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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 a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

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

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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)

**RENEWAL OF CONTINUING CONNECTED TRANSACTION
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent financial adviser
to the Independent Board Committee and the Independent Shareholders**

 **VMS 鼎珮**

A letter from the Board (as defined herein) is set out on pages 4 to 10 of this circular. A letter from the Independent Board Committee (as defined herein) containing its advice to the Independent Shareholders (as defined herein) is set out on page 11 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 12 to 22 of this circular.

A notice convening the EGM (as defined herein) to be held at United Conference Centre, 10/F, United Centre, 95 Queensway, Admiralty, Hong Kong on 27 November 2018 at 10:00 a.m. is set out on pages 28 to 29 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.

12 November 2018

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DEFINITIONS

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

“Announcement”	the announcement of the Company dated 9 October 2018 in relation to the Renewed Framework Agreement
“Annual Caps”	the annual caps under the Renewed Framework Agreement in the amounts of RMB51,000,000, RMB228,000,000 and RMB285,000,000 for each of the period of the three months ending 31 March 2019, the twelve months ending 31 March 2020 and the twelve months ending 31 March 2021
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	China Dongxiang (Group) Co., Ltd. (中國動向(集團)有限公司) a limited liability company incorporated in the Cayman Islands, the Shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rule
“Directors”	directors of the Company
“EGM”	the extraordinary general meeting of the Company to be held at United Conference Centre, 10/F, United Centre, 95 Queensway, Admiralty, Hong Kong on 27 November 2018 at 10:00 a.m. to approve the Renewed Framework Agreement and the Annual Caps
“Existing Framework Agreement”	an agreement dated 11 March 2016 entered into between Shanghai Kappa and Mai Sheng Yue He in relation to the supply of sport-related products from Shanghai Kappa to Mai Sheng Yue He for the three years ending 31 December 2018
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board, comprising all the independent non-executive Directors, formed for the purpose of advising the Independent Shareholders in respect of the Renewed Framework Agreement and the Annual Caps

DEFINITIONS

“Independent Financial Adviser”	VMS Securities Limited, a corporation licensed to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities as defined under the Securities and Futures Ordinance (Cap 571 of the laws of Hong Kong), being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Renewed Framework Agreement and the Annual Caps
“Independent Shareholders”	the Shareholders, excluding Mr. Chen Yihong and his associates
“Latest Practicable Date”	6 November 2018, 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
“Mai Sheng Yue He”	Mai Sheng Yue He Sportswear Company Limited* (邁盛悅合體育用品有限公司), a company incorporated in the PRC with limited liability, a connected person of the Company
“PRC”	the People’s Republic of China, which shall, for the purposes of this circular, exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Renewed Framework Agreement”	a conditional agreement dated 9 October 2018 entered into between Shanghai Kappa and Mai Sheng Yue He in relation to the supply of sport-related products from Shanghai Kappa to Mai Sheng Yue He from 1 January 2019 to 31 March 2021
“RMB”	renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong)
“Shanghai Kappa”	Shanghai Kappa Sporting Goods Co., Ltd.* (上海卡帕體育用品有限公司), a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“Shareholder(s)”	the holder(s) of Shares
“Shares”	ordinary shares of HK\$0.01 each in the share capital of the Company

DEFINITIONS

“Stock Exchange” The Stock Exchange of Hong Kong Limited

“%” per cent.

* *denotes as English translation of a Chinese name and is provided for identification purposes only.*



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)
Mr. Zhang Zhiyong (張志勇)
Ms. Chen Chen (陳晨)

Independent non-executive Directors:

Dr. Chen Guogang (陳國鋼)
Mr. Chen Johnny (陳志宏)
Mr. Gao Yu (高煜)

Registered Address:

Cricket Square Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal Place

of Business in Hong Kong:
Office Unit 9, 13/F
Tower Two, Lippo Centre
No. 89 Queensway
Hong Kong

12 November 2018

To the Shareholders

Dear Sir or Madam,

RENEWAL OF CONTINUING CONNECTED TRANSACTION

INTRODUCTION

Reference is made to the announcement of the Company dated 11 March 2016. On 11 March 2016, Shanghai Kappa (an indirect wholly-owned subsidiary of the Company) as supplier and Mai Sheng Yue He (a connected person of the Company) as purchaser entered into the Existing Framework Agreement pursuant to which Shanghai Kappa agreed to supply sport-related products to Mai Sheng Yue He, which constituted continuing connected transactions of the Company under the Listing Rules. As the Existing Framework Agreement is due to expire on 31 December 2018, as disclosed in the Announcement, on 9 October 2018, Shanghai Kappa as supplier and Mai Sheng Yue He as purchaser entered into the Renewed Framework Agreement in relation to the supply and purchase of sport-related products from Shanghai Kappa and Mai Sheng Yue He, in order to continue with the transactions under the Existing Framework Agreement after 31 December 2018 under the terms of the Renewed Framework Agreement.

LETTER FROM THE BOARD

The Independent Board Committee has been established to consider the Renewed Framework Agreement and the Annual Caps. VMS Securities Limited has been appointed by the Company as its Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the above matters.

The purpose of this circular is to provide you with details of the Renewed Framework Agreement and the Annual Caps and to seek your approval of the ordinary resolutions set out in the notice of the EGM on pages 28 to 29 of this circular. The recommendation of the Independent Board Committee to the Independent Shareholders in respect of the Renewed Framework Agreement and the Annual Caps is set out on page 11 of this circular. The letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders containing its advice in relation to the Renewed Framework Agreement and the Annual Caps is set out on pages 12 to 22 of this circular.

THE RENEWED FRAMEWORK AGREEMENT

The principal terms of the Renewed Framework Agreement are set out as below:

Date

9 October 2018 (after trading hours)

Parties

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

Term

The Renewed Framework Agreement shall be subject to the approval by the Independent Shareholders at the EGM and shall be valid from 1 January 2019 to 31 March 2021, unless terminated earlier in accordance with the terms and conditions of the Renewed Framework Agreement.

Transactions under the Renewed Framework Agreement

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

The Renewed Framework Agreement is a framework agreement which contains the principles, mechanisms and terms and conditions upon which the parties thereto are to carry out the transactions contemplated thereunder. Shanghai Kappa and Mai Sheng Yue He may from time to time enter into specific agreements in respect of the supply of goods from Shanghai Kappa to Mai Sheng Yue He, provided that the terms and conditions of such specific agreements shall not be inconsistent with the terms of

LETTER FROM THE BOARD

the Renewed Framework Agreement. The supply of goods from Shanghai Kappa to Mai Sheng Yue He will be carried out in accordance with such specific agreements to be entered into between Shanghai Kappa and Mai Sheng Yue He from time to time during the term of the Renewed Framework Agreement.

Consideration and payment

Pursuant to the Renewed Framework Agreement, the prices for the goods to be supplied by Shanghai Kappa to Mai Sheng Yue He under the Renewed Framework Agreement are to be agreed upon and determined between the parties from time to time on an arm's length basis according to the principles of fairness and reasonableness, which shall be comparable to, or no less favourable than, the fair market prices for similar goods offered to independent distributors by Shanghai Kappa.

Shanghai Kappa shall, before entering into specific agreements with Mai Sheng Yue He in respect of the supply of goods pursuant to the Renewed Framework Agreement, obtain sales records on the supply of the same or similar goods by Shanghai Kappa to independent distributors for the purpose of determining the reference market prices for such goods, and the terms of the specific agreements to be entered into between Shanghai Kappa and Mai Sheng Yue He (including the prices) shall not be less favourable from the perspective of Shanghai Kappa than such reference market prices.

Historical Amounts

The annual caps under the Existing Framework Agreement are set out below:

For the year ended/ending	<i>RMB('000)</i>
31 December 2016	251,316
31 December 2017	301,579
31 December 2018	361,895

The historical transaction amounts (including the Kappa Brand business and the Kappa Kids business) under the Existing Framework Agreement are set out below:

	<i>RMB('000)</i>
Twelve months ended 31 December 2016	177,423
Twelve months ended 31 December 2017	124,958
From 1 January 2018 up to 31 August 2018	84,176

LETTER FROM THE BOARD

Annual Caps and basis

Pursuant to the Renewed Framework Agreement, the aggregate amount to be paid by Mai Sheng Yue He to Shanghai Kappa for the supply of goods under the Renewed Framework Agreement shall be subject to the Annual Caps as follows:

	<i>RMB('000)</i>
Three months ending 31 March 2019 (<i>Note</i>)	51,000
Twelve months ending 31 March 2020	228,000
Twelve months ending 31 March 2021	285,000

Note: Due to the change of the financial year end date of the Company from 31 December to 31 March (as announced in the Company's announcement dated 4 July 2018), the Annual Cap shall be for a 3-month period commencing on 1 January 2019 and ending on 31 March 2019.

The Annual Caps have been determined with reference to, among others, (i) the historical transaction amount in respect of the supply of goods from Shanghai Kappa to Mai Sheng Yue He for the period from 1 January 2018 up to 31 August 2018 and the estimated transaction amount in respect of the period from 1 September 2018 to 31 December 2018; (ii) the expected increase in sales performance of "Kappa" and "Kappa Kids" products in view of recent product improvements and enhancement of retail store efficiency; and (iii) the expected introduction of new brand(s) by the Group.

INTERNAL CONTROL MEASURES

In order to ensure that the terms for the supply of goods by Shanghai Kappa to Mai Sheng Yue He under the Renewed Framework Agreement are not less favourable than the terms offered by Shanghai Kappa to independent distributors, the Company has adopted the following measures:

- (i) the relevant personnel of the Company's finance department will keep track of the sales records on the supply of goods by Shanghai Kappa to independent distributors for the purpose of ensuring that the prices for goods to be supplied by Shanghai Kappa to Mai Sheng Yue He will be comparable to, or no less favourable than, the fair market prices for similar goods offered to independent distributors by Shanghai Kappa;
- (ii) the relevant personnel of the Company's finance department will keep track of the aggregate amount paid by Mai Sheng Yue He to Shanghai Kappa for the supply of goods under the Renewed Framework Agreement for the purpose of ensuring that the Annual Caps will not be exceeded; and
- (iii) the Company has adopted relevant reporting and record-keeping procedures to allow independent non-executive Directors and auditors of the Company to perform annual review of the supply of goods under the Renewed Framework Agreement.

LETTER FROM THE BOARD

INFORMATION ON THE GROUP AND SHANGHAI KAPPA

The Company is an investment company, whose subsidiaries are principally engaged in brand development, design and sales of sport-related apparel, footwear and accessories in the PRC, Macau and Japan, as well as investment activities in the PRC and abroad.

Shanghai Kappa is a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company. It is principally engaged in design, sales and production of sport-related footwear, apparel and accessories in the PRC.

INFORMATION ON MAI SHENG YUE HE

Mai Sheng Yue He is a company incorporated in the PRC with limited liability and is principally engaged in distribution and retail of sportswear including products of the Group principally in Beijing and nearby areas, Shandong, Shaanxi and Inner Mongolia.

As at the Latest Practicable Date, Mai Sheng Yue He is owned by Shanghai Gabbana Sporting Goods Co., Ltd.* (上海嘉班納體育用品有限公司) (an indirect wholly-owned subsidiary of the Company) as to 30% and Beijing Yi Tian Bo You Investment Co., Ltd.* (北京億天博佑投資有限公司) (“Chen Co.”) as to 70%. Chen Co. is owned as to 45%, 35% and 20%, respectively, by Mr. Chen Yiliang, Mr. Chen Yiyong and Mr. Chen Yizhong, each being a brother of Mr. Chen Yihong, an executive Director and the Chairman of the Company. Therefore, Mai Sheng Yue He is a connected person of the Company under Chapter 14A of the Listing Rules by virtue of it being an associate of Mr. Chen Yihong.

REASONS FOR AND BENEFITS OF ENTERING INTO THE RENEWED FRAMEWORK AGREEMENT

Mai Sheng Yue He has been one of the largest distributors of the Group since 2010 and has maintained a very good business relationship with the Group due to its sales performance, reputation for reliability as a distributor, experience in retail of sporting goods and extensive distributorship network in Beijing and nearby areas, Shandong, Shaanxi and Inner Mongolia. The Directors consider that Mai Sheng Yue He will remain as one of the Group’s key distributors and the continuing business relationship with Mai Sheng Yue He will contribute to the stable development of the business of the Group.

Mr. Chen Yihong has abstained from voting in the board meeting approving the Renewed Framework Agreement and the Annual Caps as his associates are interested in the transactions contemplated under the Renewed Framework Agreement. The remaining Directors (including the independent non-executive Directors), having considered the reasons for and benefits of entering into the Renewed Framework Agreement, consider that the Renewed Framework Agreement was entered into in the ordinary and usual course of business of the Company on normal commercial terms and the terms of the Renewed Framework Agreement (including the Annual Caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

LISTING RULES IMPLICATION

As stated above, Mai Sheng Yue He is a connected person of the Company under Chapter 14A of the Listing Rules. Therefore, the transactions contemplated under the Renewed Framework Agreement will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined under the Listing Rules) calculated with reference to the Annual Caps exceed(s) 5%, the transactions contemplated under the Renewed Framework Agreement are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As at the Latest Practicable Date, Mr. Chen Yiliang, Mr. Chen Yiyong and Mr. Chen Yizhong and their associates (including Mr. Chen Yihong) together control or are entitled to exercise control over the voting rights in respect of 2,322,636,372 Shares, representing 39.46% of the issued share capital of the Company. Any Shareholder with a material interest in the Renewed Framework Agreement and the transactions contemplated thereunder and his associates shall abstain from voting at the EGM. Therefore, Mr. Chen Yiling, Mr. Chen Yiyong and Mr. Chen Yizhong and their associates (including Mr. Chen Yihong) are required to abstain from voting at the EGM to approve the Renewed Framework Agreement and the Annual Caps.

EGM

A notice convening the EGM to be held at United Conference Centre, 10/F, United Centre, 95 Queensway, Admiralty, Hong Kong on 27 November 2018 at 10:00 a.m. is set out on pages 28 to 29 of this circular. At the EGM, ordinary resolutions will be proposed for the Independent Shareholders to consider and, if thought fit, to approve the Renewed Framework Agreement and the Annual Caps.

The ordinary resolutions to be proposed at the EGM will be determined by way of poll by the Independent Shareholders.

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.

LETTER FROM THE BOARD

RECOMMENDATION

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, is of the opinion that the Renewed Framework Agreement has been entered into in the ordinary and usual course of the business of the Group and is based on normal commercial terms, and the terms of Renewed Framework Agreement and the Annual Caps are fair and reasonable and in the interests of the Company and its Shareholders as a whole. Accordingly, the Board (except for Mr. Chen Yihong) and the Independent Board Committee recommend the Independent Shareholders to vote in favour of the ordinary resolutions to approve the Renewed Framework Agreement and the Annual Caps at the EGM.

GENERAL

Your attention is drawn to (i) the letter from the Independent Board Committee, (ii) the letter from the Independent Financial Adviser and (iii) the additional information set out in the appendix to this circular and the notice of the EGM.

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



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)

12 November 2018

Dear Independent Shareholders,

RENEWAL OF CONTINUING CONNECTED TRANSACTION

We refer to the circular of the Company dated 12 November 2018 (the “**Circular**”) of which this letter forms a part. Terms defined in the Circular bear the same meanings herein unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to advise you in respect of the fairness and reasonableness of the Renewed Framework Agreement and the Annual Caps. VMS Securities Limited has been appointed as the independent financial adviser to advise us and the Independent Shareholders in this regard.

Having taken into account the advice of the Independent Financial Adviser, we are of the opinion that the Renewed Framework Agreement has been entered into in the ordinary and usual course of the business of the Group and is based on normal commercial terms, and the Renewed Framework Agreement and the Annual Caps are fair and reasonable and in the interests of the Company and its Shareholders as a whole. Accordingly, we would advise the Independent Shareholders to vote in favour of the ordinary resolutions to approve the Renewed Framework Agreement and the Annual Caps at the EGM.

We also draw the attention of the Independent Shareholders to (i) the letter from the Board, (ii) the letter from the Independent Financial Adviser, and (iii) the appendix to the Circular.

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

CHEN Guogang
*Independent non-executive
Director*

CHEN Johnny
*Independent non-executive
Director*

GAO Yu
*Independent non-executive
Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter of advice from the independent financial adviser, VMS Securities Limited, to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



VMS SECURITIES LIMITED
49/F, One Exchange Square,
8 Connaught Place, Central,
Hong Kong

12 November 2018

*To: the Independent Board Committee and
the Independent Shareholders of
China Dongxiang (Group) Co., Ltd.*

Dear Sirs,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders on the renewal of continuing connected transactions (the “**Continuing Connected Transactions**”) contemplated under the Renewed Framework Agreement and the respective proposed Annual Caps for the three months ending 31 March 2019, and the two years ending 31 March 2020 and 2021, in respect of which the Independent Shareholders’ approval will be sought at the EGM. Details of the Renewed Framework Agreement, the Continuing Connected Transactions contemplated thereunder and the relevant proposed Annual Caps are set in the Letter from the Board contained in the circular of the Company to the Shareholders dated 12 November 2018 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined herein.

Mai Sheng Yue He (one of the largest distributors of the Group), is owned by 上海嘉班納體育用品有限公司 (“Shanghai Gabbana Sporting Goods Co., Ltd.”) (an indirect wholly-owned subsidiary of the Company) as to approximately 30.0% and by Chen Co. as to approximately 70.0%. Chen Co. is a company owned by Mr. Chen Yiliang, Mr. Chen Yiyong and Mr. Chen Yizhong, who are brothers of Mr. Chen Yihong, the Chairman and an executive Director. Hence, Mai Sheng Yue He is a connected person of the Company by virtue of it being an associate of Mr. Chen Yihong. The transactions contemplated under the Renewed Framework Agreement constitute continuing connected transactions of the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios in respect of the Annual Caps for the transactions contemplated under the Renewed Framework Agreement is/are more than 5%, the transactions contemplated under the Renewed Framework Agreement are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. In this connection, the Company will seek the Independent Shareholders' approval for the Renewed Framework Agreement, the Continuing Connected Transactions and the proposed Annual Caps at the EGM.

The Independent Board Committee, comprising all independent non-executive Directors, namely Dr. Chen Guogang, Mr. Chen Johnny and Mr. Gao Yu, has been established to make a recommendation to the Independent Shareholders on whether (i) the Renewed Framework Agreement is entered into in the ordinary and usual course of business of the Group; (ii) the terms of the Renewed Framework Agreement are on normal commercial terms, and fair and reasonable; (iii) the entering into of the Renewed Framework Agreement is in the interests of the Company and the Shareholders as a whole; and (iv) the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned. We, VMS Securities Limited (“**VMS Securities**”), have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

During the past two years from the date of the Announcement, VMS Securities had no past engagement with the Company. As at the Latest Practicable Date, we were independent from and not connected with the Group under Rule 13.84 of the Listing Rules, and accordingly, qualified to give independent advice to the Independent Shareholders regarding the Renewed Framework Agreement and the Continuing Connected Transactions contemplated thereunder.

In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the executive Directors and management of the Group and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects at the time they were provided or expressed to us and will remain so up to the time of EGM. We have also sought and received confirmation from the Company that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach the opinion and recommendation set out in this letter and to justify our reliance on such information. We have no reason to believe that any material information has been withheld, nor doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the Group or Mai Sheng Yue He, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether (i) the Renewed Framework Agreement is entered into in the ordinary and usual course of business of the Group; (ii) the terms of the Renewed Framework Agreement are on normal commercial terms, and fair and reasonable; (iii) the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

entering into of the Renewed Framework Agreement is in the interests of the Company and the Shareholders as whole; and (iv) the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned, we have taken into account the principal factors and reasons set out below:

1. Background to and reasons for the Continuing Connected Transactions

The Group is principally engaged in brand development, design and sales of sport-related apparel, footwear and accessories in the PRC, Macau and Japan, as well as investment activities in the PRC and abroad.

As set out in the Letter from the Board contained in the Circular, Mai Sheng Yue He has been one of the largest distributors of the Group since 2010. Mai Sheng Yue He continues to be a distributor of the Group through the distribution network principally in, among other things, Beijing and nearby areas, Shandong, Shaanxi and Inner Mongolia. The executive Directors expect that Mai Sheng Yue He will remain as one of the Group's key distributors. As advised by the executive Directors, a stable business relationship has been maintained with Mai Sheng Yue He. Moreover, the Group is satisfied with the sales performance of Mai Sheng Yue He. On this basis, the executive Directors are of the view that it is in the interests of the Company and the Shareholders as a whole to continue the distribution business with Mai Sheng Yue He. In compliance with the Listing Rules, Shanghai Kappa, an indirect wholly-owned subsidiary of the Company, entered into the Renewed Framework Agreement with Mai Sheng Yue He for regulating the terms for the supply of goods from Shanghai Kappa to Mai Sheng Yue He. Approval from the Independent Shareholders in respect of the Renewed Framework Agreement and the Annual Caps in relation to the supply of goods from Shanghai Kappa to Mai Sheng Yue He would be sought at the EGM.

We note that the historical supply of goods from Shanghai Kappa to Mai Sheng Yue He were approximately RMB193.0 million, RMB177.4 million and RMB125.0 million in 2015, 2016 and 2017, respectively, representing approximately 13.1%, 11.8% and 9.2% of the Group's respective revenue in 2015, 2016 and 2017. We understand from the executive Directors that there would be adverse impact on the Group's business and sales if Mai Sheng Yue He ceases to be a distributor of the Group given that (1) Mai Sheng Yue He contributed over 9% of the Group's revenue in the past three years; and (2) it would take time for the Group to engage another distributor to replace Mai Sheng Yue He's role. On this basis and given that the Continuing Connected Transactions will be conducted on normal commercial terms (as more particularly discussed in the sub-section headed "Principal terms of the Renewed Framework Agreement" below), we consider that the entering into of the Renewed Framework Agreement is in the interests of the Company and the Shareholders as a whole. In light of the principal activities of the Group, we also consider that the Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Group.

2. Principal terms of the Renewed Framework Agreement

Set out below is a summary of the principal terms of the Renewed Framework Agreement. Further details of the terms of the Renewed Framework Agreement are set out in the Letter from the Board contained in the Circular.

The Renewed Framework Agreement dated 9 October 2018 entered into between Shanghai Kappa and Mai Sheng Yue He is valid from 1 January 2019 to 31 March 2021 unless early termination in accordance with the terms and conditions of the Renewed Framework Agreement. Duration of the Renewed Framework Agreement can be renewed on terms to be agreed upon between parties stated therein subject to compliance with the applicable Listing Rules. The Renewed Framework Agreement is subject to the approval by the Independent Shareholders at the EGM.

Pursuant to the Renewed Framework Agreement, Shanghai Kappa has granted Mai Sheng Yue He a non-exclusive right to distribute “Kappa” and “Kappa Kids” brand and other brands sport-related products of the Group. The Renewed Framework Agreement is a framework agreement which contains principles, mechanisms and terms and conditions upon which the parties stated therein are to carry out the transaction contemplated thereunder. Shanghai Kappa and Mai Sheng Yue He may from time to time enter into specific agreements in respect of the supply of goods from Shanghai Kappa to Mai Sheng Yue He, provided that the terms of such detailed agreements are not inconsistent with the terms of the Renewed Framework Agreement.

It is further stipulated in the Renewed Framework Agreement, the prices for the goods to be supplied by Shanghai Kappa to Mai Sheng Yue He under the Renewed Framework Agreement are to be agreed upon and determined between the parties from time to time on an arm’s length basis according to the principles of fairness and reasonableness, which shall be no less favourable than, the fair market prices for similar goods offered to independent distributors by Shanghai Kappa.

We have, on a sampling basis, randomly selected eight purchase transactions by Mai Sheng Yue He from Shanghai Kappa for the eight months ended 31 August 2018 (the “**Sample Transactions**”) for review.

As advised by the executive Directors, the Group classified all the distributors into different tiers according to a master distributor rating assessment and discounts policy (the “**Master Policy**”). The Master Policy is applicable to all distributors except, among other things, (1) those distributors having business with Group for a period fewer than six months; and (2) those distributors with business of the Group having been terminated during the assessment period.

Product prices charged by the Group to distributors vary among different tiers of distributors. Mai Sheng Yue He is classified as grade A distributor while all other independent third party distributors are classified as grade B or lower.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We select two samples in the first three months of 2018, and note from system report of the selected samples that the prices for the goods supplied to the Mai Sheng Yue He by Shanghai Kappa are as same as that offered to independent third party grade B distributors.

Six samples are selected from April to August 2018. We note from system report of the selected samples that the prices for the goods supplied to the Mai Sheng Yue He by Shanghai Kappa are lower than that of the same goods offered to independent third party grade B distributors.

We were advised by the executive Directors that the management of the Group reviewed the distribution policy in early 2018 and concluded to grant a larger discount to grade A distributor with effect from April 2018 instead of granting the same discount to both of grade A and grade B distributors.

We obtain a copy of the Master Policy and note that distributor rating assessment during the assessment period will be made by reference to (1) amount of supply of Kappa goods by the Group to the distributor; (2) number of existing retail outlets of distributor; (3) accounts receivables turnover days; (4) human resources committed by distributor for development of Kappa business; (5) Kappa brand market position in the geographical area operated by distributor; and (6) ratio of future orders. A score will be calculated for a distributor after considering these rating assessment factors. The score will determine the grading of a distributor. The Master Policy also sets out the discount to be given by the Group to each grade of distributor. We further obtain the score calculation of Mai Sheng Yue He and notice that (1) score of Mai Sheng Yue He renders Mai Sheng Yue He to be a grade A distributor; and (2) discount offered by the Group to Mai Sheng Yue He (grade A distributor) is consistent with the Master Policy.

We are provided with a copy of 2018 annual distribution policy of Mai Sheng Yue He and an independent third party grade B distributor. It is noted that the minimum amount of summer and spring products agreed to be purchased by Mai Sheng Yue He in 2018 is approximately 2.7 times more than that of the grade B distributor. Accordingly, we consider that it is not unreasonable for the Group to grant a larger discount to Mai Sheng Yue He.

The discount offered to Mai Sheng Yue He is two percentage points more than that offered to independent third party grade B distributors. We note from the Master Policy that the difference of discounts offered to grade B and grade C distributors are six percentage points which is larger than the discount difference of two percentage points between grade A and grade B distributors. On this basis, we are of the view that: (1) the discount offered by the Group to Mai Sheng Yue He is not unreasonable; and (2) the prices offered to Mai Sheng Yue He are comparable to, or no less favourable than, the prices of the same goods offered to independent third party distributors.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

It is stated in the Letter from the Board contained in the Circular that the Company has adopted certain internal control measures to ensure that the terms for the supply of goods by Shanghai Kappa to Mai Sheng Yue He are no less favourable than the terms offered by Shanghai Kappa to independent distributors.

Further, we noted from the 2016 and 2017 annual reports of the Company that the Company engaged its auditors to report on the Continuing Connected Transactions for the two years ended 31 December 2016 and 2017 and the auditors issued an unqualified letter containing its findings and conclusions in accordance with Rule 14A.56 of the Listing Rules for the two years ended 31 December 2016 and 2017. Moreover, it was stated in the 2016 and 2017 annual reports of the Company that the independent non-executive Directors had reviewed the Continuing Connected Transactions for the two years ended 31 December 2016 and 2017.

Moreover, based on (i) our review results of the Sample Transactions; (ii) the auditors review results of the Continuing Connected Transactions for the two years ended 31 December 2016 and 2017; (iii) the internal control measures adopted by the Company regarding the Continuing Connected Transactions; and (iv) the obligations of the Directors to comply with the Listing Rules to conduct the Continuing Connected Transactions on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties, we consider that the Continuing Connected Transactions are being conducted on normal commercial terms.

3. Proposed Annual Caps with respect to the Continuing Connected Transactions contemplated under the Renewed Framework Agreement

The Continuing Connected Transactions contemplated under the Renewed Framework Agreement will be subject to the relevant proposed Annual Caps whereby for each of the three months ending 31 March 2019, and the two years ending 31 March 2020 and 2021, the amount of the Continuing Connected Transactions contemplated under the Renewed Framework Agreement will not exceed the applicable annual amounts stated in the Letter from the Board contained in the Circular. In assessing the reasonableness of the proposed Annual Caps, we have discussed with executive Directors and management of the Group the basis and underlying assumptions for the purpose of setting the proposed Annual Caps.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below are the approximate amount of supply of goods from Shanghai Kappa to Mai Sheng Yue He for the two years ended 31 December 2016 and 2017, and eight months ended 31 August 2018:

	For the year ended		Eight
	31 December		months
	2016	2017	period
	<i>RMB'000</i>	<i>RMB'000</i>	ended
			31 August
			2018
			<i>RMB'000</i>
Approximate aggregate amount of supply of goods from Shanghai Kappa to Mai Sheng Yue He	177,423	124,958	84,176
Approximate decrease as compared to previous year (%)		(29.6%)	(5.7%)

As advised by the executive Directors, the market condition of the Group remained competitive and challenging for the past two years ended 31 December 2016 and 2017. In order to mitigate the adverse impact on the Group, the Group worked closely with its distributors, including Mai Sheng Yue He to optimise existing store locations and enhance overall store image. As a result of optimisation and enhancement measures taken by Mai Sheng Yue He, there was a drop of sales of goods from Shanghai Kappa to Mai Sheng Yue He for the past two years ended 31 December 2016 and 2017. Sales of Kappa brand products in the PRC are conducted through wholesale (i.e. distributors) and retail (i.e. retail stores owned by the Group) network. It was noted from the 2017 annual report of the Company that sales of Kappa brand products of the Group in the PRC by wholesale network dropped by approximately 33.0% in 2017 which was at a level similar to the drop of supply of goods to Mai Sheng Yue He of approximately 29.6% in 2017 as shown in the table above.

In determining the proposed Annual Caps for the transactions contemplated under the Renewed Framework Agreement, the executive Directors have discussed with Mai Sheng Yue He in respect of respective business and development plan of the Group and Mai Sheng Yue He. After discussion with Mai Sheng Yue He, the executive Directors expect that supply of goods to Mai Sheng Yue He will increase because of (a) recent measures implemented by the Group to strengthen the Group's business; and (b) possible introduction of new brands of the Group.

Mr. Zhang Zhiyong was appointed as an executive Director and chief executive officer of the Company in October 2017. Mr. Zhang has been involved in the sporting goods industry of the PRC since 1992. Further details of Mr. Zhang's background are set out in the announcement of the Company dated 9 October 2017. After Mr. Zhang joining the Group, the new management of the Group conducted a strategic review of

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the Kappa brand business of the Group and formulated a plan to strengthen the business of the Group for the six months ended 30 June 2018. Certain measures were implemented in first half of 2018. It was disclosed in the 2018 interim report of the Company that sales of Kappa brand products in the PRC for the six months ended 30 June 2018 increased to approximately RMB569 million by approximately 10.7% as compared to that in the corresponding period in 2017. The executive Directors advise that this improvement in sales is partly due to the measures implemented. As further advised by the executive Directors, the Group would conduct its brand operation in second half of 2018 by (1) targeting at the right channels; (2) renovating its products to develop an effective product category; and (3) building brand assets for the long term. We also understand from the executive Directors that the Group is now considering the introduction of other brands so as to offer greater variety of products to customers. The executive Directors are of the view that all of these can promote the business of the Group.

After further discussion among parties, Mai Sheng Yue He informs Shanghai Kappa that they intend to purchase products from Shanghai Kappa in an amount of approximately RMB51 million for the three months ending 31 March 2019, and approximately RMB228 million and RMB285 million for the two years ending 31 March 2020 and 2021 respectively. A letter of intent has been entered into between Shanghai Kappa and Mai Sheng Yue He in this regard. We are provided with a copy of letter of intent and note that it is intention of Mai Sheng Yue He to purchase products from Shanghai Kappa with an amount of approximately RMB51 million for the three months ending 31 March 2019, and approximately RMB228 million and RMB285 million for the two years ending 31 March 2020 and 2021 respectively (i.e. as same as the Annual Caps). We were advised by management of the Company that approximately RMB37.4 million (representing approximately 73.3% of the Annual Cap of RMB51 million for the three months ending 31 March 2019) orders were received from Mai Sheng Yue He up to 31 October 2018 for deliveries in first quarter of 2019. Based on the above, we consider that the Annual Cap of RMB51 million for the three months ending 31 March 2019 to be fair and reasonable.

Based on the Annual Cap of RMB51 million for the three months ending 31 March 2019, the annualized amount is RMB204 million (being 51 million x 4). The Annual Cap of RMB228 million for the year ending 31 March 2020 represents a growth of approximately 11.8% as compared to the annualized amount of RMB204 million. The growth rate of approximately 11.8% for the year ending 31 March 2020 is close to the growth rate of approximately 10.7% of sales of Kappa brand products of the Group in the PRC for the six months ended 30 June 2018 as compared to the corresponding period in 2017. On this basis, we consider the Annual Cap of RMB228 million for the year ending 31 March 2020 to be reasonable.

We are informed by the executive Directors that renovation work has been carried out for certain retail stores owned by the Group for the six months ended 30 June 2018 to enhance the overall shop image, and sales growth is generally noted for renovated retail stores. The retail sales of Kappa brand products of the Group in the PRC improved by approximately 26.1% in the first half of 2018 as compared to the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

corresponding period in 2017. The Group is now discussing with Mai Sheng Yue He to proceed with renovation work for stores of Mai Sheng Yue He to enhance the overall shop image and sales. Coupled with the possible introduction of new brand products, the executive Directors anticipate that there may be a growth of supply of goods to Mai Sheng Yue He of 20% for the year ending 31 March 2021. A buffer of 5% is built in for the purpose of setting the Annual Cap for the year ending 31 March 2021 to make allowance for possible additional sales growth. In view of the aforesaid growth rate of approximately 26.1% in the first half of 2018, we consider the application of 20% growth rate to be reasonable. We also consider the 5% buffer to be acceptable because such buffer provides flexibility for the Group to capture the business opportunities offered by Mai Sheng Yue He when it places more orders with the Group.

On this basis, we consider the Annual Caps for the three months ending 31 March 2019, and for the two years ending 31 March 2020 and 2021 to be fair and reasonable so far as the Independent Shareholders are concerned.

Taking the above factors into account, the proposed Annual Caps in relation to the supply of goods from Shanghai Kappa to Mai Sheng Yue He are set as follows:

	Three months period ending 31 March 2019 RMB'000	Twelve months ending 31 March 2020 2021 RMB'000	
Annual Caps for the supply of goods from Shanghai Kappa to Mai Sheng Yue He	51,000	228,000	285,000
Approximate increase as compared to the annual cap of previous year (%)			25.0%

4. Conditions of the Continuing Connected Transactions contemplated under the Renewed Framework Agreement

In compliance with the Listing Rules, the Continuing Connected Transactions contemplated under the Renewed Framework Agreement are subject to a number of conditions which include, among other things:

- (i) the Annual Caps for the Continuing Connected Transactions contemplated under the Renewed Framework Agreement for the three months ending 31 March 2019, and for the two years ending 31 March 2020 and 2021 will not be exceeded;

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- (ii) the independent non-executive Directors must, in accordance with the Listing Rules, review annually the Continuing Connected Transactions contemplated under the Renewed Framework Agreement and confirm in the Company's annual report whether the Continuing Connected Transactions contemplated under the Renewed Framework Agreement have been entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (iii) the auditors of the Company must, in accordance with the Listing Rules, review annually the Continuing Connected Transactions contemplated under the Renewed Framework Agreement and they must confirm in a letter to the Board (a copy of which letter will be provided to the Stock Exchange at least ten business days prior to the bulk printing of the annual report of the Company) whether anything has come to their attention that causes them to believe that the Continuing Connected Transactions contemplated under the Renewed Framework Agreement:
 - (a) have not been approved by the Board;
 - (b) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group;
 - (c) were not entered into, in all material respects, in accordance with the relevant agreement(s) governing the Continuing Connected Transactions contemplated under the Renewed Framework Agreement; and
 - (d) have exceeded the Annual Caps with respect to the Continuing Connected Transactions contemplated under the Renewed Framework Agreement;
- (iv) the Company must promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or the auditors cannot confirm the matters set out in the points (ii) and/or (iii) above respectively;
- (v) the Company must allow, and ensure that Mai Sheng Yue He allows, the auditors of the Company sufficient access to their records of the Continuing Connected Transactions for the purpose of the auditors' reporting on the Continuing Connected Transactions. The Company must state in the annual report whether the auditors of the Company have confirmed the matters stated in Rule 14A.56 of the Listing Rules; and

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- (vi) the Company must re-comply with the applicable provisions of the Listing Rules governing continuing connected transactions in the event that the total amount of the Continuing Connected Transactions contemplated under the Renewed Framework Agreement exceeds the relevant Annual Caps, or that there is any material amendment to the terms of the Renewed Framework Agreement.

In light of the conditions imposed on the Continuing Connected Transactions contemplated under the Renewed Framework Agreement, in particular, (1) the limit of the value of the Continuing Connected Transactions contemplated under the Renewed Framework Agreement by way of the relevant Annual Caps; (2) the on-going review by the independent non-executive Directors and auditors of the Company regarding the terms of the Continuing Connected Transactions contemplated under the Renewed Framework Agreement; and (3) the aforesaid on-going review by the auditors of the Company regarding the Annual Caps, we are of the view that appropriate measures will be in place to govern the conduct of the Continuing Connected Transactions contemplated under the Renewed Framework Agreement and safeguard the interests of the Independent Shareholders.

OPINION

Having taken into account the above principal factors, we consider that (i) the Renewed Framework Agreement is entered into in the ordinary and usual course of business of the Group; (ii) the terms of the Renewed Framework Agreement are on normal commercial terms, and fair and reasonable; (iii) the entering into of the Renewed Framework Agreement is in the interests of the Company and the Shareholders as a whole; and (iv) the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend, and ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Renewed Framework Agreement and transactions contemplated thereunder, and the Annual Caps in relation to the Continuing Connected Transactions.

Yours faithfully,
for and on behalf of
VMS SECURITIES LIMITED
Richard Leung

Managing Director — Corporate Finance

Mr. Richard Leung is a licensed person and responsible officer of VMS Securities Limited registered with the Securities and Future Commission to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, and has over ten 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) Interests of Directors

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 class of securities		Approximate percentage of total issued Shares
			Long position	Short position	
Mr. Chen Yihong	Interest of a controlled corporation ⁽¹⁾	Ordinary	2,260,862,000 Shares	—	38.41%
	Interest of a controlled corporation ⁽³⁾	Ordinary	332,090,025 Shares	—	5.64%
Mr. Zhang Zhiyong	Beneficial owner ⁽³⁾	Ordinary	166,120,025 Shares	—	2.82%
Ms. Chen Chen	Interest of a controlled corporation ⁽²⁾	Ordinary	125,944,100 Shares	—	2.14%
	Beneficial owner	Ordinary	40,000,000 Shares	—	0.68%

Notes:

- (1) Mr. Chen Yihong, Harvest Luck Development Limited (“**Harvest Luck**”) and Talent Rainbow Far East Limited (“**Talent Rainbow**”) are deemed to be interested in the Shares held by Poseidon Sports Limited (“**Poseidon**”) by virtue of Harvest Luck and Talent Rainbow being entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of Poseidon. Harvest Luck is wholly owned and controlled by Mr. Chen Yihong. The entire issued share capital of Talent Rainbow is held by Billion Giant Development Limited (“**Billion Giant**”). The entire issued share capital of Billion Giant is in turn held by BOS Trustee Limited as trustee of the Cerises Trust. The Cerises Trust is an irrevocable discretionary trust set up by Mr. Chen Yihong as settlor and BOS Trust Company (Jersey) Limited as trustee on 20 April 2010. The beneficiaries under the Cerises Trust are family members of Mr. Chen Yihong. Mr. Chen Yihong as founder of the Cerises Trust is deemed to be interested in the Shares held by Talent Rainbow under the SFO. On 16 December 2016, the trustee has been changed from BOS Trust Company (Jersey) Limited to BOS Trustee Limited.
- (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) 332,090,025 Shares (out of which 166,090,025 Shares are held by Mr. Zhang Zhiyong) have been charged to Bright Pacific Enterprises Limited (“**Bright Pacific**”). Each of Mr. Chen Yihong, Harvest Luck, BOS Trustee Limited, Billion Giant, Talent Rainbow, Poseidon and the Company is deemed to be interested in the Shares interested in by Bright Pacific by virtue of Bright Pacific 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, 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 and short positions in 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) Directors’ positions in substantial shareholders

As at the Latest Practicable Date, each of Harvest Luck, Talent Rainbow and Poseidon 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.

As at the Latest Practicable Date, Mr. Chen Yihong, Chairman and executive Director, is the sole director of each of Harvest Luck, Talent Rainbow and Poseidon.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or any proposed director of the Company was a director or employee of a company which had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO.

3 DIRECTORS' INTEREST IN CONTRACTS AND ASSETS

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.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2017 (the date to which the latest published audited consolidated accounts of the Company 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 or leased to any member of the Group.

4 COMPETING INTERESTS

As at the Latest Practicable Date, Mr. Zhang Zhiyong, an executive Director, 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 relevant products under the online brand name of “BMAI”, and therefore may compete, directly or indirectly, with the business of the Group. Mr. Zhang Zhiyong is fully aware of, and has been discharging, his fiduciary duty to the Company. 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 the transaction(s) with the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and his or her respective close associates was considered to have an interest in a 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.

5 QUALIFICATION AND CONSENT OF EXPERT

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

Name	Qualification
VMS Securities Limited	a corporation licensed to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities as defined under the SFO

The Independent Financial Adviser has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they respectively appear herein.

The Independent Financial Adviser confirmed that it did not have any shareholding interest 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 of any member of the Group as at the Latest Practicable Date.

As at the Latest Practicable Date, the Independent Financial Adviser was not interested, directly or indirectly, in any assets which had since 31 December 2017 (being the date to which the latest published audited accounts of the Company 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.

6 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 December 2017, being the date to which the latest published audited financial statements of the Group were made up.

7 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).

8 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 arbitration 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.

9 MISCELLANEOUS

- (a) The company secretary of the Company is Ms. Wai Pui Man who is an associate member of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.
- (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 9, 13/F, Tower Two, 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 SMP Partners (Cayman) Limited.
- (f) The English text of this circular shall prevail over the Chinese text in case of any inconsistency.

10 DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the offices of the Company at Office Unit 9, 13/F, Tower Two, Lippo Centre, No. 89 Queensway, Hong Kong from the date of this circular to the date of the EGM (both days inclusive):

- (a) the Existing Framework Agreement;
- (b) the Renewed Framework Agreement;
- (c) the letter from the Board dated 12 November 2018, the text of which is set out on pages 4 to 10 of this circular;
- (d) the letter from the Independent Board Committee dated 12 November 2018, the text of which is set out on page 11 of this circular;
- (e) the letter from the Independent Financial Adviser, the text of which is set out on pages 12 to 22 of this circular;
- (f) the consent letter from the Independent Financial Adviser referred to in the paragraph headed “Qualification and Consent of Expert” in this Appendix; and
- (g) 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 IS HEREBY GIVEN that the extraordinary general meeting of shareholders (the “**EGM**”) of China Dongxiang (Group) Co., Ltd. (the “**Company**”) will be held at United Conference Centre, 10/F, United Centre, 95 Queensway, Admiralty, Hong Kong on 27 November 2018 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following ordinary resolution:

ORDINARY RESOLUTION

“THAT:

- (a) the agreement dated 9 October 2018 entered into between Shanghai Kappa Sporting Goods Co., Ltd.* (上海卡帕體育用品有限公司) (“**Shanghai Kappa**”) and Mai Sheng Yue He Sportswear Company Limited* (邁盛悅合體育用品有限公司) (“**Mai Sheng Yue He**”) regulating the terms for the supply of goods from Shanghai Kappa to Mai Sheng Yue He, the transactions contemplated thereunder and the proposed annual caps for each of the period of the three months ending 31 March 2019, the twelve months ending 31 March 2020 and the twelve months ending 31 March 2021 be and are hereby approved, confirmed and ratified; and
- (b) the directors of the Company be and are hereby authorised to do all such acts and things and to sign and execute all such documents, instruments and agreements for and on behalf of the Company as they may consider necessary, appropriate, desirable or expedient to give effect to or in connection with paragraph (a) of this resolution.”

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

Hong Kong, 12 November 2018

Notes:

1. Any member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and to vote in his stead. A proxy need not be a shareholder of the Company.

NOTICE OF EXTRAORDINARY GENERAL MEETING

2. A form of proxy for use at the meeting convened by the above notice (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, Wan Chai, Hong Kong, not less than 48 hours before the time fixed for holding of the EGM or any adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM should you so wish.
3. To ascertain shareholders' eligibility to attend and vote at the EGM, the register of members of the Company will be closed from 22 November 2018 to 27 November 2018 (both days inclusive) during which period no transfer of shares of the Company will be registered. In order to qualify to attend and vote at the EGM, all transfers of shares of the Company 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 1712-16, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on 21 November 2018.
4. The ordinary resolution set out above will be determined by way of poll.
5. 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) 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.