
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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 advisor.

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 advisor
to the Independent Board Committee and the Independent Shareholders**



A letter from the Board (as defined herein) is set out on pages 3 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 Advisor containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 12 to 23 of this circular.

A notice convening the EGM (as defined herein) 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 on 16 August 2023 at 10:30 a.m. is set out on pages 30 to 31 of this circular. A form of proxy for use by the Independent Shareholders at the EGM is enclosed with this circular and also published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.dxsport.com).

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.

31 July 2023

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	3
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	11
LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR	12
APPENDIX — GENERAL INFORMATION	24
NOTICE OF EXTRAORDINARY GENERAL MEETING	30

DEFINITIONS

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

“2023 Renewed Framework Agreement”	a conditional agreement dated 30 June 2023 entered into between Gaea and Mai Sheng Yue He in relation to the supply and sale of sport-related products by Gaea to Mai Sheng Yue He, or their respective subsidiaries, effective from 1 April 2024 to 31 March 2027
“Announcement”	the announcement of the Company dated 30 June 2023 in relation to the Renewed Framework Agreement
“Annual Caps”	the annual caps under the 2023 Renewed Framework Agreement for each of the financial years ending 31 March 2025, 2026 and 2027 as set out in the section headed “The 2023 Renewed Framework Agreement — Annual Caps and bases” in the letter from the board of this circular
“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
“Directors”	the directors of the Company
“EGM”	an extraordinary general meeting of the Company 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 on 16 August 2023 at 10:30 a.m. for the purpose of considering, and if thought fit, approving the 2023 Renewed Framework Agreement and the Annual Caps
“Existing Framework Agreement”	the framework agreement dated 30 June 2020 entered into between Shanghai Kappa and Mai Sheng Yue He in relation to the supply of sport-related products by Shanghai Kappa to Mai Sheng Yue He effective from 1 April 2021 to 31 March 2024
“Gaea”	Gaea Sports Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“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 2023 Renewed Framework Agreement and the Annual Caps
“Independent Financial Advisor”	Optima Capital Limited, a corporation licensed to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO, being the independent financial advisor to the Independent Board Committee and the Independent Shareholders in respect of the 2023 Renewed Framework Agreement and the Annual Caps
“Independent Shareholders”	the Shareholders, excluding Mr. Chen Yihong and his associates, namely, Ms. Chen Chen and Mr. Chen Yiyong
“Latest Practicable Date”	24 July 2023, 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 for the purposes of this circular, shall not include Hong Kong, the Macau Special Administrative Region and Taiwan
“RMB”	renminbi, the lawful currency of the PRC
“SFO”	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 the Shares
“Shares”	ordinary shares of HK\$0.01 each in the share capital of the Company
“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)
Ms. Chen Chen (陳晨)
Mr. Zhang Zhiyong (張志勇)
Mr. Lyu Guanghong (呂光宏)

Registered Address:

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

Independent non-executive Directors:

Dr. Chen Guogang (陳國鋼)
Mr. Gao Yu (高煜)
Mr. Liu Xiaosong (劉曉松)

*Principal Place of Business
in Hong Kong:*

Office Unit 7, 13/F
Tower One, Lippo Centre
No. 89 Queensway,
Hong Kong

31 July 2023

To the Shareholders

Dear Sir or Madam,

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

INTRODUCTION

Reference is made to the announcement of the Company dated 30 June 2020 and the Announcement. On 30 June 2020, Shanghai Kappa (an indirect wholly-owned subsidiary of the Company) and Mai Sheng Yue He (a connected person of the Company) entered into the Existing Framework Agreement pursuant to which Shanghai Kappa agreed to supply sport-related products to Mai Sheng Yue He effective from 1 April 2021 to 31 March 2024, which constituted continuing connected transactions of the Company under the Listing Rules.

LETTER FROM THE BOARD

As the Existing Framework Agreement is due to expire on 31 March 2024, on 30 June 2023, Gaea and Mai Sheng Yue He entered into the 2023 Renewed Framework Agreement in relation to the supply and sale of sport-related products by Gaea (or its subsidiaries) to Mai Sheng Yue He (or its subsidiaries), in order to continue with the transactions under the Existing Framework Agreement after 31 March 2024 under the terms of the 2023 Renewed Framework Agreement.

The Independent Board Committee has been established to consider the 2023 Renewed Framework Agreement and the Annual Caps. Optima Capital Limited has been appointed by the Company as its Independent Financial Advisor 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 2023 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 30 to 31 of this circular. The recommendation of the Independent Board Committee to the Independent Shareholders in respect of the 2023 Renewed Framework Agreement and the Annual Caps is set out on page 11 of this circular. The letter from the Independent Financial Advisor to the Independent Board Committee and the Independent Shareholders containing its advice in relation to the 2023 Renewed Framework Agreement and the Annual Caps is set out on pages 12 to 23 of this circular.

THE 2023 RENEWED FRAMEWORK AGREEMENT

The principal terms of the 2023 Renewed Framework Agreement as set out as follows:

Date

30 June 2023 (after trading hours)

Parties

- (i) Gaea (an indirect wholly-owned subsidiary of the Company); and
- (ii) Mai Sheng Yue He

Term

The 2023 Renewed Framework Agreement shall be subject to the approval by the Independent Shareholders at the EGM and shall be valid from 1 April 2024 to 31 March 2027, unless terminated earlier in accordance with the terms and conditions of the 2023 Renewed Framework Agreement. At the request of Gaea, the parties may renew the agreement upon expiry.

Transactions under the 2023 Renewed Framework Agreement

Pursuant to the 2023 Renewed Framework Agreement, Gaea shall grant Mai Sheng Yue He a non-exclusive right to distribute and sell on a consignment basis (in the case of offline sales) or a direct sales basis (in the case of online sales) of

LETTER FROM THE BOARD

sport-related products of the Group, including sportswear and related products of the “Kappa” brand and other brands of the Group to be developed, licensed or acquired in future.

The 2023 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. Gaea and Mai Sheng Yue He, or their respective subsidiaries, may from time to time enter into specific agreements in respect of the supply and sale of goods of Gaea, provided that the terms and conditions of such specific agreements shall not be inconsistent with the terms of the 2023 Renewed Framework Agreement. The arrangement with respect of the supply and sale of goods of the Group will be carried out in accordance with such specific agreements to be entered into between Gaea and Mai Sheng Yue He, or their respective subsidiaries, from time to time during the term of the 2023 Renewed Framework Agreement.

Consideration and payment

Pursuant to the 2023 Renewed Framework Agreement, the amount of commission payable or price chargeable by Gaea to Mai Sheng Yue He (or their respective subsidiaries) in connection with the supply and sale of goods contemplated under the 2023 Renewed Framework Agreement is 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 more favourable than, the commissions or price in respect of the sale of similar goods or under similar sales arrangement payable or chargeable to independent distributors by Gaea (or its subsidiaries). The Group currently adopts a tiered pricing structure where different commission rates are offered for different levels of performance based on factors including the average monthly discount rate offered to end customers and in the case of consignment sales only, new or old stock.

Gaea (or its subsidiaries) shall, before entering into specific agreements with Mai Sheng Yue He in respect of the sale of goods pursuant to the 2023 Renewed Framework Agreement, obtain transaction and commissions or sales records on the supply and sale of the same or similar goods or under the same or similar sales arrangement by Gaea(or its subsidiaries) to all other applicable independent distributors for the purpose of determining the referenced commission rates for each year or sale price of each product (as the case may be) for the supply and sale of such goods or under such sales arrangement, and the terms of the specific agreements to be entered into between Gaea and Mai Sheng Yue He, or their respective subsidiaries, shall not be less favourable from the perspective of Gaea (or its subsidiaries) than such referenced rate or price.

The transaction amounts will be settled, in the case of consignment sales, within 45 days of the end of each month, and in the case of direct sales, before delivery of the products.

LETTER FROM THE BOARD

Historical amounts

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

	<i>RMB ('000)</i>
For the financial year ended 31 March 2022	94,000
For the financial year ended 31 March 2023	113,000
For the financial year ending 31 March 2024	130,000

The historical transaction amounts under the Existing Framework Agreement are set out below:

	<i>RMB ('000)</i>
For the financial year ended 31 March 2022	61,478
For the financial year ended 31 March 2023	59,771
For the 2 months ended 31 May 2023 (<i>note</i>)	10,395

Note: the transaction amount from 1 April 2023 up to the Latest Practicable Date has not exceeded the annual cap for the financial year ending 31 March 2024

Annual Caps and bases

Pursuant to the 2023 Renewed Framework Agreement, the transaction amount between Mai Sheng Yue He and Gaea (or their respective subsidiaries) for the sale of goods under the 2023 Renewed Framework Agreement shall be subject to the Annual Caps as follows:

	<i>RMB ('000)</i>
For the financial year ending 31 March 2025	92,000
For the financial year ending 31 March 2026	112,000
For the financial year ending 31 March 2027	134,000

The Annual Caps have been determined with reference to, among others, (i) the expected increase in sales performance in view of the gradual recovery of the economy and the retail market in China after the pandemic; (ii) the planned growth in the number of retail stores to be operated by Mai Sheng Yue He; and (iii) the expected improvement in store efficiency through, among others, (a) optimising the retail network; (b) allocating more resources for marketing and staff training so as to promote sales; (c) working closely with the Group to launch product promotion and (d) improving the retail store image.

The Board noted the historical transaction amount for each of the two financial years ended 31 March 2023 and the estimated transaction amount for the year ending 31 March 2024 as disclosed in the Letter from the IFA in this circular. The Board considered that the relatively low utilisation of the annual caps in the last two financial

LETTER FROM THE BOARD

years were mainly due to the slow retail market as a result of the epidemic control measures during the pandemic. With the uplifting of those control measures and the government's implementation of the development planning for the national sporting sector including the plan to have 38.5% of the population exercising regularly and to create or expand 2,000 fitness venues by 2025, the Board expects that leisure sportswear and sporting good business will be benefited and the Group's sales will gradually rebound. Together with the planned opening of additional retail outlets, the improvement in store efficiency and the establishment of online presence, the transaction amount with Mai Sheng Yue He is expected to increase to the level before the pandemic period. The gradual rebound of sales is signified by the growth in transaction amount with Mai Sheng Yue He since the reopening of the border in early 2023. Based on the transaction amount of RMB10.395 million for the two months ended 31 May 2023, the annualized transaction amount of RMB62.37 million represents approximately 83.5% of the estimated transaction amount of RMB74.71 million for the financial year ending 31 March 2024.

INTERNAL CONTROL MEASURES

In order to ensure that the terms for the sale of goods under the 2023 Renewed Framework Agreement are not more favourable than the terms offered by Gaea (or its subsidiaries) to independent distributors, the Company has adopted the following measures:

- (i) the relevant personnel of the Company will keep track of the sales records on the supply and sale of goods by Gaea (or its subsidiaries) to independent distributors for the purpose of ensuring that in the case of consignment sales, the commission payable, or, in the case of direct sales, the price chargeable to, Mai Sheng Yue He for the sale of goods of the Group will be comparable to, or no more favourable than, the commission or price for sale of similar goods or under similar sales arrangement payable or chargeable to independent distributors by Shanghai Kappa (or its subsidiaries);
- (ii) the relevant personnel of the Company will keep track of the aggregate transaction amount for the supply and sale of goods under the 2023 Renewed Framework Agreement for the purpose of ensuring that the Annual Caps will not be exceeded;
- (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 and sale of goods under the 2023 Renewed Framework Agreement and ensure that the transactions conducted under the 2023 Renewed Framework Agreement complied with the Company's internal control procedures, the terms of the 2023 Renewed Framework Agreement and the relevant requirements under the Listing Rules; and

LETTER FROM THE BOARD

(iv) in respect of consignment sales:

- Mai Sheng Yue He is required to pay deposits to the Group to guarantee their due performance pursuant to the specific agreement. The percentage of deposit payable to the Group to the relevant total transaction amount under consignment sales for the financial year ended 31 March 2023 was approximately 37.8%;
- Mai Sheng Yue He is required to install a software so that the Group can timely monitor the sales amount and the inventory level;
- the Group and Mai Sheng Yue He will jointly cross check the system sales reports on a monthly basis; and
- the Group will conduct regular and ad hoc stock take at retail outlets of Mai Sheng Yue He. For the ad-hoc stock take, the Group will inform Mai Sheng Yue He about the date of stock take, but the selected retail outlet for stock take will only be known to the distributors on the actual date of stock take.

REASONS FOR AND BENEFITS OF ENTERING INTO THE 2023 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. It is expected that Mai Sheng Yue He will remain as one of the Group's key distributors because the well-established and continuing business relationship with Mai Sheng Yue He will contribute to the stable development of the business of the Group and avoid disruptions to the Group's distribution channel arrangement and business operations.

Mr. Chen Yihong and Ms. Chen Chen have abstained from voting in the board meeting approving the 2023 Renewed Framework Agreement and the Annual Caps as their associates are interested in the transactions contemplated under the 2023 Renewed Framework Agreement. The remaining Directors (including the independent non-executive Directors) consider that the 2023 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 2023 Renewed Framework Agreement (including the Annual Caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE GROUP AND GAEA

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

LETTER FROM THE BOARD

Gaea is a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company. It is an investment holding company and through its subsidiaries, 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 of the Latest Practicable Date, Mai Sheng Yue He is wholly-owned Beijing Yi Tian Bo You Investment Co., Ltd.* (北京億天博佑投資有限公司) which is in turn 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.

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 2023 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 2023 Renewed Framework Agreement are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Any Shareholder with a material interest in the 2023 Renewed Framework Agreement and the transactions contemplated thereunder and his associates shall abstain from voting at the EGM. Therefore, Mr. Chen Yiliang, Mr. Chen Yiyong and Mr. Chen Yizhong and their respective associates (including Mr. Chen Yihong and Ms. Chen Chen) are required to abstain from voting at the EGM to approve the 2023 Renewed Framework Agreement and the Annual Caps. As at the latest Practicable Date, Mr. Chen Yihong (through his controlled corporation) is interested in 2,359,936,000 Shares, representing approximately 40.08%; Mr. Chen Yiyong (through his controlled corporation) is interested in 8,446,742 Shares, representing approximately 0.14% and Ms. Chen Chen (by herself and through her controlled corporation) is interested in 199,498,730 Shares, representing approximately 3.39%; Ms. Chen Chen and her spouse together also hold 27,220,000 options granted under the share option scheme adopted by the Company on 8 August 2019.

LETTER FROM THE BOARD

EGM

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 on 16 August 2023 at 10:30 a.m. is set out on pages 30 to 31 of this circular. At the EGM, ordinary resolutions will be proposed for the Independent Shareholders to consider and, if thought fit, to approve the 2023 Renewed Framework Agreement and the Annual Caps.

The ordinary resolution 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 and also published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.dxsport.com). 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.

RECOMMENDATION

The Independent Board Committee, having taken into account the advice of the Independent Financial Advisor, is of the opinion that the 2023 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 Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution to approve the 2023 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 Advisor 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)

31 July 2023

Dear Independent Shareholders,

RENEWAL OF CONTINUING CONNECTED TRANSACTION

We refer to the circular of the Company dated 31 July 2023 (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 2023 Renewed Framework Agreement and the Annual Caps. Optima Capital Limited has been appointed as the independent financial advisor to advise us and the Independent Shareholders in this regard.

Having taken into account the advice of the Independent Financial Advisor, we are of the opinion that the 2023 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 2023 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 2023 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 Advisor, and (iii) the appendix to the Circular.

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*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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



Suite 1501, 15th Floor
Jardine House
1 Connaught Place
Central, Hong Kong

31 July 2023

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

Dear Sirs,

RENEWAL OF CONTINUING CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders on the renewal of continuing connected transaction (the “**Continuing Connected Transaction**”) contemplated under the 2023 Renewed Framework Agreement and the respective proposed Annual Caps for the three years ending 31 March 2025, 2026 and 2027, in respect of which the Independent Shareholders’ approval will be sought at the EGM. Details of the 2023 Renewed Framework Agreement, the Continuing Connected Transaction contemplated thereunder and the relevant proposed Annual Caps are set out in the Letter from the Board contained in the circular of the Company to the Shareholders dated 31 July 2023 (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 distributors of the Group), is wholly-owned by 北京億天博佑投資有限公司 (Beijing Yi Tian Bo You Investment Co., Ltd.) which is in turn 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, the Chairman of the Company 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 2023 Renewed Framework Agreement constitute Continuing Connected Transaction of the 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 2023 Renewed Framework Agreement is/are more than 5%, the transactions contemplated under the 2023 Renewed Framework Agreement are subject to the reporting, annual review, announcement and Independent Shareholders’ approval requirements under Chapter 14A

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

of the Listing Rules. In this connection, the Company will seek the Independent Shareholders' approval for the 2023 Renewed Framework Agreement, the Continuing Connected Transaction and the proposed Annual Caps at the EGM.

The Independent Board Committee, comprising all independent non-executive Directors, namely Dr. Chen Guogang, Mr. Gao Yu and Mr. Liu Xiaosong, has been established to make a recommendation to the Independent Shareholders on whether (i) the 2023 Renewed Framework Agreement is entered into in the ordinary and usual course of business of the Group; (ii) the terms of the 2023 Renewed Framework Agreement are on normal commercial terms, and fair and reasonable; (iii) the entering into of the 2023 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, Optima Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

We did not act as the independent financial advisor to the Company during the two years preceding the Latest Practicable Date. As at the Latest Practicable Date, there had been no other relationships or interests existing between us and the Group that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the independent financial advisor to the Independent Board Committee and the Independent Shareholders in respect of the 2023 Renewed Framework Agreement, the Continuing Connected Transaction contemplated thereunder and the proposed Annual Caps as detailed in the Circular. Accordingly, we are independent under Rule 13.84 of the Listing Rules.

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 (together the "**Management**"), 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 assumed that all the opinions or representations of the Management have been reasonably made after due and careful enquiry. 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 an informed view, and 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 2023 Renewed Framework Agreement is entered into in the ordinary and usual course of business of the Group; (ii) the terms of the 2023 Renewed Framework Agreement are on normal commercial terms, and fair and reasonable; (iii) the entering into of the 2023 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 Transaction

The Group is principally engaged in brand development, design and sales of sport-related apparel, footwear and accessories, and 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 operates its 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. The executive Directors advise that a stable business relationship has been maintained with Mai Sheng Yue He, and the Group is satisfied with the sales performance of Mai Sheng Yue He. Accordingly, 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 business relationship with Mai Sheng Yue He. Gaea, an indirect wholly-owned subsidiary of the Company, entered into the 2023 Renewed Framework Agreement with Mai Sheng Yue He for regulating the terms for the supply and sale of goods from Gaea (or its subsidiaries) to Mai Sheng Yue He (or its subsidiaries) for the three years ending 31 March 2025, 2026 and 2027. Approval from the Independent Shareholders in respect of the 2023 Renewed Framework Agreement and the Annual Caps would be sought at the EGM.

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 is a key distributor of the Group and has contributed to the stable development of the Group's business; (2) Mai Sheng Yue He has extensive distributorship network in Beijing and nearby areas set out in the Letter from the Board; and (3) 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 Transaction will be conducted on normal commercial terms (as more particularly discussed in the sub-section headed "Principal terms of the 2023 Renewed Framework Agreement" below), we consider that the entering into of the 2023 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 Transaction is conducted in the ordinary and usual course of business of the Group.

2. Principal terms of the 2023 Renewed Framework Agreement

Set out below is a summary of the principal terms of the 2023 Renewed Framework Agreement. Further details of the terms of the 2023 Renewed Framework Agreement are set out in the Letter from the Board contained in the Circular.

The 2023 Renewed Framework Agreement dated 30 June 2023 was entered into between Gaea and Mai Sheng Yue He with a view to regulating the relationship between Gaea (or its subsidiaries) and Mai Sheng Yue He (or its subsidiaries) in respect of the Continuing Connected Transaction for the period from 1 April 2024 to 31 March 2027 unless early termination in accordance with the terms and conditions of the 2023 Renewed Framework Agreement. At the request of Gaea, duration of the 2023 Renewed Framework Agreement can be renewed upon expiry by parties.

Pursuant to the 2023 Renewed Framework Agreement, Gaea shall grant Mai Sheng Yue He a non-exclusive right to distribute and sell on a consignment or direct sales basis of sport-related products of the Group, including sportswear and related products of the “Kappa” brands and other brands of the Group to be developed, licensed or acquired in future. The 2023 Renewed Framework Agreement is a framework agreement which contains principles, mechanisms and terms and conditions upon which the parties thereto are to carry out the transaction contemplated thereunder. Gaea and Mai Sheng Yue He, or their respective subsidiaries, may from time to time enter into specific agreements in respect of the supply and sale of goods of the Group, provided that the terms and conditions of such specific agreements shall not be inconsistent with the terms of the 2023 Renewed Framework Agreement. It is stated in the Letter from the Board contained in the Circular that the consignment sales and the direct sales relate to offline sales and online sales respectively.

As further stipulated in the 2023 Renewed Framework Agreement, the amount of commission payable or price chargeable by Gaea to Mai Sheng Yue He (or their respective subsidiaries) in connection with the supply and sale of goods contemplated under the 2023 Renewed Framework Agreement is 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 more favourable than, the commission or price in respect of the sale of similar goods or under similar sales arrangement payable or chargeable to independent distributors by Gaea (or its subsidiaries). The Group currently adopts a tiered pricing structure where different commission rates are offered for different levels of sale performance of Mai Sheng Yue He based on new or old stock and the average monthly discount rate offered to end customers.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

For consignment sales, Mai Sheng Yue He is granted with a credit term of 45 days which is within the range of that granted by the Group to independent distributors. We note from the annual report of the Company for the year ended 31 March 2023 that customers are normally granted credit terms within 30 days to 90 days. Mai Sheng Yue He has to settle the transaction amount before delivery of products in respect of online sales. This credit term is also applicable to other online sales distributor. Accordingly, we consider that the credit term of Mai Sheng Yue He are comparable to that of independent distributors.

The Existing Framework Agreement governs the Continuing Connected Transactions with Mai Sheng Yue He for (a) the two years ended 31 March 2022 and 2023; and (b) the year ending 31 March 2024. We noted from the annual reports of the Company for the two years ended 31 March 2022 and 2023 that the Company engaged its auditors to report on the Continuing Connected Transaction for the two years ended 31 March 2022 and 2023, and the auditors issued an unqualified letter containing its findings and conclusions in accordance with the Listing Rules for these two financial years. Moreover, it was stated in the aforesaid annual reports of the Company that the independent non-executive Directors had reviewed the Continuing Connected Transaction for two years ended 31 March 2022 and 2023.

Given that the auditor and the independent non-executive Directors have reviewed the Continuing Connected Transaction for the two years ended 31 March 2022 and 2023, we have, on a sampling basis, randomly selected two transactions of supply and sale of goods by the Group to Mai Sheng Yue He (one online sale and one offline sale) for the month of October 2021 and June 2022 (i.e. a month of each of the two years ended 31 March 2022 and 2023) for review. We also conduct a review for the month of April 2023. We understand from the executive Directors that the online sales currently contribute less than 10% of the transaction amount with Mai Sheng Yue He. As the auditor and the independent non-executive Directors have not yet reviewed the Continuing Connected Transactions for the year ending 31 March 2024, the sample size has been increased to five transactions for the month of April 2023 (four offline sales and one online sale). We note from the selected samples that the commission paid and the price charged by the Group were calculated in accordance with terms of the agreements with Mai Sheng Yue He, which are no more favourable than that of the independent distributors. In view of (1) the aforesaid review results by auditor and the independent non-executive Directors; and (2) our review results of the sample transactions (the “**Sample Transactions**”), we consider the sample size to be appropriate.

Internal control measures have been adopted by the Company regarding the Continuing Connected Transaction. Details of such internal control measures are set out in the Letter from the Board contained in the Circular. We check to the agreements between the Group and Mai Sheng Yue He governing the consignment sales, and note that Mai Sheng Yue He has to pay a lump sum deposit to the Group to guarantee its due performance pursuant to the agreements. It is stated in the Letter from the Board contained in the Circular that the amount of deposit payable to the Group contributes to approximately 37.8% of consignment sales for the financial year ended 31 March

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

2023. It is further stipulated in the agreements that Mai Sheng Yue He has to ensure its physical inventory to be consistent with that maintained in the system. If there is any variance of inventory identified during the stock take conducted by the Group, Mai Sheng Yue He has to compensate the Group pursuant to the agreements. Coupled with (1) the aforesaid review results by auditor and the independent non-executive Directors; and (2) our review results of the Sample Transactions, we consider that the internal control measures are being implemented to safeguard the interests of the Group.

Moreover, based on (i) our review results of the Sample Transactions; (ii) the auditor's review results of the Continuing Connected Transaction for the two years ended 31 March 2022 and 2023; (iii) the internal control measures adopted by the Company regarding the Continuing Connected Transaction; and (iv) the obligations of the Directors to comply with the Listing Rules to conduct the Continuing Connected Transaction on normal commercial terms, we consider that the Continuing Connected Transaction are being conducted on normal commercial terms.

3. Proposed Annual Caps with respect to the Continuing Connected Transaction contemplated under the 2023 Renewed Framework Agreement

The Continuing Connected Transaction contemplated under the 2023 Renewed Framework Agreement will be subject to the relevant proposed Annual Caps whereby for each of the three years ending 31 March 2025, 2026 and 2027, the amount of the Continuing Connected Transaction contemplated under the 2023 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 the Management the basis and underlying assumptions for the purpose of setting the proposed Annual Caps.

Set out below are the historical transaction amount for the supply and sale of goods between the Group and Mai Sheng Yue He for the three years ended 31 March 2021, 2022 and 2023:

	For the year ended 31 March		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Historical transaction amount for the supply and sale of goods between the Group and Mai Sheng Yue He	64,679	61,478	59,771
Approximate decrease as compared to previous year (%)		(4.95%)	(2.78%)

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

As set out in the annual report for the year ended 31 March 2022 and the annual results announcement for the year ended 31 March 2023, the sale revenue of Kappa brand products of the Group for the two years ended 31 March 2022 and 2023 dropped by approximately 7.1% and 6.9% as compared to that of the previous financial year respectively. The drop was due to the decline of the number of visiting customers owing to the outbreak of COVID-19 in certain parts of the PRC. The decrease of historical transaction amount for the supply and sale of goods between the Group and Mai Sheng Yue He as set out in the table above was, in general, in line with the drop of sale revenue of Kappa brand products of the Group.

In determining the proposed Annual Caps for the transactions contemplated under the 2023 Renewed Framework Agreement, the executive Directors have considered, among other things, (i) the historical transaction amount in respect of the supply and sale of goods for the past three years ended 31 March 2021, 2022 and 2023 as detailed above; (ii) the estimated transaction amount in respect of the supply and sale of goods for the financial year ending 31 March 2024; (iii) the expected increase in sales performance attributable to the gradual recovery of economy and retail market in the PRC after the COVID-19 pandemic; (iv) the planned growth in number of retail stores to be operated by Mai Sheng Yue He; and (v) the expected improvement in store efficiency.

It is stated in the annual results announcement of the Company for the year ended 31 March 2023 that the government has commenced development planning for the national sporting sector, which is expected to drive the rapid development of industries relating to sports and outdoor activities, and the penetration rate of sectors such as the Group's leisure sportswear and sporting goods business is expected to further increase. It is further stated that the Group holds an optimistic view on the prospect of China's leisure sportswear industry with the conviction that China's sports market holds out considerable potential for development. On this basis, the executive Directors estimate that there would be an increase of 25% in respect of the supply and sale of goods to Mai Sheng Yue He for the financial year ending 31 March 2024. The estimated transaction amount in respect of the supply and sale of goods to Mai Sheng Yue He for the financial year ending 31 March 2024 would be approximately RMB74.71 million (being 59.771 million \times 1.25).

We note from 2022 annual results announcement of Xtep International Holdings Limited (stock code: 1368) ("**Xtep**") that the sporting goods industry is exhibiting a positive outlook due to, among other things, China's swift reopening after nearly three years of stringent epidemic control, the government's unprecedented efforts to promote sports development and steady growth of sports participation. Similar view is also noted from 2022 annual results announcement of Li Ning Company Limited (stock code: 2331) ("**Li Ning**"). As stated in the 2022 annual results announcement of Li Ning, it strongly believes that the sports market has a promising outlook with enormous potential for development. It is stated in the Letter from the Board contained in the Circular that the transaction amount with Mai Sheng Yue He in respect of the supply and sale of goods for the two months ended 31 May 2023 was approximately RMB10.395 million. Based on the amount of RMB10.395 million, the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

annualized amount for the year ending 31 March 2024 is approximately RMB62.37 million (being 10.395 million \times 6), representing approximately 83.5% of the estimated transaction amount of RMB74.71 million. We understand from the executive Directors that the retail sales for the second half of the financial year is expected to be higher than the first half of the financial year because of the traditional shopping festivals like the singles' day, Christmas and Chinese New Year. We also consider that it is more relevant to refer to the movement of the sale revenue of Kappa brand products of the Group for the year ended 31 March 2020 (i.e. prior to the COVID-19 pandemic) to assess the reasonableness of the estimated growth of 25% regarding the supply and sale of goods to Mai Sheng Yue He for the financial year ending 31 March 2024. There was a growth of approximately 24.3% of the sale revenue of Kappa brand products of the Group for the year ended 31 March 2020 as compared to that of the previous financial year ended 31 March 2019. Accordingly, we consider the estimated increase of 25% for the supply and sale of goods to Mai Sheng Yue He for the financial year ending 31 March 2024 to be reasonable.

The executive Directors anticipates that there will be growth of business with Mai Sheng Yue He for the coming three years ending 31 March 2025, 2026 and 2027 mainly as a result of recovery of the PRC economy after the outbreak of the COVID-19 pandemic and the business expansion plan of Mai Sheng Yue He. It is estimated by the executive Directors that there will be a growth of 23% for the transaction amount with Mai Sheng Yue He for the year ending 31 March 2025 as compared to that for the year ending 31 March 2024. The estimated transaction amount with Mai Sheng Yue He for the year ending 31 March 2025 is approximately RMB91.89 million (74.71×1.23) which is rounded up to the nearest million of RMB92 million for the Annual Caps for the year ending 31 March 2025.

The growth rate is expected by the executive Directors to be dropped gradually for the two years ending 31 March 2026 and 2027. Annual growth of 21% and 20% are built in by the executive Directors in determining the Annual Caps for the two years ending 31 March 2026 and 2027 respectively. Accordingly, the estimated transaction amount with Mai Sheng Yue He for the two years ending 31 March 2026 and 2027 are approximately RMB111.19 million (91.89×1.21) and RMB133.43 million (111.19×1.2) respectively. For setting the Annual Caps for the two years ending 31 March 2026 and 2027, these figures are rounded up to the nearest million to RMB112 million and RMB134 million respectively.

In setting the aforesaid respective estimated annual growth of 23%, 21% and 20% for the Annual Caps for the coming three years ending 31 March 2025, 2026 and 2027, a buffer of 5% is built in by the executive Directors to cater for possible adjustments in prices, and further growth in business. Given that (i) the buffer would provide flexibility for the Group to capture the business opportunities with Mai Sheng Yue He; and (ii) the amount of commission payable or price chargeable by Gaea and Mai Sheng Yue He (or their respective subsidiaries) has to be determined on an arm's length basis according to the principles of fairness and reasonableness pursuant to the 2023 Renewed Framework Agreement, the buffer of 5% is considered to be reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

After deducting the 5% buffer, the respective estimated annual growth of the transaction amount with Mai Sheng Yue He would be 18%, 16% and 15% for the coming three years ending 31 March 2025, 2026 and 2027. We review a letter issued by Mai Sheng Yue He in July 2023 and note that Mai Sheng Yue He plans to, (1) expand its number of retail stores by 5% annually; and (2) increase the transaction amount in a range of between 10% and 15% annually by enhancing its retail store efficiency through, among other things, (i) optimising the retail network; (ii) allocating more resources for marketing and staff training so as to promote the sales; (iii) working closely with the Group to launch product promotion; and (iv) improving the retail store image. As set out in their respective annual results announcement for the year ended 31 December 2022, ANTA Sports Products Limited (stock code: 2020) (“ANTA”), Li Ning and Xtep are principally engaged in sales of sporting goods including footwear and apparel. Accordingly, we are of the view that their principal businesses are comparable to that of the Group. We obtain a research report published by an American investment bank in second quarter of 2023 from Bloomberg and note that such American investment bank estimates the average growth of revenue of ANTA, Li Ning and Xtep are 17.2% and 16.7% in 2024 and 2025 respectively. Accordingly, we are of the view that the respective estimated annual growth of the transaction amount with Mai Sheng Yue He of 18% and 16% for the two years ending 31 March 2025 and 2026 are reasonable. Revenue growth estimate for ANTA, Li Ning and Xtep in 2026 is not made by such international investment bank. In view of (i) the expansion plan of Mai Sheng Yue He regarding its expansion of retail outlets and enhancement of retail store efficiency; and (ii) the positive view on the outlook of sports industry of the peers set out above, we consider the estimated growth of the transaction amount with Mai Sheng Yue He of 15% for the year ending 31 March 2027 to be reasonable.

Taking the above factors into account, the proposed Annual Caps are set as follows:

	For the year ending 31 March		
	2025	2026	2027
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Annual Caps for the supply and sale of goods from Gaea (or its subsidiaries) to Mai Sheng Yue He (or its subsidiaries)	92,000	112,000	134,000
Approximate increase as compared to the annual caps of previous year (%)		21.7%	19.6%

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

4. Conditions of the Continuing Connected Transaction contemplated under the 2023 Renewed Framework Agreement

In compliance with the Listing Rules, the Continuing Connected Transaction contemplated under the 2023 Renewed Framework Agreement are subject to a number of conditions which include, among other things:

- (i) the Annual Caps for the Continuing Connected Transaction contemplated under the 2023 Renewed Framework Agreement for the three years ending 31 March 2027 will not be exceeded;
- (ii) the independent non-executive Directors must, in accordance with the Listing Rules, review annually the Continuing Connected Transaction contemplated under the 2023 Renewed Framework Agreement and confirm in the Company's annual report whether the Continuing Connected Transaction contemplated under the 2023 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 Transaction contemplated under the 2023 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 Transaction contemplated under the 2023 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 Transaction contemplated under the 2023 Renewed Framework Agreement; and
 - (d) have exceeded the Annual Caps with respect to the Continuing Connected Transaction contemplated under the 2023 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;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

- (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 Transaction for the purpose of the auditors' reporting on the Continuing Connected Transaction; and
- (vi) the Company must re-comply with the applicable provisions of the Listing Rules governing Continuing Connected Transaction in the event that the total amount of the Continuing Connected Transaction contemplated under the 2023 Renewed Framework Agreement exceeds the relevant Annual Caps, or that there is any material amendment to the terms of the 2023 Renewed Framework Agreement.

In light of the conditions imposed on the Continuing Connected Transaction contemplated under the 2023 Renewed Framework Agreement, in particular, (1) the limit of the value of the Continuing Connected Transaction contemplated under the 2023 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 Transaction contemplated under the 2023 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 Transaction contemplated under the 2023 Renewed Framework Agreement and safeguard the interests of the Independent Shareholders.

OPINION

Having taken into account the above principal factors, in particular,

- 1) the principal activities of the Group for brand development, design and sales of sport-related apparel, footwear and accessories;
- 2) the review results by auditor and the independent non-executive Directors regarding the Continuing Connected Transactions for the two years ended 31 March 2022 and 2023;
- 3) our review results of the Sample Transactions that the commission paid and the price charged by the Group were calculated in accordance with terms of the agreements with Mai Sheng Yue He, which are no more favourable than that of the independent distributors; and
- 4) our assessment regarding the fairness and reasonableness of the Annual Caps set out above,

we consider that (i) the 2023 Renewed Framework Agreement is entered into in the ordinary and usual course of business of the Group; (ii) the terms of the 2023 Renewed Framework Agreement are on normal commercial terms, and fair and reasonable; (iii) the entering into of the 2023 Renewed Framework Agreement is in the interests of the Company and the Shareholders as a whole; and (iv) the Annual Caps are fair and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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 2023 Renewed Framework Agreement, the transactions contemplated thereunder and the Annual Caps in relation to the Continuing Connected Transaction.

Yours faithfully,
for and on behalf of
OPTIMA CAPITAL LIMITED
Ng Ka Po
Managing Director
Corporate Finance

Mr. Ng is a responsible officer of Optima Capital Limited and a licensed person registered with the Securities and Futures 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. Mr. Ng has participated in the provision of independent financial advisory services for various transactions involving companies listed on the Stock Exchange.

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	Number and class of securities		Approximate percentage of total issued Shares
		Long position	Short position	
Mr. Chen Yihong	Interest of a controlled corporation ⁽¹⁾	2,359,936,000 Shares	—	40.08%
	Interest of a controlled corporation ⁽³⁾	312,090,025 Shares	—	5.3%
Ms. Chen Chen	Interest of a controlled corporation ⁽²⁾	177,998,730 Shares	—	3.02%
	Beneficial owner	44,500,000 Shares ⁽⁵⁾	—	0.76%
	Interest of spouse	4,220,000 Shares ⁽⁷⁾	—	0.07%
Mr. Zhang Zhiyong	Beneficial owner ⁽³⁾	202,120,025 Shares ⁽⁴⁾	—	3.43%
Mr. Lyu Guanghong	Beneficial owner ⁽³⁾	19,900,000 Shares ⁽⁶⁾	—	0.338%

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 Gaea Sports Limited (“**GAEA**”). Each of Mr. Chen Yihong, Harvest Luck, Poseidon and the Company is deemed to be interested in such Shares by virtue of GAEA, 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. On 18 April 2023, Share options were granted by the Company to Mr. Lyu Guanghong to subscribe for 3,900,000 Shares at an exercise price of HK\$0.33 each.
- (7) It included share options of Mr. Men Xiaochen, who is the spouse of Ms. Chen Chen to subscribe for 320,000 Shares pursuant to the share options granted by the Company on 16 September 2019 under the share option scheme adopted by the Company on 8 August 2019 at an exercise price of HK\$0.854 each. On 18 April 2023, Share options were granted by the Company to Mr. Men Xiaochen to subscribe for 3,900,000 shares at an exercise price of HK\$0.33 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	Name of class of securities		Approximate percentage of total issued Shares
		Long position	Short position	
Poseidon Sports Limited	Corporate interest	2,359,936,000 Shares	—	40.08%
	Interest in a controlled corporation ⁽²⁾	312,090,025 Shares	—	5.3%
Harvest Luck Development Limited ⁽¹⁾	Interest in a controlled corporation	2,359,936,000 Shares	—	40.08%
	Interest in a controlled corporation ⁽²⁾	312,090,025 Shares	—	5.3%

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 Gaea Sports Limited (“**GAEA**”). Each of Mr. Chen Yihong, Harvest Luck, Poseidon and the Company is deemed to be interested in such Shares by virtue of GAEA, 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 Zhiyong 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 Zhiyong 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 2023 (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:

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

As at the Latest Practicable Date, Optima Capital 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 2023 (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.

Optimal Capital 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 2023, 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) for a period of 14 days from the date of this circular:

- (a) the Existing Framework Agreement;
- (b) the 2023 Renewed Framework Agreement;
- (c) the letter from the Board dated 31 July 2023, the text of which is set out on pages 3 to 10 of this circular;
- (d) the letter from the Independent Board Committee dated 31 July 2023, the text of which is set out on page 11 of this circular;
- (e) the letter from the Independent Financial Advisor dated 31 July 2023, the text of which is set out on pages 12 to 23 of this circular;
- (f) the letter of consent from the Independent Financial Advisor dated 31 July 2023 referred to in the paragraph headed “7. Expert and Consent” 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 G/F., Lobby Area, Building 21, No. 2 Jingyuanbei Street, Beijing Economic-Technology Development Area, Beijing, the People’s Republic of China, on 16 August 2023 at 10:30 a.m. for the purpose of considering and, if thought fit, passing the following ordinary resolution:

ORDINARY RESOLUTION

“THAT:

1. (a) the agreement dated 30 June 2023 entered into between Gaea Sports Limited (“**Gaea**”) 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 Gaea to Mai Sheng Yue He, or their respective subsidiaries, the transactions contemplated thereunder and the proposed annual caps for each of the period of the twelve months ending 31 March 2025, the twelve months ending 31 March 2026 and the twelve months ending 31 March 2027 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, 31 July 2023

NOTICE OF EXTRAORDINARY GENERAL MEETING

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.
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 11 August 2023 to 16 August 2023 (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 documents 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, 17/F Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on 10 August 2023.
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.