group to appoint other outsourcing manufacturers for the processing of down apparel products, OEM products and/or materials relating to the processing of down apparel if the terms offered by the Parent Group are not the most favourable to the Group. Should the terms offered by independent manufacturers be lower than the Estimated Costs with other terms similar to or better than those offered by the Parent Group, the Group will then appoint other manufacturers for the processing of down apparel products, OEM products and/or materials relating to the processing of down apparel.

Term

The Agreement has an initial term of three years from September 15, 2007 to September 14, 2010 and has been further renewed and extended to September 14, 2022.

Subject to compliance by the Group with the relevant requirements applicable to continuing connected transactions under the Listing Rules, the Agreement is renewable at the option of the Company for another term of three years or such other term as agreed by the parties by giving at least three months' notice prior to the expiry of the initial term. Subject to the approval by the Independent Shareholders at the EGM of the renewal of the Agreement (including the proposed annual caps thereof), the Company will serve the notice to the Parent Group indicating that it intends to renew the Agreement for a further term of up to September 14, 2025.

Historical figures and proposed annual caps

Set out below are the aggregate fees paid under the Agreement by the Group to the Parent Group for each of the two years ended March 31, 2020 and 2021 and the eight-month period from April 1, 2021 to November 30, 2021 together with the historical annual caps:

Year ended March 31		Year ended March 31		Eight months ended	Year ending
2020	2021	2021	2021	November 30,	March 31,
<i>RMB (million)</i>		<i>RMB (million)</i>		<i>RMB (million)</i>	<i>RMB (million)</i>
Actual amounts (Audited)	Historical cap	Actual amounts (Audited)	Historical cap	Actual amounts (Unaudited)	Historical cap
1,331.8	1,770.0	1,028.2	2,470.0	1,068.0	3,270.0

The proposed annual caps for each of the three years ending March 31, 2025, respectively, are set out below:

	For the year ending March 31,		
	2023	2024	2025
	<i>RMB (million)</i>	<i>RMB (million)</i>	<i>RMB (million)</i>
Proposed annual caps	2,010.0	2,460.0	3,000.0

The proposed annual caps set out above are determined based on the following:

- the historical figures of the relevant transactions;
- in view of the fact that the Group has adhered to the strategic position of “focusing on principal business and the key brand” in the last three financial years and has gained widespread recognition and favor from the consumer market, and has launched the three-year strategic plan of being “the world leading expert in down apparel” in FY2021/22, the production and processing service demand of the Parent Group will increase correspondingly due to the increase in market demand;
- the Group continues to adopt strict craftsmanship improvement, quality improvement and business refinement strategies, and expects an increase in expenses caused by the increase in production and processing expenses such as labor costs;

- (d) the expected increase in prices for the receipt of similar services from third party contract manufacturers for the three years ending March 31, 2025, in particular, the increase of manufacturing fees as a result of higher labour costs;
- (e) with the Group's continuous pursuit of product quality and the increase in the overall industry prices of raw materials (such as down and fabrics), the cost of raw materials is expected to increase slightly; and
- (f) the inclusion of a buffer for the estimated amount of the services required by the Group under the Agreement so as to accommodate any unexpected increase in the aforesaid transaction volume amount (as a result of any unexpected increase in market demand for the Group's down apparel products or OEM products) or unexpected increase in the cost of provision of the services as contemplated under the Agreement.

Such projection is assumed solely for determining the proposed annual caps and shall not be regarded as any indication directly or indirectly as to the respective revenue, profitability or trading prospects of the Group.

The INEDs and the auditor of the Company will on a regular basis be provided with (i) the Agreement; (ii) agreements entered into between the Group and independent third parties for the processing of the same type of down apparel products, OEM products and/or down related materials; and (iii) fee quotations provided by independent third parties for the processing of the same type of down apparel products, OEM products and/or down related materials for review and comparison purposes. The INEDs will also review and compare the relevant payment terms, payment method and price payable under these agreements to ensure that the transactions contemplated under the Agreement are conducted on normal commercial terms. The auditor of the Company will review and confirm the transactions contemplated under the Agreement are conducted in accordance with the terms of the Agreement.

On this basis, the Directors consider that the methods and procedures adopted by the Group can ensure that the transactions contemplated under the Agreement will be conducted on normal commercial terms and in a manner not prejudicial to the interests of the Company and its minority Shareholders.

REASONS FOR AND BENEFITS OF THE RENEWAL OF THE AGREEMENT

The Group is principally engaged in developing and managing its branded down apparel products and non-down apparel products, which includes research, design and development, raw materials procurement, outsourced manufacturing, market promotion, and marketing and distribution of branded down apparel products, OEM products and non-down apparel products.

The renewal of the Agreement will enable the Group to continue to use the more flexible manufacturing services offered by the Parent Group for down apparel products, OEM products and down related materials, take advantage of the quality assurance of the Parent Group in the field of down apparel manufacturing over the past years and respond to the increasing customer requirements for improved quality of down garments in recent years and the specific demand from the OEM customers of the Group for the down apparel products to be manufactured by the Parent Group, so as to increase its competitiveness.

The factories of the Parent Group align with the Group's requirements to a high degree in terms of quality assurance, process innovation, and high-quality quick responses, based on its successful automation transformation in the past few years, in particular, with high-quality factory management and improvement of factory efficiency, while ensuring production capacity, which also strengthens its cost advantage.

The Directors (excluding the INEDs who will provide their advice after having received the advice from the Independent Financial Adviser) are of the opinion that the proposed annual caps are fair and reasonable and that the transactions contemplated under the Agreement are in the ordinary and usual course of business of the Group and on normal commercial terms or better, and the terms of the Agreement (including the proposed annual caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

Mr. Gao Dekang (the Chairman and president of the Company) is the substantial shareholder of the Company beneficially interested in approximately 70.40% of the Company's issued shares as at the date of this announcement. For so long as Mr. Gao Dekang remains a substantial shareholder of the Company, transactions between the Group and the Parent Group (including the transactions contemplated under the Agreement) constitute connected transactions for the Company under the Listing Rules.

The applicable percentage ratios under Chapter 14A of the Listing Rules, in respect of transactions contemplated under the Agreement in respect of the annual cap are expected to be more than 5% and the maximum annual consideration is more than HKD10 million. Accordingly, the transactions contemplated under the Agreement will be subject to independent shareholders' approval, reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules.

Mr. Gao Dekang, Ms. Mei Dong (the spouse of Mr. Gao Dekang) and Mr. Gao Xiaodong (the son of Mr. Gao Dekang), all of whom are Directors, have abstained from voting on the board resolution approving the renewal of the Agreement and the proposed annual caps.

An EGM will be convened to approve the renewal of the Agreement (including the proposed annual caps thereunder). The voting at the EGM will be taken by way of poll. Other than Mr. Gao Dekang and his associates, none of the Shareholders will be required to abstain from voting at the EGM in respect of the ordinary resolution to approve the renewal of the Agreement (including the proposed annual caps thereunder).

The Independent Board Committee comprising all INEDs has been set up to approve the appointment of the Independent Financial Adviser and to advise the Independent Shareholders in relation to the renewal of the Agreement (including the proposed annual caps thereto). Gram Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among others, further details of the transactions contemplated under the Agreement, the respective advice of the Independent Financial Adviser and the Independent Board Committee and the notice of the EGM, will be despatched to the Shareholders on or before March 9, 2022, as additional time will be required to prepare the relevant information to be included in the circular.

DEFINITIONS

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

“Agreement”	the framework manufacturing outsourcing and agency agreement entered into between the Company and Mr. Gao Dekang dated September 15, 2007 (as supplemented by the Supplemental Agreement), in respect of which notice of renewal will be served by the Company to the Parent Group to extend the term up to September 14, 2025, pursuant to which the Group agrees to outsource its manufacturing process of down apparel and down related materials to the Parent Group on a non-exclusive basis
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“Company”	Bosideng International Holdings Limited, an exempted company incorporated in Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“Directors”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be held to consider and approve the renewal of the Agreement (including the proposed annual caps thereunder)
“Group”	the Company and its subsidiaries
“HKD”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee comprising all the INEDs, namely Mr. Dong Binggen, Mr. Wang Yao and Dr. Ngai Wai Fung
“Independent Financial Adviser” or “Gram Capital”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the renewal of the Agreement (including the proposed annual caps thereunder)
“Independent Shareholders”	Shareholders other than Mr. Gao Dekang and his associates and any other person who has a material interest in the Agreement

“INEDs”	the independent non-executive Directors
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Manufacturing Companies”	Bosideng Corporation, Jiangsu Xuezhongfei Apparels Manufacturing Co., Ltd., Shandong Kangbo Industry Co., Ltd., Jiangsu Bosideng Clothing Co., Ltd., Jiangsu Bosideng Industrial Development Co., Ltd., Jiangsu Kangxin Garment Co., Ltd., Gaoyou Cairong Down Apparel Co., Ltd. (高郵采絨羽絨有限公司) and Jiangsu Suqian Bosideng Apparel Technology Co., Ltd. (江蘇宿遷波司登服裝科技有限公司), all of which are owned or controlled by Mr. Gao Dekang’s family
“Parent Group”	Mr. Gao Dekang and his associates, other than members of the Group
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	the shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	the supplemental agreement dated May 27, 2019 which supplemented the initial agreement dated September 15, 2007 entered into between the Company and Mr. Gao Dekang relating to the expansion of the scope of the manufacturing and processing services to down related materials
“%”	per cent

By order of the Board
Bosideng International Holdings Limited
Gao Dekang
Chairman

Hong Kong, December 20, 2021

As at the date of this announcement, the executive Directors are Mr. Gao Dekang, Ms. Mei Dong, Ms. Huang Qiaolian, Mr. Rui Jinsong and Mr. Gao Xiaodong; and the independent non-executive Directors are Mr. Dong Binggen, Mr. Wang Yao and Dr. Ngai Wai Fung.