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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold all your Shares in China Dongxiang (Group) Co., Ltd., you should at once hand this circular and the accompanying form of proxy to the purchaser or to the bank, stockbroker or other agent through whom the sale or the transfer was effected for transmission to the purchaser.

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**DONGXIANG**

**China Dongxiang (Group) Co., Ltd.**

**中國動向（集團）有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 3818)**

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

**Independent Financial Adviser  
to the Independent Board Committee and the Independent Shareholders**



**PLATINUM**  
Securities

**Platinum Securities Company Limited**

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Capitalised terms used in this cover page have the same meanings as defined in this circular.

A letter from the Board is set out on pages 5 to 15 of this circular. A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on pages 16 to 17 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 18 to 38 of this circular.

A notice convening the EGM to 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, at 10:00 a.m. on 28 September 2022 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 as soon as possible and in any event no later 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.

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## DEFINITIONS

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*In this circular, the following expressions shall have the meanings set out below unless the context requires otherwise:*

“Amendment Letter(s)”	the Connected Amendment Letters and the Management Amendment Letters, or any one of them
“Announcement(s)”	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 in relation to the Subscription Loans, or any one of them
“Board”	the board of Directors
“BPEL”	Bright Pacific Enterprises Limited, a limited liability company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company
“Charged Shares”	the Shares owned by the respective Connected Borrower or Management Borrower (as the case may be) that have been charged as security to the respective Subscription Loans pursuant to the terms of the respective Original Loan Agreements
“Company”	China Dongxiang (Group) Co., Ltd., (中國動向(集團)有限公司), a limited liability company incorporated in the Cayman Islands, the Shares of which are listed on the main board of the Stock Exchange
“Connected Amendment Letter(s)”	the ZZY Amendment Letters and three amendment letters entered into between GSL and each of the Connected Borrowers except Mr. Zhang, all dated 29 July 2022, in relation to amendment of certain terms of the Original Connected Loan Agreements, or any one of them
“Connected Borrower(s)”	Mr. Zhang and Mr. Lyu Guanghong, each a Director; Mr. Ren Yi, a director at the subsidiary level of the Company; and Ms. Sun Wei, a former supervisor at the subsidiary level of the Company, or any one of them
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened for the Independent Shareholders to consider and, if thought fit, approve the ZZY Amendment Letters
“Extended Subscription Loan(s)”	the Subscription Loan(s) as amended by the Amendment Letters

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## DEFINITIONS

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“Group”	the Company and its subsidiaries
“GSL”	Gaea Sports Limited, a limited liability company incorporated in Hong Kong and an indirect wholly-owned subsidiary of the Company
“HIBOR”	Hong Kong interbank offered rate
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent board committee of the Board comprising all the independent non-executive Directors, namely Dr. Chen Guogang, Mr. Gao Yu and Mr. Liu Xiaosong, established for the purpose of advising the Independent Shareholders in respect of, among other things, the ZZY Amendment Letters and the transactions contemplated thereunder
“Independent Financial Adviser”	Platinum Securities Company Limited, a licensed corporation registered under the SFO to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of, among other things, the ZZY Amendment Letters and the transactions contemplated thereunder
“Independent Shareholders”	Shareholders who do not have any material interest in the relevant transactions contemplated under the ZZY Amendment Letters
“Latest Practicable Date”	2 September 2022, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Management Amendment Letter(s)”	a total of five amendment letters entered into between GSL and each of the Management Borrowers, all dated 29 July 2022, in relation to amendment of certain terms of the Original Management Loan Agreements, or any one of them

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## DEFINITIONS

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“Management Borrower(s)”	Mr. Chen Shaowen, Mr. Song Li and Mr. Nan Peng (each a member of the senior management of the Group), Mr. Wang Yalei and Mr. Yang Gang (each a former member of the senior management of the Group), or any one of them
“Model Code”	has the meaning as defined in the Appendix
“Mr. Zhang”	Mr. Zhang Zhiyong
“Original Connected Loan Agreement(s)”	(i) the ZZY Original Loan Agreements; and (ii) three loan agreements all dated 19 January 2018 entered into between BPEL (as lender) and each of the Connected Borrowers except Mr. Zhang (as borrower) in relation to the grant of loans by BPEL to the Connected Borrowers for their subscriptions of Shares, details of which are set out in the Announcements, and, in each case, as amended by an assignment entered into between BPEL and GSL dated 29 June 2020
“Original Loan Agreement(s)”	the Original Connected Loan Agreements and the Original Management Loan Agreements
“Original Management Loan Agreement(s)”	(i) four loan agreements all dated 19 January 2018 entered into between BPEL (as lender) and each of the Management Borrowers except Mr. Yang Gang (as borrower); and (ii) a loan agreement dated 11 April 2018 entered into between BPEL (as lender) and Mr. Yang Gang (as borrower), in relation to the grant of loans by BPEL to the Management Borrowers for their subscriptions of Shares, details of which are set out in the Announcements, and in each case, as amended by an assignment entered into between BPEL and GSL dated 29 June 2020
“SFO”	the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong)
“Share(s)”	ordinary shares of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Loan(s)”	the loan(s) granted under the Original Loan Agreement(s)
“ZZY Amendment Letter(s)”	the amendment letters dated 29 July 2022 entered into between GSL and Mr. Zhang in relation to amendments of certain terms of the ZZY Original Loan Agreements, or any one of them

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## DEFINITIONS

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“ZZY Charged Shares”	the Shares owned by Mr. Zhang that have been charged as security to the respective Subscription Loans pursuant to the terms of the respective ZZY Original Loan Agreements
“ZZY Original Loan Agreement(s)”	the two loan agreements dated 9 October 2017 and 19 January 2018 respectively entered into between BPEL (as lender) and Mr. Zhang (as borrower) in relation to the grant of loans by BPEL to Mr. Zhang for his subscriptions of Shares, details of which are set out in the Announcements, and in each case, as amended by an assignment entered into between BPEL and GSL dated 29 June 2020, or any one of them
%	per cent

*In this circular, unless the context requires otherwise, the terms “connected person(s)”, “percentage ratio(s)”, “substantial shareholder(s)” and “subsidiary(ies)”, shall have the meaning given to such terms in the Listing Rules.*



**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 (陳國鋼)

Mr. Gao Yu (高煜)

Mr. Liu Xiaosong (劉曉松)

*Registered Office:*

Cricket Square, Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

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:

	<b>ZZY Original Loan Agreements</b>	<b>ZZY Amendment Letters</b>
<b>Date</b>	: (i) 9 October 2017 (ii) 19 January 2018	29 July 2022
<b>Parties</b>	: (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)
<b>Term</b>	: 5 years from the date of drawdown of the Subscription Loans.	Extended for a further term of five years from the original repayment date.
<b>Principal amount</b>	: 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.
<b>Interest</b>	: 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.
<b>Event of default</b>	: 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).

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## LETTER FROM THE BOARD

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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 (HK\$)	Outstanding principal amount of the Subscription Loan as at the date of the respective ZZY Amendment Letter (HK\$)	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> (HK\$)	Repayment date under the respective ZZY Original Loan Agreement	Repayment date under the respective ZZY Amendment Letter
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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## LETTER FROM THE BOARD

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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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## LETTER FROM THE BOARD

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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*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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*The following is a full text of the letter from the Independent Board Committee prepared for the purpose of inclusion in this circular.*

**DONGXIANG**

**China Dongxiang (Group) Co., Ltd.**

**中國動向（集團）有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 3818)**

9 September 2022

*To the Independent Shareholders*

Dear Sir or Madam,

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

We refer to the circular of the Company dated 9 September 2022 (the “**Circular**”) of which this letter forms a part. Terms defined in the Circular have the same meanings herein unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the ZZY Amendment Letters and the transaction contemplated thereunder and to advise the Independent Shareholders as to whether, in our opinion, the ZZY Amendment Letter(s) and the transaction contemplated thereunder are in the ordinary and usual course of business of the Group, on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned, and in the interest of the Company and the Shareholders as a whole. Platinum Securities Company Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard and to advise the Independent Shareholders on how to vote.

We wish to draw your attention to the letter from the Board as set out on pages 5 to 15 of the Circular which contains, among others, information on the ZZY Amendment Letter(s) and the transaction contemplated thereunder as well as the letter from the Independent Financial Advisor as set out on pages 18 to 38 of the Circular which contains its advice in respect of the ZZY Amendment Letter(s) and the transaction contemplated thereunder.

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**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

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Having taken into account the advice of the Independent Financial Adviser, we are of the opinion that the ZZY Amendment Letter(s) and the transaction contemplated thereunder, are in the ordinary and usual course of business of the Company, on normal commercial terms and in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned.

Accordingly, we would advise you to vote in favour of the resolutions to be proposed at the EGM in respect of the approval of the ZZY Amendment Letters.

Yours faithfully,  
For and on behalf of the  
**Independent Board Committee**

**CHEN Guogang**  
*Independent non-executive  
Director*

**GAO Yu**  
*Independent non-executive  
Director*

**LIU Xiaosong**  
*Independent non-executive  
Director*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the text of the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders for the purpose of incorporation into this circular.*



**PLATINUM**  
Securities

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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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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.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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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 no business relationships or transaction with the Company or its subsidiaries that would affect our independence as the IFA. Neither have we, in the last two years, acted as an IFA to the Company's other transactions.

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.

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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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
<b>Connected Borrowers</b>				
Mr. Zhang	156,956,969.00	151,390,892.89 <i>(Note 1)</i>	138,410,025	31 October 2022
	33,628,500.00	31,502,277.41 <i>(Note 2)</i>	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
<b>Management Borrowers</b>				
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	<u>11,610,000.00</u>	<u>11,207,856.00</u>	10,000,000	25 April 2023
<b>Total</b>	<u>367,435,469.00</u>	<u>348,894,267.90</u>		

*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.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 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 2017	2019 <i>(Note 1)</i>	For the year ended 31 March		
	<i>RMB million</i>	<i>RMB million</i>	2020 <i>RMB million</i> (audited & restated)	2021 <i>RMB million</i> (audited)	2022 <i>RMB million</i> (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 <i>(Note 2)</i>	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)

#### *Notes:*

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.



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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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*Consolidated Balance sheet*

	For the twelve months ended 31 December 2017	2019	For the year ended 31 March			2022
			2020	2021		
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	
		<i>(Note 1)</i>	<i>(audited &amp; restated)</i>	<i>(audited)</i>	<i>(audited)</i>	
Restricted cash	(390.86)	285.58	—	0.13	27.87	
Cash and cash equivalents	1,051.87	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 RMB1,810.55 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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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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.

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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**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:

	<b>Key terms of the</b>	
	<b>ZZY Original Loan Agreements</b>	<b>ZZY Amendment Letters</b>
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.

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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**Key terms of the**

	<b>ZZY Original Loan Agreements</b>	<b>ZZY Amendment Letters</b>
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;

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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**Key terms of the**

**ZZY Original Loan Agreements    ZZY Amendment Letters**

- (b) secondly, in respect of any balance remaining after the application in paragraph (a) above, to prepay to GSL an amount in respect of 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).
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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.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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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.



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### 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.

Company name	Stock Code	Key financial	Financial year end (Note)					On five years average	
			FY2022 RMB'000	FY2021 RMB'000	FY2020 RMB'000	FY2019 RMB'000	FY2018 RMB'000		FY2017 RMB'000
China Dongxiang (Note 1)	3818.HK	Revenue	1,916,000	1,970,000	1,541,000	2,144,000	N/A	1,455,000	62.8%
		GP margin	63.9%	65.6%	66.4%	58.9%	N/A	59.2%	
		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%	
		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	42.5%
		GP margin	N/A	41.7%	39.1%	43.4%	44.3%	43.9%	
		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%	
		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	55.4%
		GP margin	N/A	61.6%	58.2%	55.0%	52.6%	49.4%	
		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%	
		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	41.9%
		GP margin	43.4%	40.8%	42.1%	41.8%	41.6%	N/A	
		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	
		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	40.5%
		GP margin	N/A	41.7%	37.9%	40.3%	40.6%	41.8%	
		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%	
		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	49.3%
		GP margin	N/A	53.0%	49.1%	49.1%	48.1%	47.1%	
		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%	
		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								<b>45.9%</b>	
The above five comparable average Operating Profit Margin								<b>15.5%</b>	

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*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

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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:

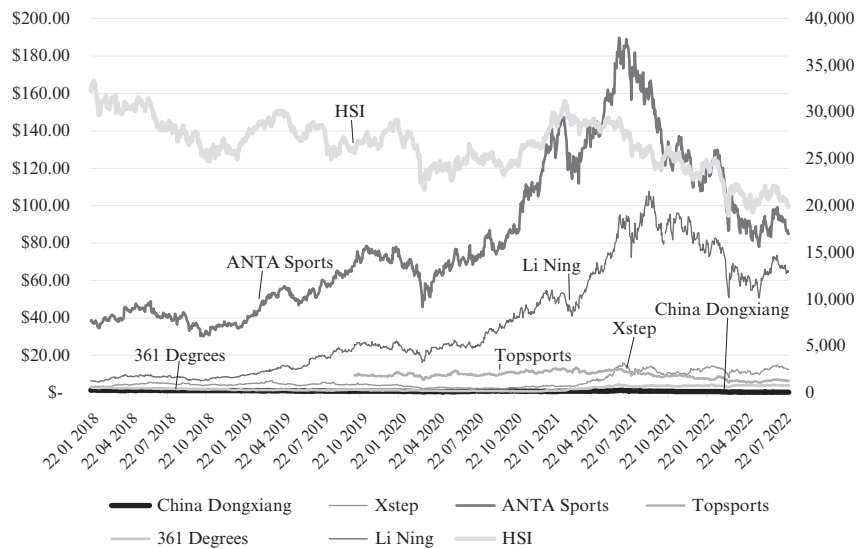
1. Given the original term of 5 years, we consider it fair and reasonable that the Company proposed on a further 5-year term as it would be both logical and sensible to extend based on the same terms under the circumstances.
2. Considering that the Subscription Loans are part of the management's incentive 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.

**Stock performance of  
China Dongxiang & its comparable against HSI  
(FY 2018–2022)**



*(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.

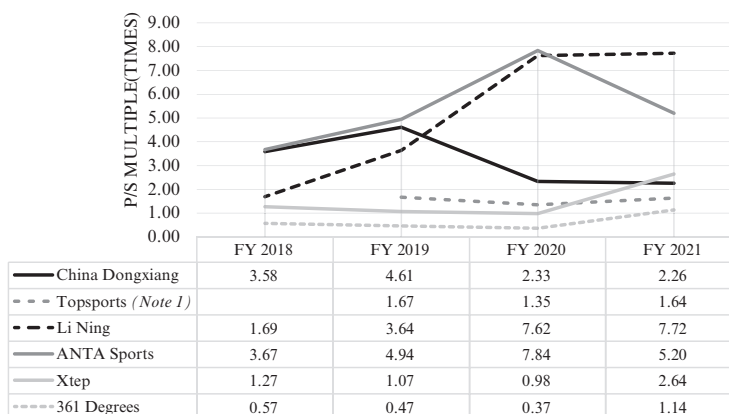
We would also observe, as indicated in the chart below, that the valuation multiples of the Company and most of its peer competitors deteriorated during this period despite improvement of their respective core financial performance. We would note that, as some of these companies (including the Company) 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

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increased significantly from RMB14,456 million to approx. RMB22,572 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 RMB35,512 million to approx. RMB49,328 million in the corresponding years. By the same token, the Company's revenue increased from approx. RMB1,540.8 million in FY2020 to RMB1,970.0 million 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



(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.

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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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%
<b>average HIBOR in the last 12 months</b>	<b>0.21%</b>		<b>average interest rate in the last 12 months under the Subscription Loans</b>	<b>1.21%</b>	
<b>average HIBOR in the last 24 months</b>	<b>0.21%</b>		<b>average interest rate in the last 24 months under the Subscription Loans</b>	<b>1.21%</b>	

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

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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**  
*Managing Director*

**Loretta Lau**  
*Director of  
Corporate Finance*

**Piers Higson Smith**  
*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 a responsible officer 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.*



## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DISCLOSURE OF INTERESTS

### (a) Directors' interests in Shares and underlying Shares

As at the Latest Practicable Date, the interests and short positions, if any, of each Director and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executives were deemed or taken to have under such provisions of the SFO), or which were required to be and are recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies adopted by the Company (the "Model Code") were as follows:

Name of Directors	Nature of interest	Class of shares	Number of shares held		Approximate percentage of total issued Shares
			Long position	Short position	
Mr. Chen Yihong	Interest of a controlled corporation <i>(Note 1)</i>	Ordinary	2,359,936,000	—	40.08%
	Interest of a controlled corporation <i>(Note 3)</i>		Shares	312,090,025	5.3%
Ms. Chen Chen	Interest of a controlled corporation <i>(Note 2)</i>	Ordinary	176,787,730	—	3.00%
	Beneficial owner		Shares	44,500,000	0.76%
Mr. Zhang Zhiyong	Beneficial owner <i>(Note 3)</i>	Ordinary	202,120,025	—	3.43%
			Shares	<i>(Note 4)</i>	
Mr. Lyu Guanghong	Beneficial owner <i>(Note 3)</i>	Ordinary	16,000,000	—	0.27%
			Shares	<i>(Note 6)</i>	

*Notes:*

- (1) The entire issued share capital of Poseidon Sports Limited (“**Poseidon**”) is held by Harvest Luck Development Limited (“**Harvest Luck**”), which is in turn wholly-owned and controlled by Mr. Chen Yihong. Mr. Chen Yihong and Harvest Luck are therefore deemed to be interested in the shares held by Poseidon.
- (2) Bountiful Talent Ltd is wholly-owned and controlled by Ms. Chen Chen and Ms. Chen Chen is therefore deemed to be interested in the Shares held by Bountiful Talent Ltd.
- (3) 312,090,025 shares (out of which 166,090,025 shares are held by Mr. Zhang Zhiyong and 10,000,000 shares are held by Mr. Lyu Guanghong) have been charged to GSL. Each of Mr. Chen Yihong, Harvest Luck, Poseidon and the Company is deemed to be interested in such shares by virtue of GSL, being a wholly-owned subsidiary of the Company and Poseidon being entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of the Company.
- (4) It included Mr. Zhang Zhiyong’s interests in 166,120,025 shares and share options to subscribe for 36,000,000 shares pursuant to the share options granted by the Company on 15 April 2021 under the share option scheme adopted by the Company on 8 August 2019 at an exercise price of HK\$0.94 each.
- (5) It included Ms. Chen Chen’s interests in 21,500,000 shares and share options to subscribe for 23,000,000 shares pursuant to the share options granted by the Company on 15 April 2021 under the share option scheme adopted by the Company on 8 August 2019 at an exercise price of HK\$0.94 each.
- (6) It included Mr. Lyu Guanghong’s interests in 10,000,000 shares and share options to subscribe for 6,000,000 shares pursuant to the share options granted by the Company on 15 April 2021 under the share option scheme adopted by the Company on 8 August 2019 at an exercise price of HK\$0.94 each.

Save as disclosed above, none of the Directors or the chief executive of the Company had, as at the Latest Practicable Date, any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

**(b) Interests and short positions of substantial shareholders**

As at the Latest Practicable Date, other than the interests and short positions as disclosed above, the following persons have interests or short positions in the Shares, underlying Shares and debentures of the Company which fall to be disclosed to the

Company under Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under Section 336 of Part XV of the SFO, or otherwise known to the directors:

Name of Shareholders	Nature of interest	Number of shares held		Approximate percentage of total issued Shares
		Long position	Short position	
Poseidon Sports Limited	Corporate interest	2,359,936,000	—	40.08%
		Shares		
Harvest Luck Development Limited <sup>(Note 1)</sup>	Interest in a controlled corporation	312,090,025	—	5.3%
		Shares		
	Interest in a controlled corporation	2,359,936,000	—	40.08%
		Shares		
	Interest in a controlled corporation <sup>(Note 2)</sup>	312,090,025	—	5.3%
		Shares		

Notes:

- (1) The entire issued share capital of Poseidon is held by Harvest Luck Development Limited (“**Harvest Luck**”), which is in turn wholly-owned and controlled by Mr. Chen Yihong. Mr. Chen Yihong and Harvest Luck are therefore deemed to be interested in the shares held by Poseidon.
- (2) 312,090,025 shares (out of which 166,090,025 shares are held by Mr. Zhang Zhiyong and 10,000,000 shares are held by Mr. Lyu Guanghong) have been charged to GSL. Each of Mr. Chen Yihong, Harvest Luck, Poseidon and the Company is deemed to be interested in such shares by virtue of GSL, being a wholly-owned subsidiary of the Company and Poseidon being entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of the Company.

Save as disclosed above, as at the Latest Practicable Date, the Directors are not aware of any other person or corporation (who were not Directors or chief executive of the Company) having an interest or short position in the Shares and underlying Shares of the Company representing 5% or more of the issued share capital of the Company.

**(c) Directors’ position in substantial shareholder**

As at the Latest Practicable Date, each of Poseidon and Harvest Luck was a company with interests which fell to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO and Mr. Chen Yihong, an executive Director and the Chairman of the Board, is a director of each of Poseidon and Harvest Luck.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or any proposed director of the Company were also directors of the companies which had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

### 3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered or proposed to enter into any service contract with any member of the Group which was not determinable by the employer within one year without payment of compensation (other than statutory compensation).

### 4. COMPETING INTERESTS

As at the Latest Practicable Date, Mr. Zhang held the controlling interest in and was the non-executive chairman of BMAI Sports Goods Co., Ltd. (北京必邁體育用品有限公司) (“BMAI”). BMAI is engaged in the design, development, production and sale of products including but not limited to trainers under the online brand name of “BMAI”, and therefore may compete, directly or indirectly, with the business of the Group. Mr. Zhang is fully aware of, and has been discharging, his fiduciary duty to the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and his or her respective close associates had any interest in any business (apart from the Company's business) which competed or was likely to compete, either directly or indirectly, with the business of the Group, other than those business to which the Directors and his or her close associates were appointed to represent the interests of the Company and/or the Group (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them were a controlling shareholder), or have or may have any other conflict of interest with the Group pursuant to the Listing Rules. The Company and the Directors would comply with the relevant requirements of the Company's articles of association and the Listing Rules whenever a Director has any conflict of interest in transaction(s) with the Company.

### 5. DIRECTORS' INTEREST IN CONTRACTS AND ASSETS

Save as disclosed in this circular, as at the Latest Practicable Date:

- (a) none of the Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group taken as a whole; and
- (b) none of the Directors had any direct or indirect interest in any assets which had been, since 31 March 2022 (being the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

## 6. LITIGATION

So far as the Company is aware, as at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or claims of material importance and so far as the Directors were aware, no litigation or claims of material importance was pending or threatened by or against the Company or any of its subsidiaries.

## 7. EXPERT AND CONSENT

The following is the name and qualification of the expert which has given an opinion or advice on the information contained in this circular:

<b>Name</b>	<b>Qualification</b>
Platinum Securities Company Limited	a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO

As at the Latest Practicable Date, Platinum Securities Company Limited:

- (a) did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and
- (b) did not have any direct or indirect interest in any assets which had, since 31 March 2022 (being the date to which the latest published audited financial statements of the Group were made up) been acquired or disposed of by, or leased to any member of the Group, or which were proposed to be acquired or disposed of by, or leased to any member of the Group.

Platinum Securities Company Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and references to its name in the form and context in which it appears.

## 8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Company is not aware of any material adverse change in the financial or trading position of the Group since 31 March 2022, being the date to which the latest published audited financial statements of the Group were made up.

**9. MISCELLANEOUS**

- (a) The company secretary of the Company is Ms. Wai Pui Man who is an associate member of The Chartered Governance Institute and The Hong Kong Chartered Governance Institute.
- (b) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (c) The principal place of business of the Company in Hong Kong is at Office Unit 7, 13/F, Tower One, Lippo Centre, No. 89 Queensway, Hong Kong.
- (d) The branch share registrar of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited.
- (e) The principal share registrar and transfer office of the Company is Suntera (Cayman) Limited at Suite 3204, Unit 2A, Block 3, Building D, P.O. Box 1586, Gardenia Court, Camana Bay, Grand Cayman, KY1-1110, Cayman Islands.
- (f) The English text of this circular shall prevail over the Chinese text in case of any inconsistency.

**10. DOCUMENTS ON DISPLAY**

Copies of the following documents will be published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company ([www.dxsport.com](http://www.dxsport.com)) for a period of 14 days from the date of this circular:

- (a) the ZZY Amendment Letters;
- (b) the letter from the Board dated 9 September 2022, the text of which is set out on pages 5 to 15 of this circular;
- (c) the letter from the Independent Board Committee dated 9 September 2022, the text of which is set out on pages 16 to 17 of this circular;
- (d) the letter from the Independent Financial Adviser dated 9 September 2022, the text of which is set out on pages 18 to 38 of this circular;
- (e) the letter of consent from the Independent Financial Adviser dated 9 September 2022 referred to in the paragraph headed “7. Expert and Consent” in this Appendix; and
- (f) this circular.



**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)**

## **NOTICE OF THE EXTRAORDINARY GENERAL MEETING**

**NOTICE IS HEREBY GIVEN** that the extraordinary general meeting of shareholders (the “EGM”) of China Dongxiang (Group) Co., Ltd. (the “**Company**”) 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, at 10:00 a.m. on 28 September 2022 for the purpose of considering and, if thought fit, passing the following ordinary resolutions. Capitalised terms defined in the circular dated 9 September 2022 issued by the Company (the “**Circular**”) shall have the same meanings when used herein unless otherwise specified.

### **ORDINARY RESOLUTIONS**

**“THAT:**

1. (a) the ZZY amendment letters dated 29 July 2022 (the “**ZZY Amendment Letters**”) (as described in the Circular, a copy signed by the Chairman of the meeting has been produced to the meeting and marked as “A” for the purpose of identification) entered into between Gaea Sports Limited and Mr. Zhang Zhiyong in relation to the Extended Subscription Loans and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) any one director(s) of the Company be and is/are hereby authorised, for and on behalf of the Company, to execute such all other documents, do all other acts and things and take such action as may in the opinion of the Director(s) be necessary, desirable or expedient to implement and give effect to the ZZY Amendment Letters and any other transactions contemplated under the ZZY Amendment Letters.”

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

Hong Kong, 9 September 2022

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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*Notes:*

- (1) A shareholder entitled to attend and vote at the above meeting may appoint one or more proxies to attend and vote instead of him. A proxy need not be a shareholder of the Company.
- (2) A form of proxy for use at the above meeting (or at any adjournment thereof) is enclosed. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority shall be deposited with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the commencement of the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude members from attending and voting at the EGM or any adjournment thereof (as the case may be) should they so wish and in such event, the form of proxy shall be deemed to be revoked.
- (3) A form of proxy must be signed by you or your attorney duly authorized in writing or, in the case of a corporation, must be either executed under seal or under the hand of an officer or attorney duly authorized to sign the same.
- (4) Where there are joint holders of any Share(s), any one of such persons may attend and vote at the EGM, either in person or by proxy in respect of such Share(s) as if he/she were solely entitled thereto, but if more than one of such joint holders are present at the EGM or any adjournment thereof (as the case may be), the more senior shall alone be entitled to vote, whether in person or by proxy. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
- (5) To ascertain shareholders' eligibility to attend and vote at the EGM, the register of members will be closed from 22 September 2022 to 28 September 2022 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify to attend and vote at the EGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 21 September 2022.
- (6) If a Typhoon Signal No.8 or above is hoisted or a Black Rainstorm Warning Signal is in force on the date of the meeting, shareholders are suggested to visit the Company's website at ([www.dxsport.com](http://www.dxsport.com)) for arrangements of the meeting. The meeting will be held as scheduled when an Amber or Red Rainstorm Warning Signal is in force. Shareholders should decide on their own whether they would attend the meeting under bad weather condition bearing in mind their own situations.
- (7) No refreshments or drinks or corporate gifts will be provided to attendees at the EGM.
- (8) For health and safety reasons, the Company would like to remind Shareholders that physical attendance in person at the EGM is not necessary for the purpose of exercising their voting rights, and the Company strongly encourages Shareholders to exercise their right to vote at the EGM by appointing the Chairman of the EGM as their proxy instead of attending the EGM in person. Shareholders and participants attending the EGM are advised to arrive at the venue as early as possible due to the precautionary measures that may cause delay in the registration process.

*As at the date of this notice, the executive directors of the Company are Mr. Chen Yihong, Ms. Chen Chen, Mr. Zhang Zhiyong and Mr. Lyu Guanghong; and the independent non-executive directors of the Company are Dr. Chen Guogang, Mr. Gao Yu and Mr. Liu Xiaosong.*