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9 September 2022

To the Independent Board Committee and the Independent Shareholders

Dear Sir or Madam,

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

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Subscription Loans to the Connected Borrowers and the Management Borrowers in relation to their respective subscription of new shares as part of the Company's incentive scheme ("the **Transactions**"). Details of the Transactions are contained in the circular of the Company dated 9 September 2022 (the "**Circular**"). Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

The Board announced that, 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 to amend the interest rate and certain other terms of such loans. 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 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 of the other terms of the respective Original Loan Agreements shall remain unchanged and continue in full force and effect.

Accordingly, the Disclosable and Connected Transactions in relation to the ZZY Amendment Letters constitute connected transaction of the Company under Chapter 14A of the Listing Rules and are subject to the reporting, announcement, circular and Independent Shareholder's approval requirements under Chapter 14A of the Listing Rules.

In our capacity as the Independent Financial Adviser, our role is to advise the Independent Board Committee and the Independent Shareholders as to whether the transactions contemplated under the ZZY Amendment Letters are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole; and to give independent advice to the Independent Board Committee and the Independent Shareholders.

In formulating our opinion, we have relied on the information and facts supplied to us by the Directors and/or management of the Company. We have reviewed, among other things: (i) the Connected Amendment Letters; (ii) the Management Amendment Letters; (iii) the announcement of the Company dated 29 July 2022 (the "**Announcement**"); (iv) the audited annual report of the Company for the year ended 31 March 2021 (the "**2020/2021 Annual Report**"); and (v) the audited report of the Company for the year ended 31 March 2022 (the "**2021/2022 Annual Report**").

We have assumed that all information, facts, opinions and representations contained in the Circular and all information, statements and representations provided to us by the Directors and/ or the management of the Company, on which we have relied, are true, complete and accurate and not misleading in all material respects as of the date hereof and that we and the Independent Shareholders will be notified by the Company of any material changes thereof as soon as practicable. The Directors have confirmed that they take full responsibility for the contents of the Circular and have made all reasonable inquiries that no material facts have been omitted from the information supplied to us.

We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy or completeness of the information of all facts as set out in the Circular and of the information and representations provided to us by the Directors and/or management of the Company. Furthermore, we have no reason to suspect the reasonableness of the opinions and representations expressed by the Directors and/or management of the Company which have been provided to us. In line with normal practice, we have not, however, conducted a verification process of the information supplied to us, nor have we conducted any independent in-depth investigation into the business and affairs of the Company. We consider that we have reviewed sufficient information to enable us to reach an informed view and to provide a reasonable basis for our opinion regarding the Transactions.

As at the Latest Practicable Date, we were independent from, and were not associated with, the Company or any other party to the Transaction, or their respective substantial shareholder(s) or connected person(s), as defined under the Listing Rules and accordingly are considered eligible to give independent advice on the Transactions. We will receive a fee from the Company for our role as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Transactions. Apart from this normal professional fee payable to us in connection with this appointment, no arrangements exist whereby we will receive any fees or benefits from the Company or any other party to the Transactions or their respective substantial shareholder(s) or connected person(s), as defined under the Listing Rules. We have had no business relationship or transaction with the Company or its subsidiaries that would affect our independence as the IFA, nor have we acted as an IFA to any other of the Company's transactions in the last two years.

The Independent Board Committee, comprising Dr. Chen Guogang, Mr. Gao Yu, and Mr. Liu Xiaosong, has been established to advise the Independent Shareholders as to whether the transactions contemplated under the ZZY Amendment Letters have been agreed on normal commercial terms, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating and giving our independent financial advice to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors:

1. Background of the Transactions

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 as part of the Company's incentive. Please refer to 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 for further details.

The Subscription Loans were originally granted to the Connected Borrowers and the Management Borrowers to enable them to fund part of the consideration for their respective subscriptions 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 could be adjusted according to the benchmark interest rate). Each Subscription Loan was secured by new shares subscribed for and (where applicable) additional Shares acquired by such Connected Borrower or the 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 the Subscription Loan so repaid should 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 Loans under the Original Loan Agreements *(HK$)*	**Outstanding principal amount of the Subscription Loans as at the date of the Amendment Letters** *(HK$)*		**Number of Charged Shares as at the date of the Amendment Letters**	**Repayment date under the Original Loan Agreements**
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	367,435,469.00	348,894,267.90			

Notes:

1. This represents the Subscription Loan granted to Mr. Zhang pursuant to the ZZY Original Loan Agreement entered into 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.

1.1 Information on the Group

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 the People's Republic of China and abroad.

The following table summarises the audited financial information of the Group for the five years ended 31 March 2022, as extracted from Annual Reports from FY 2017 to FY 2022

Consolidated statement of profit or loss and other comprehensive income

	For the twelve months ended 31 December		**For the year ended 31 March**		
	2017	**2019 (Note 1)**	**2020**	**2021**	**2022**
	RMB million	RMB million	RMB million (audited & restated)	RMB million (audited)	RMB million (audited)
Revenue	1,455.31	2,143.88	1,540.81	1,969.61	1,915.74
Operating profit	1,026.85	1,040.14	529.76	2,069.93	(1,750.64)
Changes in fair value of financial instruments at fair value through profit or loss	55.81	696.44	378.03	1,447.61	(1,623.85)
Adjusted operating profit (Note 2)	971.04	343.71	151.73	622.31	(126.79)
Adjusted operating profit as a percentage of Revenue	*66.74%*	*16.03%*	*9.85%*	*31.59%*	*(6.62%)*
Profit (loss) for the year	800.93	858.90	359.75	1,809.40	(1,748.70)
- attributable to equity shareholders of the Company	804.65	865.85	366.33	1,810.55	(1,746.94)
- attributable to non-controlling interests	(3.72)	(6.95)	(6.58)	(1.15)	(1.76)

Note:

1. Financial highlights under the column of FY 2019 refer to figures for the fifteen months starting from 1 January 2018 to 31 March 2019.
2. For the purpose of our analysis, adjusted operating profit is calculated by excluding from the Company's audited operating profit such gain (loss) from the Company's investment portfolio, to reflect the management's overall capability in operating the Company's sportswear business.

Consolidated Balance sheet

	For the twelve	**For the year ended**

	months ended 31 December			31 March	
	2017	**2019 (Note 1)**	**2020**	**2021**	**2022**
	RMB million	RMB million	RMB million (audited & restated)	RMB million (audited)	RMB million (audited)
Restricted cash	390.86	285.58	-	0.13	27.87
Cash and cash equivalents	1051.87	766.72	2,063.15	1,823.76	1,523.94
Bank loans	228.70	480.44	196.65	126.63	156.12
Net asset value	9,598.66	10,261.75	10,615.85	11,535.93	9,350.89

Note:

1. Financial highlights under the column of FY 2019 refer to figures for the fifteen months starting from 1 January 2018 to 31 March 2019.

According to the Company's consolidated financial statements prepared in accordance with the International Financial Reporting Standards, we noted that the Group's revenue for the year ended 31 March 2021 ("**FY2021**") amounted to approximately RMB1,969.61 million, representing an increase of 27.8% year-on-year as compared with approximately RMB1,540.81 million for the year ended 31 March 2020 ("**FY2020**"). The increase was mainly due to E-commerce business channels continuing to improve operational efficiency with 30-40% growth. For the reporting period, profit attributable to equity shareholders of the Company was approximately RMB1,810.55 million in FY2021, representing an increase by 394.24% as compared to approximately RMB366.33 million in FY2020. With reference to the 2020/2021 Annual Report and as advised by the management of the Company, the positive performance in FY2021 was primarily attributable to (i) domestic consumer sentiment gradually improving as the COVID-19 pandemic had less impact on the PRC economy; (ii) the Company adopting different marketing strategies to increase its market exposure; and (iii) persisting in sales channel reform and enhancing retail localisation, while making a solid effort to drive digitalisation and omni-channel deployment.

According to the 2021/2022 Annual Report, the Group's revenue was approximately RMB1,915.74 million for the year ended 31 March 2022 ("**FY2022**"), representing a decrease of 2.7% year-on-year compared with approximately RMB1,969.61 million in FY2021. As stated in the 2021/2022 Annual Report, the Group's sales fell short of expectations as the number of visiting customers declined due to the recurring outbreaks of COVID-19 in certain parts of China. The loss attributable to equity shareholders of the Company in FY2022 was approximately RMB1,746.94 million compared to the profit attributable to owners of the Company of approximately RMB 1,810.55 million in the previous period, mainly due to changes in fair value of financial instruments in the Company's internal portfolio.

The cash and cash equivalents of the Group amounted to approximately RMB1,823.76 million as at 31 March 2021, representing a decrease of 11.6% as compared to approximately RMB2,063.15 million as at 31 March 2020, which was mainly due to (i) the distribution of dividends to the shareholders; and (ii) repayments of borrowings.

The cash and cash equivalents of the Group amounted to approximately RMB1,523.94 million and restricted cash of approximately RMB27.87 million as at 31 March 2022, representing a decrease of 16.4% and an increase of 213.4% respectively as compared to approximately RMB1,823.76 million and RMB0.13 million as at 31 March 2021. The decrease was mainly due to the cash outflow from operating activities, and the increase was mainly due to restricted cash which was held at banks as guarantee for the issuance of notes payable.

The Group reported secured bank loans of approximately RMB156.12 million as at 31 March 2021. Following discussion with the management of the Company, we concur with their view that the Group is in a healthy financial position and has sufficient working capital to support its operations and to meet its foreseeable capital expenditure.

1.2 Information on the Connected Borrowers and Management Borrowers

The Connected Borrowers include (i) Mr. Zhang Zhiyong (an executive Director and chief executive officer), (ii) Mr. Lyu Guanghong (an executive Director and chief financial officer), (iii) Mr. Ren Yi (a director at the subsidiary level of the Company), and (iv) Ms. Sun Wei (who was a supervisor at the subsidiary level of the Company). The Management Borrowers include (i) Mr. Chen Shaowen, (ii) Mr. Song Li, and (iii) Mr. Nan Peng (each a member of the senior management of the Group), (iv) Mr. Wang Yalei and (v) Mr. Yang Gang (each a former member of the senior management of the Group).

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 are 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 Loans 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 Circular) is more than 1% and all applicable ratios are less than 5%, the entering into of the Amendment Letter 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 one or more of the applicable percentage ratios in respect of the Extended Subscription Loans 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 Circular) 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 Loans 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 disclosable 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.

2. Reasons for, and benefits of entering into, the Connected Amendment Letters and the Management Amendment Letters

With reference to the letter of the Board, we note that it was the intention and objective of the Company to incentivise, reward and ensure the long-term service of the Connected Borrowers and Management Borrowers who have, throughout their service, made a tremendous contribution to the Group and are considered by the Board to be vital to the success and the long-term future growth of the Group. Accordingly, the Subscription of new Shares, and taking out of the Subscription Loans by Connected Borrowers and the Management Borrowers, enabled the Company to achieve this object.

Furthermore, we consider that the Extended Subscription Loans for both the Connected Borrowers and the Management Borrowers remain part of a package of incentives and rewards for the Connected Borrowers and Management Borrowers respectively. Given that the amount of their respective initial subscription consideration was relatively substantial for each of the Connected Borrowers and Management Borrowers to afford, and that we understand from the management of the Company that the Connected Borrowers and Management Borrowers had limited funds to subscribe for the Connected Subscription Shares and Management Subscription Shares by themselves, if the Connected Subscription Loans and the Management Subscription Loans had not been made available, the Connected Borrowers and Management Borrowers would have been unable to subscribe for a significant number of Shares in the Company, which would have been contrary to the Company's intention and objective. In addition, we note that the Extended Subscription Loans are for a further term of 5 years with the interest rate of 1% per annum to be paid monthly, which will have the effect of extending the attachment on the part of the Connected Borrowers and Management Borrowers to the Company. The Board believes that the continuation of this arrangement would benefit the Company and Shareholders as a whole by incentivising the Connected Borrowers and Management Borrowers to work assiduously to improve the performance of the Company.

Based on our discussion with the management of the Company, the Company is of the view that, through such substantial personal capital commitment from investing in the Shares, the management team's interests are closely aligned with that of the Shareholders, and hence the management team would have stronger incentives and motivation to continue to make long-term contributions to the Company in developing the Group's business and maximising Shareholders' return. We have also received confirmations from each of the Management Borrowers and Connected Borrowers holding the positions of senior management in the Group confirming, amongst others, that they have no intention to leave the Company any time in the next five years. The Group has adequate cash reserves for its operations and the extension of the repayment date of the Subscription Loans will not have any significant negative impact on the financial position of the Group.

We think that the Connected Borrowers and Management Borrowers, through their current ownership of the Shares, have a more direct and ongoing financial connection with the Company and its future performance. Having considered the reasons for and benefits of entering into the Original Loan Agreements and the Amendment Letters, 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.

3. Key terms of the Amendment Letters

Key terms of the ZZY Amendment Letters, with comparison to the key terms of the ZZY Original Loan Agreements, are as follows:

		Key terms of the	
		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).
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).

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

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

We understand from the Company that during the term of the Original Loan Agreements, each of the Connected Borrowers and the Management Borrowers, as agreed with the Company, has paid all of the accrued interest and partially repaid their respective principal amount of the Subscription Loans using the dividends distributed to them. In extending the term of the Subscription Loans, the Company's rationale is as follows:

(i) The original intention of the Company for the subscription of new Shares and the Subscription Loans was to incentivise and reward the Connected Borrowers and Management Borrowers for their commitment to grow the business of the Group. The intention would be frustrated if the Connected Borrowers and the Management Borrowers had to repay the Subscription Loans by selling the Charged Shares at the current price level at a significant loss and, on top, exhausting their own personal funds; and

(ii) Considering the current level of the share price, and daily trading volume of the Company, the Company's stock price would be further disrupted if Management Borrowers and the Connected Borrowers were to dispose of a substantial volume of Charged Shares within a short period of time with a view to repaying their respective outstanding principal amount. A further extension of the repayment date may have the benefit of (1) minimising the impact on the share price of the Company by such disposal of the Charged Shares; and (2) enabling the Connected Borrowers and Management Borrowers to revitalise the financial and equity price performance of the Company.

After such explanation by the Company and considering the current situation of the share price performance of the Company, we agree with the above rationale adopted by the Company.

4. Review of financial performance of the Company

As part of our analysis, we have identified PRC based companies in the sportswear sector listed on the main board of the Stock Exchange on the basis that such comparable companies operate businesses similar in nature to that of our Company, to analyse their relative financial performance. We have examined the financial highlights and metrics of Xstep International Holdings Limited (1368.HK) ("**Xstep**"), ANTA Sports Products Limited (2020.HK) ("**ANTA Sports**"), Topsports International Holdings Limited (6110.HK) ("**Topsports**"), 361 Degrees International Limited (1361.HK) ("**361 Degrees**"), and Li Ning Company Limited (2331.HK) ("**Li Ning**") as shown in the following table. The list is, so far as we are aware, an exhaustive list of sport apparel and sportswear companies based in PRC and listed on the Hong Kong Stock Exchange, and hence are appropriate comparables to the Company.

			Financial year end (Note)						
Company name	**Stock Code**	**Key financial**	**FY2022 RMB'000**	**FY2021 RMB'000**	**FY2020 RMB'000**	**FY2019 RMB'000**	**FY2018 RMB'000**	**FY2017 RMB'000**	**On five years average**
China Dongxiang (Note 1)	3818.HK	Revenue	1,916,000	1,970,000	1,541,000	2,144,000	N/A	1,455,000	
		GP margin	63.9%	65.6%	66.4%	58.9%	N/A	59.2%	**62.8%**
		Operating (loss) profit	(1,750,640)	2,069,926	529,756	1,040,143	N/A	1,026,850	
		Operating margin	N/A	105.1%	34.3%	48.5%	N/A	70.1%	**64.5%**
		EBITDA	(1,673,552)	2,147,432	597,951	1,093,825	N/A	1,071,335	
Xstep (Note 2)	1368.HK	Revenue	N/A	10,013,200	8,171,900	8,182,700	6,383,200	5,113,400	
		GP margin	N/A	41.7%	39.1%	43.4%	44.3%	43.9%	42.5%
		Operating profit	N/A	1,396,166	918,186	1,234,001	1,044,304	724,512	
		Operating margin	N/A	13.9%	11.2%	15.1%	16.45	14.2%	14.2%
		EBITDA	N/A	1,655,188	1,200,398	1,506,738	1,257,889	888,077	
ANTA Sports (Note 3)	2020.HK	Revenue	N/A	49,328,000	35,512,000	33,928,000	24,100,000	16,692,000	
		GP margin	N/A	61.6%	58.2%	55.0%	52.6%	49.4%	55.4%
		Operating profit	N/A	10,989,000	9,152,000	8,694,701	5,699,785	3,988,719	
		Operating margin	N/A	22.3%	25.8%	25.6%	23.7%	23.9%	24.2%
		EBITDA	N/A	14,698,000	11,638,000	10,445,536	6,084,004	4,246,003	
Topsports (Note 4)	6110.HK	Revenue	31,876,500	36,009,000	33,690,200	32,564,400	26,549,900	N/A	
		GP margin	43.4%	40.8%	42.1%	41.8%	41.6%	N/A	41.9%
		Operating profit	3,430,000	3,989,000	3,303,000	3,237,000	2,252,000	N/A	
		Operating margin	10.8%	11.1%	9.8%	9.9%	8.5%	N/A	10.0%
		EBITDA	6,176,000	6,901,000	6,084,000	5,519,000	3,993,000	N/A	
361 Degrees (Note 5)	1361.HK	Revenue	N/A	5,933,482	5,126,958	5,631,866	5,187,446	5,158,200	

		GP margin	N/A	41.7%	37.9%	40.3%	40.6%	41.8%	40.5%
		Operating profit	N/A	1,083,122	822,690	887,250	782,327	987,552	
		Operating margin	N/A	18.3%	16.0%	15.8%	15.1%	19.1%	16.9%
		EBITDA	N/A	1,193,478	1,073,205	1,201,191	1,118,361	1,321,991	
Li Ning (Note 6)	2331.HK	Revenue	N/A	22,572,281	14,456,971	13,869,630	10,150,898	8,873,912	
		GP margin	N/A	53.0%	49.1%	49.1%	48.1%	47.1%	49.3%
		Operating profit	N/A	5,136,376	2,195,969	1,543,209	777,177	445,678	
		Operating margin	N/A	22.8%	15.2%	11.1%	7.7%	5.0%	12.4%
		EBITDA	N/A	6,296,863	3,265,574	2,412,777	1,192,909	826,575	
								The above five comparable average Gross Profit Margin	**45.9%**
								The above five comparable average Operating Profit Margin	**15.5%**

Notes:

1. China Dongxiang's year end was 31 March. Financial highlights under the column of FY 2019 refer to figures for the fifteen months starting from 1 January 2018 to 31 March 2019. Furthermore, the Group's revenue in FY 2017 and FY 2019 include revenue generated in Japan. Nevertheless, due to the Group's business adjustment, the Group's revenue starting from FY 2020 only refers to revenue generated in the PRC.
2. Xstep's year end was 31 December.
3. ANTA Sports's year end was 31 December.
4. Topsports's year end was 28 February.
5. 361 Degrees's year end was 31 December.
6. Li Ning's year end was 31 December.

As can be seen from the table above, the five years average gross profit margin of the Company was 62.8% which was higher than the five comparable industry peers' five years average gross profit margin of 45.9% which represents the financial performance of the Company was well-performed compared as other peers. Under the management of Connected Borrowers and Management Borrowers, they had sound of financial skills on cost control, pricing strategies and brand building in the past five years. As a result, we consider it reasonable that the Subscription Loans should be extended for both the Connected Borrowers and the Management Borrowers, as part of a package of incentives and rewards to encourage them to maintain key positions in the Company.

Similarly, the five year average operating profit margin of the Company was 64.5% which was higher than the five comparable industry peers' five years average operating profit margin of 15.5%, which indicates that the financial performance of the Company was relatively strong compared to its listed peers. Under the current management team, including both the Connected Borrowers and Management Borrowers, the Company has enjoyed good top line performance being on an either stable or upward growth trend from 2018 to 2021, and has maintained positive operating margin which, for four out of five years, were largely enhanced by the contribution from the investment portfolio managed by the Chairman and senior management of the Company. Furthermore, the Company's adjusted operating profit (excluding the investment portfolio gain/loss) as a percentage of its total revenue, as suggested in the Consolidated statement of profit or loss and other comprehensive income on page 4 of this Letter, indicates that the management of the Company has performed in line with, or better than, the management of our comparable companies in operating the Company's traditional sportswear business by delivering operating profits in every year of the period in which the loan arrangements were in place except for the most recent year, when all the companies were affected by the impact of COVID-19 on retailing in China and globally. Looking at the Company's trajectory in terms of revenue and adjusted operating profit from FY 2018 to FY 2021 as indicated in the same table on page 4 of this Letter, we are of the view that the management of the Company managed to expand its sales without sacrificing their adjusted operating margin in a fiercely competitive industry with major sportswear companies such as Li Ning and ANTA.

We are advised by the Company, and believe the following to be true:

1. the decline in the Company's revenue and EBIT in FY 2020 was primarily due to the Company's closure of almost all its retail shops in the PRC from January 2020 to April 2020 in view of the impact by the outbreak of COVID-19, a time coinciding with Chinese Lunar New Year which is typically a hot season for sales, despite some

recovery in the remaining months of FY 2020. Furthermore, the financial highlights recorded in FY 2020 were for a period of 12 months, which we believe are not comparable with those in pre-COVID FY 2019 lasting for a period of 15 months from January 2019 to March 2020.

2. the Company's financial performance dropped in FY 2022, which, apart from the loss recorded in the Company's investment portfolio, was primarily attributable to (i) the resurgence of the COVID-19 pandemic leading to occasional closure of the Company's retail shops in various provinces in the PRC in 2021, and (ii) increase in various types of expense.

Given the company's solid performance according to these quantitative metrics, we consider it reasonable that the Subscription Loans should be extended for both the Connected Borrowers and the Management Borrowers, as a part of a package of incentives and rewards to encourage them to maintain key positions in the Company.

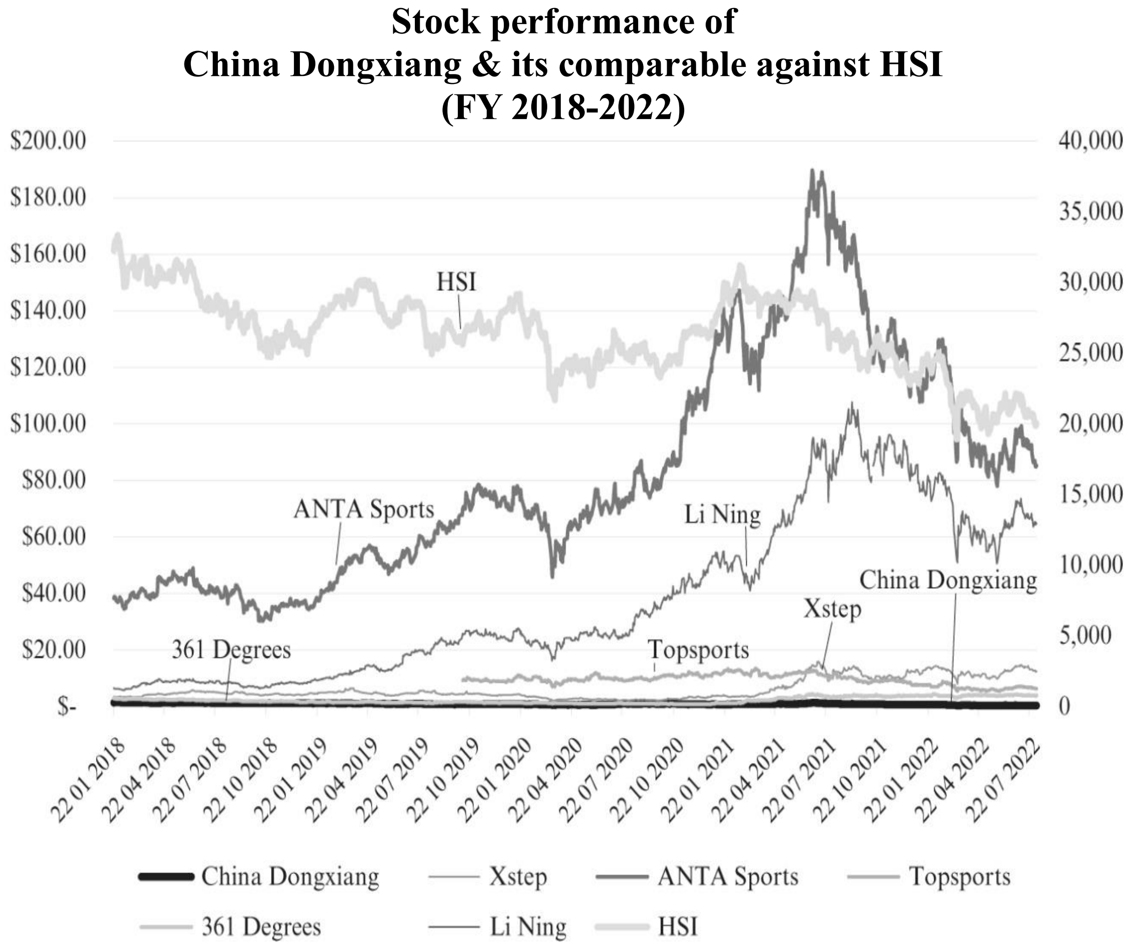
In connection with the term of the Extended Subscription Loans:

1. Given the original term of 5 years, we consider it fair and reasonable that the Company proposed on a further 5-year term as it would be both logical and sensible to extend based on the same terms under the circumstances.
2. Considering that the Subscription Loans are part of the management's incentive scheme with the purpose of enhancing the commitment of the Connected Borrowers and the Management Borrowers to the Company, we are of the opinion that a 5-year term offers the management of the Company an opportunity to reinvigorate the Company in terms of both its financial position and share price performance as the Company and the Chinese economy begin to recover from the COVID-19 pandemic. We concur with the Company's view that any short term measure would not be viable.

Based on the foregoing reasons, we consider it fair and reasonable, so far as the Company and the Independent Shareholders are concerned, that the Extended Subscription Loans are to be extended with the same term as that of the Subscription Loans in view of the current special circumstances, namely the unforeseen impact on the Chinese and global economies of the COVID-19 pandemic.

5. Performance of share prices

The latest share price of the Company reflecting the value of the Charged Shares is insufficient to cover fully the outstanding principal amount of the respective Subscription Loans. We have also looked at the following comparable companies in the sportswear sector listed on the main board of the Stock Exchange, namely Xstep, ANTA Sports, Topsports, 361 Degrees, and Li Ning regarding their respective share price performance as well as Hang Seng Index ("**HSI**") spanning a period of five years from FY 2018 to FY 2022 which is the initial period for which the Subscription Loans were granted, as indicated in the chart below.



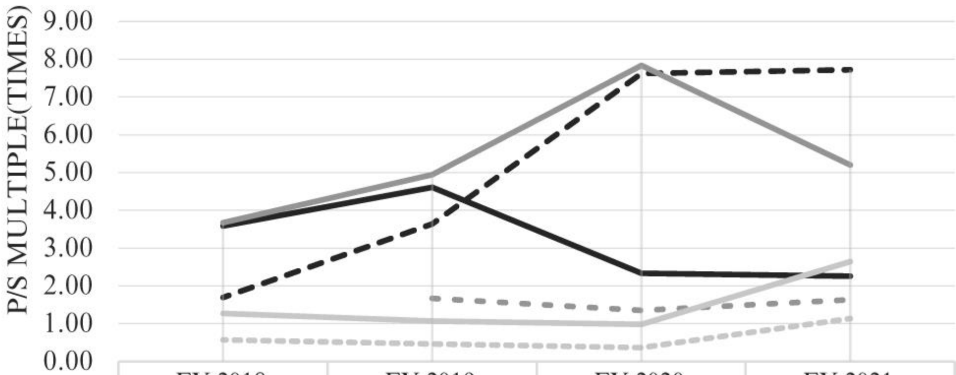
(Source: Bloomberg)

The five year share price chart shows that all comparable companies in the sportswear sector have been similarly affected by the market fluctuation resulting from, amongst others, the recent resurgence of the COVID-19 pandemic over the past 18 months, with the smaller companies in the dataset (i.e., the Company, Xstep, and 361 Degrees) more severely affected, possibly because their relative market share gave them less protection in the downturn.

We would also observe, as indicated in the chart below, that the valuation multiples of the Company and most of its peer competitors deteriorated during this period despite improvement of their respective core financial performance. We would note that, as some of these companies (including the Company) were loss-making in the relevant period, which means that P/E multiples and EV/EBITDA ratios are not available, we have selected P/S multiples as an effective and more appropriate alternative for the basis of comparison. For instance, the P/S multiple for Li Ning dropped from approx. 7.7x in FY2020 to 6.2x in FY2021 although its revenue increased significantly from RMB 14,456 million to approx. RMB 22,572 million. The P/S multiple for ANTA Sports dropped from approx. 7.8x in FY2020 to 5.2x in FY2021 while its sales turnover increased from RMB 35,512 million to approx. RMB 49,328 million in the corresponding years. By the same token, the Company's revenue increased from approx. RMB1,540.8 million in FY2020 to RMB 1,970.0million in FY2021, whereas its P/S multiple remained little changed at approx.2.3x in the relevant period. As such, we believe that the weak stock performance across the sportswear sector during this period was more affected by valuation adjustment in the sector than by the change in the fundamentals of the individual companies, such as revenue growth.

We further note the Company recorded a P/S multiple of approx.2.3x in both FY 2020 and FY 2021, which, compared with the P/S multiple for 361 Degrees being approx.0.4x and approx.1.1x in FY 2020 and FY 2021, and with the P/S multiple for Xstep being approx.1.0x and approx.2.6x in FY 2020 and FY 2021, is a good indicator that the Company has been relatively better valued by financial markets for every dollars of its revenue.

P/S Multiple of China Dongxiang and its peers



	FY 2018	FY 2019	FY 2020	FY 2021
China Dongxiang	3.58	4.61	2.33	2.26
Topsports *(Note 1)*		1.67	1.35	1.64
Li Ning	1.69	3.64	7.62	7.72
ANTA Sports	3.67	4.94	7.84	5.20
Xtep	1.27	1.07	0.98	2.64
361 Degrees	0.57	0.47	0.37	1.14

(Source: Bloomberg)
Note 1: trading debut of 6110.HK was 26 September 2019.

Upon our review of the recent stock performance of the Company and all the comparable companies in the sector, we arrive at the conclusion that, in line with the strongest companies in the sportswear sector such as Li Ning and ANTA Sports, the Company's recent weak share performance has been caused by market-wide deterioration in sentiment which may have little to do with the capacity and expertise of the management of the Company or its financial position. In addition, the Company's share price may also have been negatively affected by the impact of the performance of the Company's investment portfolio, especially the holding in the shares of Alibaba, a company listed on the Stock Exchange (stock code: 9988), which had historically delivered exceptional positive returns for the Company since the inception of the portfolio.

6. Review of interest rate

As advised by the management and Directors of the Company, it was the Company's intention and objective to incentivise, reward and ensure the long-term service of the Connected Borrowers and Management Borrowers who have throughout their service made tremendous contributions to the Group and are considered by the Company to be vital to the success and the long-term growth of the Group. The Company believes that, by aligning their interests with the Shareholders' interests through this commitment, the Connected Borrowers and the Management Borrowers will have a stronger incentive and more motivation to continue to make long-term contributions to the Company.

In addition, we note that on 29 July 2022, GSL and each of the Connected Borrowers and Management Borrowers entered into the Connected Amendment Letters and Management Amendment Letters respectively to amend the interest rate of the respective Subscription Loans from a floating rate of one-month HIBOR +1% per annum to a fixed rate of 1% per annum, which is to be paid monthly.

We, having been advised by the Company, are of the opinion that the new interest rate for the Connected Borrowers and the Management Borrowers is fair and reasonable, and that the Transactions have been arrived on normal commercial terms upon arm's length negotiations among the Company based on the following reasons:

1. The revenue of the Company is derived from engaging in brand development, design and sales of sport-related apparel, footwear and accessories and investment activities in the People's Republic of China and abroad - its core business is not to earn interest income.

2. The fixed interest rate will provide certainty and avoid fluctuation on Company's respective cash flow budgeting. Moreover, the fixed rate of 1% is similar to the average interest rate of approx.1.21% per annum, as evidenced in the table below, charged by the Group to Mr. Zhang and other Connected Borrowers and Management Borrowers, which remain roughly the same if an average is taken for the past 12 months and 24 months respectively, under the Original Loan Agreement and cannot therefore be seen as disadvantageous to the Company. The additional interest payment, which would have been made by the Connected Borrowers and Management Borrowers had the HIBOR applied under the Extended Subscription Loans, would amount to approx. HK$732,678 (i.e., calculated by 0.21% (i.e., the average HIBOR) x HK$348,894,267.9 (i.e., the outstanding principal amount of the Subscription Loans as at the date of the Amendment Letters)), which is minimal compared with an aggregate amount of RMB9,350,890,000 net asset value of the Company in FY 2022.

Date	**HIBOR**	**Interest rate**	**Date**	**HIBOR**	**Interest rate**
Jul-20	0.25%	1.25%	Jul-21	0.08%	1.08%
Aug-20	0.37%	1.37%	Aug-21	0.06%	1.06%
Sep-20	0.48%	1.48%	Sep-21	0.06%	1.06%
Oct-20	0.40%	1.40%	Oct-21	0.07%	1.07%
Nov-20	0.11%	1.11%	Nov-21	0.10%	1.10%
Dec-20	0.18%	1.18%	Dec-21	0.16%	1.16%
Jan-21	0.16%	1.16%	Jan-22	0.20%	1.20%
Feb-21	0.12%	1.12%	Feb-22	0.20%	1.20%
Mar-21	0.13%	1.13%	Mar-22	0.31%	1.31%
Apr-21	0.09%	1.09%	Apr-22	0.21%	1.21%
May-21	0.08%	1.08%	May-22	0.20%	1.20%
Jun-21	0.10%	1.10%	Jun-22	0.87%	1.87%
average HIBOR in the last 12 months	**0.21%**		**average interest rate in the last 12 months under the Subscription Loans**	**1.21%**	

average HIBOR in the last 24 months	**0.21%**		**average interest rate in the last 24 months under the Subscription Loans**	**1.21%**	

3. The Company has evaluated the personal credit rating of each of the Connected Borrowers and the Management Borrowers over the past five years indicating that all of them are in good credit condition. We concur with the view of the management of the Company that the extension of the Subscription Loans offered to the Connected Borrowers and the Management Borrowers would have minimal risk attached to it, as the loan programme would be supervised by the Company. Furthermore, we note that PricewaterhouseCoopers (“PWC”), engaged by the Company as its external auditor, has never considered provisions for the impairment of the Subscription Loans necessary despite a shortfall in the fair value of the Charged Shares due to stock price decline in the relevant period and so the Company never made any such provisions, which we consider is the evidence (1) that the Subscription Loans should not be regarded as a typical loan facility granted by banks or financial institutions backed up by collaterals valued on a mark-to-market basis, but that (2) that the Subscription Loans are, in essence, an alternative to share awards under ordinary share option schemes, and should be seen as an appropriate way to incentivise the management when the Company’s stock performance rebound, as opposed to imposing a further financial burden to the management during the market downturn.

4. According to one of the key terms of the Amendment Letters, namely that the Borrower shall promptly, after receiving any dividends and in any case within 2 Business Days of receiving such dividends, apply the amount of dividends received to pay or prepay the following amounts 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 (a) above, to prepay to the Lender an amount in respect of the interest which will accrue on the Loan for the upcoming 12 months, assuming that there is no prepayment of the Loan in such period; and (c) thirdly, in respect of any balance remaining after the application in (b) above, to prepay the principal amount of the Loan.

5. As mentioned above, the Transaction was carried out with the purpose of incentivising the management of the Group, similar in nature to the normal share option schemes of most listed companies. In a normal share option scheme, no interest or income would derive from the grantees who are management or officers of the listed companies. In the current case where interest would be received from the Transaction, the Company is in a better position than the normal share option schemes granted by listed companies. Hence, it is considered that it is on (or better than) normal commercial terms in the ordinary course of business of the Group.

RECOMMENDATION

Having considered the principal factors and reasons described above, we are of the opinion that the terms of ZZY Amendment Letters are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole, and on normal commercial terms in the ordinary course of business of the Company. Accordingly, we advise the Independent Shareholders, as well as the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Transactions.

Yours faithfully,
For and on behalf of
Platinum Securities Company Limited

Liu Chee Ming	**Loretta Lau**	**Piers Higson Smith**
Managing Director	*Director of Corporate Finance*	*Director of Corporate Finance*

Mr. Liu Chee Ming, Ms. Loretta Lau and Mr. Piers Higson Smith are licensed persons registered with the Securities and Futures Commission and as responsible officers of Platinum Securities Company Limited to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO. Each of Mr. Liu Chee Ming, Ms. Loretta Lau and Mr. Piers Higson Smith has over thirty years of experience in corporate finance industry.