

**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)**

*Executive Directors:*

Mr. Chen Yihong (陳義紅) (*Chairman*)

Ms. Chen Chen (陳晨)

(*Co-Chairman and Co-President*)

Mr. Zhang Zhiyong (張志勇)

(*Chief Executive Officer and President*)

Mr. Lyu Guanghong (呂光宏)

(*Chief Financial Officer*)

*Independent non-executive Directors:*

Dr. Chen Guogang (陳國綱)

Mr. Gao Yu (高煜)

Mr. Liu Xiaosong (劉曉松)

*Registered Office:*

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Cayman Islands

*Principal Place of Business in Hong Kong:*

Office Unit 7, 13/F

Tower One, Lippo Centre

No. 89 Queensway

Hong Kong

9 September 2022

*To the Shareholders*

Dear Sir or Madam,

- (1) CONNECTED TRANSACTION IN RELATION TO THE  
AMENDMENT OF THE SUBSCRIPTION LOANS  
AND  
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the announcement dated 29 July 2022 in relation to the Connected Amendment Letters and the Management Amendment Letters, and 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.

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## LETTER FROM THE BOARD

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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.

The purposes of this circular are:

- (i) to set out details of the ZZY Amendment Letters and the transactions contemplated thereunder;
- (ii) to provide you with a letter of advice from the Independent Board Committee to Independent Shareholders, in respect of the ZZY Amendment Letters and the transactions contemplated thereunder;
- (iii) to provide you with a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, in respect of the ZZY Amendment Letters and the transactions contemplated thereunder; and
- (iv) to provide you with a notice convening the EGM.

### THE ZZY ORIGINAL LOAN AGREEMENTS AND THE ZZY AMENDMENT LETTERS

As disclosed in the Announcements, Subscription Loans were granted to, among others, Mr. Zhang for settlement of part of the consideration for his subscriptions of new Shares pursuant to the respective ZZY Original Loan Agreements. As the Subscription Loans granted to Mr. Zhang will expire in the coming months, GSL (a wholly-owned subsidiary of the Company) and Mr. Zhang entered into the ZZY Amendment Letters on 29 July 2022 to amend certain provisions of the respective ZZY Original Loan Agreements.

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## LETTER FROM THE BOARD

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Key terms of the ZZY Original Loan Agreements and the ZZY Amendment Letters are as follows:

	ZZY Original Loan Agreements	ZZY Amendment Letters
Date	: (i) 9 October 2017 (ii) 19 January 2018	29 July 2022
Parties	: (i) BPEL (as lender, which assigned the Subscription Loans to GSL); and (ii) Mr. Zhang (as borrower)	(i) GSL (as lender); and (ii) Mr. Zhang (as borrower)
Term	: 5 years from the date of drawdown of the Subscription Loans.	Extended for a further term of five years from the original repayment date.
Principal amount	: An aggregate principal amount of HK\$190,585,469.00.	Reduced to the outstanding amount as at the date of the respective ZZY Amendment Letters, i.e. an aggregate principal amount of HK\$182,893,170.30.
Interest	: One month HIBOR +1% per annum (which may be adjusted according to the benchmark interest rate) which shall be paid monthly.  (For reference only, the average rate for the last 12 months was approximately 1.2% per annum.)	Fixed rate of 1% per annum and shall be paid monthly.
Event of default	: Events of default include, among others, the following:  Capacity and death — to the extent that Mr. Zhang was appointed as an executive director and chief executive officer of the Company, it shall constitute an event of default if he ceases to be an executive director and the chief executive officer of the Company.	Events of default include, among others, the following:  Capacity and death — to the extent that Mr. Zhang was appointed as an executive director and chief executive officer of the Company, it shall constitute an event of default if he ceases to be an executive director, the chief executive officer and/ or to hold any key positions in the Company (as determined by the Company).

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LETTER FROM THE BOARD

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	ZZY Original Loan Agreements	ZZY Amendment Letters
Mandatory prepayment	: Each of the Subscription Loans is subject to mandatory repayment upon sale of any of the ZZY Charged Shares by Mr. Zhang, and the amount of the respective Subscription Loans repaid shall be proportional to the number of ZZY Charged Shares sold.	(i) Each of the Subscription Loans is subject to mandatory repayment upon sale of any of the ZZY Charged Shares by Mr. Zhang, and the amount of the respective Subscription Loans repaid shall be proportional to the number of ZZY Charged Shares sold; and  (ii) All dividends to be received in respect of the ZZY Charged Shares shall only be used to settle the interest payments and/or to partially repay the principal amount of the respective Subscription Loans in the following order:  (a) firstly, to pay any accrued but unpaid interest;  (b) secondly, in respect of any balance remaining after the application in paragraph (a) above, to prepay to GSL an amount in respect the interest which will accrue on the Subscription Loans for the upcoming 12 months, assuming that there is no prepayment of the Subscription Loans in such period; and  (c) thirdly, in respect of any balance remaining after the application in paragraph (b) above, to prepay the principal amount of the Subscription Loans.
Securities for the Subscription Loans	: Each of the Subscription Loans was secured by the new Shares subscribed for and additional Shares acquired by Mr. Zhang using his own funding (i.e. an aggregate amount of 166,090,025 Charged Shares).	There is no change to the security package of the Subscription Loans (i.e. an aggregate amount of 166,090,025 Charged Shares).

## LETTER FROM THE BOARD

During the term of the Subscription Loans granted to Mr. Zhang and up to the date of the ZZY Amendment Letters, Mr. Zhang has partially repaid his Subscription Loans by applying the dividends declared and paid in respect of the ZZY Charged Shares in accordance with the terms of the ZZY Original Loan Agreements. He has not disposed of any of the ZZY Charged Shares during the period.

Details of the Subscription Loans granted to Mr. Zhang are set out below:

ZZY Original Loan Agreement	Original principal amount of the Subscription Loan under the respective ZZY Original Loan Agreement	Outstanding principal amount of the Subscription Loan as at the date of the respective ZZY Amendment Letter	Number of ZZY Charged Shares as at the date of the respective ZZY Amendment Letter	Value of ZZY Charged Shares as at the date of the respective ZZY Amendment Letter <sup>Note 1</sup>	Repayment date under the respective ZZY Original Loan Agreement	Repayment date under the respective ZZY Amendment Letter
	(HK\$)	(HK\$)		(HK\$)		
Entered into on 9 October 2017 (details of which are set out in the Announcement dated 9 October 2017)	156,956,969.00	151,390,892.89	138,410,025	53,979,909.75	31 October 2022	31 October 2027
Entered into on 19 January 2018 (details of which are set out in the Announcement dated 19 January 2018)	33,628,500.00	31,502,277.41	27,680,000	10,795,200.00	25 April 2023	25 April 2028

*Note:*

1. Calculated based on the closing price of HK\$0.39 of the Shares as at 29 July 2022.

Save for the abovementioned amendments, all other terms of the respective ZZY Original Loan Agreements shall remain unchanged and continue to be in full force and effect.

### 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.

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## LETTER FROM THE BOARD

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

#### Incentive scheme

As discussed in the Announcements, it is the intention and objective of the Company to incentivise, 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. Also, 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 generally 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 for 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 it will have sufficient working capital for the next twelve months. As a result, the extension of repayment dates of the Subscription Loans will not have negative impact on the financial position of the Group.

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## LETTER FROM THE BOARD

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### Revised terms of the Subscription Loans

In formulating their view on whether the revised terms as set out in the Amendment Letters entered into with Mr. Zhang as well as with the other Connected Borrowers and Management Borrowers, are in the ordinary course of business of the Company, on normal commercial terms and are fair and reasonable, the Directors have considered the following factors:

- (i) as set out in the sub-paragraph titled “Incentive scheme” above, the original intention of the subscription of new Shares and the Subscription Loans were a package of incentive and rewards to Mr. Zhang and the senior management. The extension of the Subscription Loans for financing the respective subscriptions of new Shares was intended to ensure that the interests of these senior management would be aligned with that of the Shareholders as a result of the substantial financial commitment they were required to undertake under the respective Subscription Loans. Against such backdrop, the Subscription Loans were extended for five years after taking into consideration: (i) the term of the Original Loan Agreements, which was five years from the date of drawdown of the Subscription Loans, (ii) the primary purpose of granting the Extended Subscription Loans for incentivising the Connected Borrowers and the Management Borrowers. Extending the repayment period for five years could extend and enhance the commitment of the Connected Borrowers and the Management Borrowers to the Company and allow them to continue to make long-term contribution to the Company, and (iii) time that may be required for the macro economy and the sportswear sector to stabilize and recover from the impact of the outbreak of coronavirus and for the share price of the Company to improve;
- (ii) there has not been any real cash outflow in respect of the Subscription Loans arrangement from the Company’s perspective; the proceeds of the entire loans were “transmitted back” to the Company for settlement of the subscription moneys; all of the new Shares subscribed by Mr. Zhang, other Connected Borrowers and the Management Borrowers have been charged to, and retained in security accounts controlled by, the Group; none of the new Shares have been disposed of since the date of subscription. Mr. Zhang, the other Connected Borrower and the Management Borrowers have repaid the interest of the Subscription Loans on time in compliant with the prescribed repayment schedule under the Original Loan Agreements. The renewal of the Subscription Loans would not result in any cash inflow or outflow of the Company;
- (iii) the interest rate of the Subscription Loans was changed from a floating rate of one-month HIBOR +1% per annum to a fixed rate of 1% per annum; the new interest rate was determined by reference to (a) the average interest rate of approximately 1.2% per annum charged by the Group to Mr. Zhang and other Connected Borrowers and Management Borrowers in the past 12 months under the Original Loan Agreements. In particular, the average one-month HIBOR in the past 12 months was approximately 0.21%. Assuming that the same floating interest rate of one-month HIBOR + 1% was adopted for the Extended Subscription Loans, additional interest payment that would have incurred under the Extended Subscription Loans would be approximately

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HK\$732,678<sup>Note 1</sup>. Such amount would be minimal compared with the net asset value of the Company as at 31 March 2022; (b) the new requirement for each borrower to prepay the interests in the next 12 months in advance (see sub-paragraph (iv) below for details); (c) to the best of knowledge of the Company and with reference to the consultation made by the Company with its principal banker, the general market practice in China where term loans are generally available with a fixed rate of interest; (d) the fixed rate arrangement will be beneficial to both the Group and the borrowers because a fixed amount of interest payment will provide certainty, enabling their respective planning and forecast of future cash inflow/outflow; (e) the primary purpose of granting the Extended Subscription Loans is to incentivise the Connected Borrowers and the Management Borrowers instead of generating revenue from interest income. In particular, to the best of knowledge of the Company, in spite of the shortfall of the fair value of the Charged Shares in the relevant period, the Company has not made any provisions for impairment of the Subscription Loans for the financial year ended 31 March 2022 to which the external auditor of the Company has no objection. This is in line with the Company's intention that the Subscription Loans has served as alternative to incentive schemes such as share award scheme or share option scheme and shall be distinguished from any typical secured loan facility granted by banks or financial institutions; (f) the credit assessment of the strength and the credit history of the Connected Borrowers and the Management Borrowers to meet their payment obligation through evaluation of the personal credit rating of each of the Connected Borrowers and Management Borrowers; and (g) the Company has made reference to the employee benefit plans offered by other Hong Kong companies, such as personal loans and/or mortgage offered by some leading banks in Hong Kong to their employees as part of their staff benefits. To the best knowledge of the Company, the interest rate charged under the Extended Subscription Loans is comparable to and even higher than the interest rate charged by such leading banks in Hong Kong on personal loans and/or mortgage loans offered to their employees as part of their staff benefits.

- (iv) although there is no change to the security package of the Subscription Loans, the value of the Charged Shares with reference to the Company's latest share price as of the date of Amendment Letters was however not sufficient to fully cover the outstanding principal amount of the respective Subscription Loans. The Company's share price as of the date of the Amendment Letters was at one of the lowest level since 2018 which was, to a larger extent, due to the weak market sentiment in the macro-economy and the sportswear sector as a result of the outbreak of coronavirus, the financial position and prospect of the Company remains sound. To address such short-term deficiency, the Company has added a new provision which would in effect accelerate the repayment of the principal amount of the respective Subscription Loans. According to such new requirement under the Amendment Letters, all dividends to be received in respect of the Charged Shares will be retained by the lender: firstly for

*Note:*

1. Calculated by 0.21% (i.e., the average HIBOR in the last 12 months preceding to the date of the Amendment Letters) x HK\$348,894,267.9 (outstanding principal amount of all of the Subscription Loans as at the date of the Amendments Letter)



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settling any accrued but unpaid interest, secondly for settling the advanced interest payments for the next 12 months assuming that there is no prepayment of the Subscription Loans in such period, and then for repaying part of the principal amount of the respective Subscription Loans.

During the term of the Original Loan Agreements, the Company has requested and each of the Connected Borrowers and the Management Borrowers has partially repaid the principal amount of the Subscription Loans using the dividends paid out in respect of the Charged Shares. Before entering into the Amendment Letters, the Company has taken into account of the following factors and agreed to extend the term of the balance of the Subscription Loans without requesting for further repayment:

- (i) all of the Shares subscribed for or acquired using the proceeds from the Subscription Loans were charged to GSL as security. It was the original intention of the Company that the subscription of new Shares and the Subscription Loans shall be a package of incentive and rewards to motivate the Connected Borrowers and Management Borrowers to work towards growing the value of the Shares. Given the amount of the Subscription Loans, it would have been contrary to such intention if the Connected Borrowers and the Management Borrowers have to sell the Charged Shares at a record-low price and repay the Subscription Loans exhausting their personal funds; and
- (ii) the share price of the Company as of the date of the ZZY Amendment Letters was at one of the lowest level since 2018 and the daily transaction volume of the Shares was also at a relatively low level. If the Company had requested for repayment from the Connected Borrowers and the Management Borrowers, Mr. Zhang, the other Connected Borrowers and the Management Borrowers may need to dispose of a relatively large amount of Charged Shares within a short period of time, which may cause further disruption to the share price of the Company. A further extension of repayment date may minimise the impact of disposal of the Charged Shares on the share price of the Company and also provide more time for the Connected Borrowers and the Management Borrowers to work towards growing the value of the Shares.

### THE LISTING RULES IMPLICATION

#### Connected transaction

As Mr. Zhang is a director of the Company, he is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the entering into of the ZZY Amendment Letters with Mr. Zhang 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.

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## LETTER FROM THE BOARD

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### EGM

The EGM will be held at G/F., Lobby Area, Building 21, No. 2 Jingyuanbei Street, Beijing Economic-Technology Development Area, Beijing, the People's Republic of China on 28 September 2022 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.

Mr. Zhang Zhiyong (holding 166,120,025 Shares, being approximately 2.82% of the total issued Shares as at the Latest Practicable Date) are required to abstain from voting at the EGM on the resolutions relating to the ZZY Amendment Letters. Save as disclosed, to the best knowledge, information and belief of the Directors, no other Shareholder has a material interest in the ZZY Amendment Letters and no other Shareholder would be required to abstain from voting on the relevant resolutions to be proposed at the EGM.

Mr. Zhang Zhiyong was required to abstain from voting on the Board resolutions for considering and approving the ZZY Amendment Letters and the transaction contemplated thereunder. Save as disclosed, to the best knowledge, information and belief of the Directors having made all reasonable enquiries, no other Directors has a material interest in the ZZY Amendment Letters and no other Director was required to abstain from voting on the Board resolutions for considering and approving the ZZY Amendment Letters and the transaction contemplated thereunder.

A notice convening the EGM is set out on pages 45 to 46 of this circular. A form of proxy for use by the Independent Shareholders at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, please complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM should you so wish.

The resolutions to be proposed at the EGM will be determined by way of poll by the Independent Shareholders. An announcement on the poll results of the EGM will be made by the Company following the EGM in accordance with the Listing Rules.

### RECOMMENDATION

The Board (including the Independent Board Committee, having taken into account the advice of the Independent Financial Adviser) considers that the terms of the ZZY Amendment Letters are on normal commercial terms and are fair and reasonable, and that the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board and the Independent Board Committee recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM in respect of the ZZY Amendment Letters.

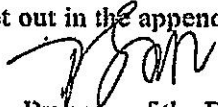
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LETTER FROM THE BOARD

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GENERAL

Your attention is drawn to the additional information set out in the appendix to this circular.

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