
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 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 Securities
鼎珮證券

VMS Securities Limited

A letter from the Board (as defined herein) is set out on pages 3 to 14 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 15 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 16 to 27 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 19 August 2020 at 10:30 a.m. is set out on pages 33 to 34 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.

4 August 2020

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DEFINITIONS

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

“2020 Renewed Framework Agreement”	a conditional agreement dated 30 June 2020 entered into between Shanghai Kappa and Mai Sheng Yue He in relation to the supply and sale of sport-related products by Shanghai Kappa to Mai Sheng Yue He effective from 1 April 2021 to 31 March 2024
“Announcement”	the announcement of the Company dated 30 June 2020 in relation to the 2020 Renewed Framework Agreement
“Annual Caps”	the annual caps under the 2020 Renewed Framework Agreement in the amounts of RMB94,000,000, RMB113,000,000 and RMB130,000,000 for each of the financial years ending 31 March 2022, 2023 and 2024
“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 Rules
“Director(s)”	director(s) of the Company
“EGM”	the 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 19 August 2020 at 10:30 a.m. to approve the 2020 Renewed Framework Agreement and the Annual Caps
“Existing Framework Agreement”	an agreement dated 9 October 2018 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 January 2019 to 31 March 2021
“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 2020 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) and Type 6 (advising on corporate finance) 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 2020 Renewed Framework Agreement and the Annual Caps
“Independent Shareholders”	the Shareholders, excluding Mr. Chen Yihong and his associates
“Latest Practicable Date”	30 July, 2020, 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
“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 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)
Mr. Zhang Zhiyong (張志勇)
Ms. Chen Chen (陳晨)
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 9, 13/F
Tower Two, Lippo Centre
No. 89 Queensway
Hong Kong

4 August 2020

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 9 October 2018. On 9 October 2018, 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 January 2019 to 31 March 2021, which constituted continuing connected transactions of the Company under the Listing Rules.

As the Existing Framework Agreement is due to expire on 31 March 2021, as disclosed in the Announcement, on 30 June 2020, Shanghai Kappa and Mai Sheng Yue He entered into the 2020 Renewed Framework Agreement in relation to the supply and sale of sport-related products by Shanghai Kappa (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 2021 under the terms of the 2020 Renewed Framework Agreement.

LETTER FROM THE BOARD

The Independent Board Committee has been established to consider the 2020 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 2020 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 33 to 34 of this circular. The recommendation of the Independent Board Committee to the Independent Shareholders in respect of the 2020 Renewed Framework Agreement and the Annual Caps is set out on page 15 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 2020 Renewed Framework Agreement and the Annual Caps is set out on pages 16 to 27 of this circular.

THE 2020 RENEWED FRAMEWORK AGREEMENT

The principal terms of the 2020 Renewed Framework Agreement are set out as below:

Date

30 June 2020 (after trading hours)

Parties

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

Term

The 2020 Renewed Framework Agreement shall be subject to the approval by the Independent Shareholders at the EGM and shall be valid from 1 April 2021 to 31 March 2024, unless terminated earlier in accordance with the terms and conditions of the 2020 Renewed Framework Agreement.

Transactions under the 2020 Renewed Framework Agreement

Pursuant to the 2020 Renewed Framework Agreement, Shanghai Kappa shall grant Mai Sheng Yue He a non-exclusive right to distribute and sell on a consignment basis or otherwise 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 2020 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, or their respective subsidiaries, may from time to time enter into specific agreements in respect of the supply and sale of goods of Shanghai Kappa,

LETTER FROM THE BOARD

provided that the terms and conditions of such specific agreements shall not be inconsistent with the terms of the 2020 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 Shanghai Kappa and Mai Sheng Yue He, or their respective subsidiaries, from time to time during the term of the 2020 Renewed Framework Agreement.

Transition of Sales Arrangement from Direct Sales to Consignment Sales

The sales arrangement between the Company and its distributors (including independent distributors and Mai Sheng Yue He) had been gradually changing from direct sales to consignment sales since the financial year ended 31 March 2019.

The Group mainly supply goods to Mai Sheng Yue He as well as to other independent distributors on a consignment basis at present. The supply of goods to distributors (including Mai Sheng Yue He) was previously carried out by direct sales. This posed pressure on the working capital of the distributors which, in turn, resulted in long aged accounts receivables from the distributors. Moreover, the Group did not have a clear picture of the actual sales or popularity of its products and the inventory level of the distributors under the direct sales arrangement. Under the present arrangement, the goods remain as inventory of the Group after delivery to the retail outlets of the distributors until they are sold to end customers by the distributors. The distributors are required to install centralised sales and inventory system so that the Group has information regarding the sales and inventory level of the distributors from time to time. After the goods are sold to end customers by the distributors, the distributors would remit the sale proceeds after deducting the applicable commission and relevant tax amount, to the Group within the credit period set out in the relevant sales agreement.

In view that the transactions with Mai Sheng Yue He and other related distributors were conducted by way of a mixed of direct sales and consignment sales for the financial year ended 31 March 2019 and that the total revenue had been used to calculate the related parties transaction amount in the past, the total revenue generated by Mai Sheng Yue He and other related distributors was disclosed as the transaction amount with related parties in the Company's 2018/2019 annual report.

On the other hand, the transition from direct sales to consignment sales was mostly completed in or around March 2020, and a majority of the sales were performed under consignment sales arrangement during the financial year ended 31 March 2020. The related party transaction amount disclosed in the 2020 annual report was separated into two categories: (i) total revenue of approximately RMB7,240,000 (including the transaction amount of about RMB4,893,000 with Mai Sheng Yue He) in respect of the transactions conducted under direct sales and (ii) total commission of approximately RMB82,331,000 (including the transaction amount of about RMB47,667,000 with Mai Sheng Yue He) in respect of the transactions conducted under consignment sales.

LETTER FROM THE BOARD

Although the sales arrangement may have changed from direct sales to consignment sales, the Directors are of the view that it does not constitute a material change to the terms of the transaction with Mai Sheng Yue He under the Existing Framework Agreement because: (i) the Group's products are sold through the stores operated by Mai Sheng Yue He under both arrangements; (ii) the net proceeds receivable by the Group after sale of goods are similar under the both arrangements. Under the direct sales method, the price payable by Mai Sheng Yue He to the Group is the retail price after applying an agreed discount rate. Under the consignment sales arrangement, Mai Sheng Yue He is required to pay to the Group the retail price after deducting its sales commissions calculated at a rate similar to the level of discount offered by the Group to Mai Sheng Yue He under the direct sales basis; and (iii) under both arrangements, Mai Sheng Yue He is required to pay to the Group the net sales proceeds within the stipulated credit period after the title of the goods are transferred, in the case of direct sales, when goods are delivered to Mai Sheng Yue He, and in the case of consignment sales, when goods are finally sold to end customers. Notwithstanding the above, the Group may only be able to recognise sales and receive net proceeds from Mai Sheng Yue He only when goods are sold to end customers under the consignment sales arrangement (instead of the delivery of goods to Mai Sheng Yue He), the Directors are of the view that such delay in timing only had limited impact when the change was first implemented.

Consideration and payment

Pursuant to the 2020 Renewed Framework Agreement, the amount chargeable in connection with the supply and sale of goods contemplated under the 2020 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 or commissions in respect of the supply of similar goods or under similar sales arrangement 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 and sale of goods pursuant to the 2020 Renewed Framework Agreement, obtain transaction records on the supply or sale of the same or similar goods or under the same or similar sales arrangement by Shanghai Kappa to independent distributors for the purpose of determining the reference market prices or commissions for the supply or sale of such goods or under such sales arrangement, and the terms of the specific agreements to be entered into between Shanghai Kappa and Mai Sheng Yue He (including the prices and commissions) shall not be less favourable from the perspective of Shanghai Kappa than such reference market prices or commissions.

The Board is of the view that the terms (including the commission rate and the credit period) stipulated in the specific agreements between Shanghai Kappa and Mai Sheng Yue He are in line with market practice and are no less favourable from the perspective of Shanghai Kappa as compared to those agreements entered into between Shanghai Kappa and other independent third party distributors.

LETTER FROM THE BOARD

Principal Terms for Consignment Sales Arrangement

The commission rate is determined with reference to (i) sales performance; (ii) location and distribution network; and (iii) capital commitment of each distributor. The commission rate payable by the Group to Mai Sheng Yue He is at the low end of the range of commission rates payable by the Group to independent distributors. Given that the shops operated by Mai Sheng Yue He are mostly located in major cities and popular business areas and in light of the previous sales performance and commitment of Mai Sheng Yue He, the Board is of the view that the commission rate payable by the Group to Mai Sheng Yue He is fair and reasonable.

The credit period granted to Mai Sheng Yue He is 45 days. The Board believes that such credit period as compared with the average credit period of 90 days to its distributors, is fair and reasonable.

Historical Amounts

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

	<i>RMB('000)</i>
For the three months ended 31 March 2019 (<i>Note</i>)	51,000
For the twelve months ended 31 March 2020	228,000
For the 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 was for a 3-month period commencing on 1 January 2019 and ending on 31 March 2019.

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>
For the three months ended 31 March 2019	36,973
For the twelve months ended 31 March 2020	52,560
	<i>(Note)</i>

Note: The historical transaction amount between the Company and Mai Sheng Yue He for the twelve months ended 31 March 2020 comprises: (i) the total revenue of approximately RMB4,893,000 in respect of the transactions conducted under direct sales and (ii) total commission of approximately RMB47,667,000 in respect of the transactions conducted under consignment sales.

LETTER FROM THE BOARD

The historical transaction amount with Mai Sheng Yue He for the three months ended 31 March 2019, on an annual basis, was much higher than that for the financial year ended 31 March 2020 because as explained in the preceding section, when the Group began to sell its goods to Mai Sheng Yue He and other distributors on consignment basis during the financial year ended 31 March 2019, the revenue generated from or through Mai Sheng Yue He and other related distributors under both sales arrangement was recorded as the related party transaction amount. That is, for consignment sales, the total retail price of the goods sold by Mai Sheng Yue He to end customers was recorded as the transaction amount between the Group and Mai Sheng Yue He. As for direct sales, the retail selling price of the goods sold after applying the applicable discount rates were recorded as the transaction amount with Mai Sheng Yue He. As explained in the preceding section, the recording method for related party transactions for the financial year ended 31 March 2020 has been changed and for consignment sales, the commission fees to which Mai Sheng Yue He was entitled was recorded as the transaction amount between the Group and Mai Sheng Yue He. For illustration purposes only, if the historical transaction amount with Mai Sheng Yue He for the three month period ended 31 March 2019 is prepared on the basis that the consignment sales with Mai Sheng Yue He were recorded by reference to the commission fees incurred, the transaction amount with Mai Sheng Yue He for the period ended 31 March 2019 when annualised would have been amounted to approximately RMB56.7 million. The historical transaction amount with Mai Sheng Yue He for the financial year ended 31 March 2020 of approximately RMB52.6 million represented a drop of approximately 7.2% as compared to the amount of RMB56.7 million for the year ended 31 March 2019. The drop was mainly attributable to the outbreak of coronavirus in the beginning of 2020.

For the three months ended 30 June 2020, the total transaction amount between the Group and Mai Sheng Yue He under the Existing Framework Agreement was approximately RMB16,531,000, which was mainly affected by the slower sales amidst the outbreak of the coronavirus. The Company believes that although the sales activities are expected to increase in the second half of 2020 with the reopening of the economy after the stabilisation of the coronavirus situation, the actual transaction amounts up to the date of the EGM will not exceed the annual cap for the financial year ending 31 March 2021.

Annual Caps and basis

Pursuant to the 2020 Renewed Framework Agreement, the transaction amount between Mai Sheng Yue He and Shanghai Kappa for the supply and sale of goods under the 2020 Renewed Framework Agreement shall be subject to the Annual Caps as follows:

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

LETTER FROM THE BOARD

The Annual Caps have been determined with reference to, among others, (i) the historical transaction amount in respect of the supply and sale of goods for the financial year ended 31 March 2020; (ii) the estimated transaction amount in respect of the supply and sale of goods for the financial year ending 31 March 2021; (iii) the expected increase in sales performance of “Kappa” products in view of recent product improvements and enhancement of retail store efficiency; and (iv) the expected introduction of new brand(s) by the Group in the coming years.

Due to the outbreak of the coronavirus, the Board is of the view that 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 2021 would be similar to the amount for the year ended 31 March 2020. The Board anticipated that the sales generated by Mai Sheng Yue He would increase gradually in 2021 as a result of the recovery of economic activities with the ease of the pandemic threat, and the expansion of its distribution channel by selling the relatively less popular products through discount outlets. Furthermore, Mai Sheng Yue He targets to (1) expand its number of retail stores in Beijing, Inner Mongolia, Jinan and Xian by 15% annually; and (2) enhance its retail store efficiency in a range of between 10% and 15% annually by improving the retail store image. The Group has been exploring new business opportunities. It is anticipated that the Group will introduce new brand(s) when it comes across suitable brands with good reputation and positive brand image in the coming years.

Given the above, the Board is of the view that an estimated 30% increase in annual cap amount for the financial year ending 31 March 2022 as compared to that for the financial year ending 2021 is reasonable. The annual growth is expected to slow down for the financial years ending 2023 and 2024 to approximately 20% and 15% respectively.

Calculation of Transaction Amounts for Direct Sales and Consignment Sales

For direct sales, the retail selling price of the goods sold after applying the applicable discount rates is treated as the transaction amount between the Group and Mai Sheng Yue He.

As for consignment sales, the commission fee payable to Mai Sheng Yue He is treated as the transaction amount between the Group and Mai Sheng Yue He.

As the transaction amount recognised under direct sales and consignment sales would be about the same, the Board is of the view that the basis for determination of the annual cap for the Existing Framework Agreement and for the 2020 Renewed Framework Agreement remains unchanged.

LETTER FROM THE BOARD

INTERNAL CONTROL MEASURES

In order to ensure that the terms for the supply and sale of goods under the 2020 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) before entering into any specific agreement with Mai Sheng Yue He, the relevant personnel of the Company's legal department will review such agreement, to ensure that the specific agreements are entered into in compliance with the 2020 Renewed Framework Agreement;
- (ii) the relevant personnel of the Company's finance department will keep track of the sales records on the supply and sale of goods by Shanghai Kappa to independent distributors on a monthly basis for the purpose of ensuring that the price or commission determined by Shanghai Kappa for the supply and sale of goods will be comparable to, or no less favourable than, the fair market prices for similar goods or under similar sales arrangement offered to independent distributors by Shanghai Kappa;
- (iii) the relevant personnel of the Company's finance department will keep track of the aggregate transaction amount for the supply and sale of goods under the 2020 Renewed Framework Agreement, and review the aggregate transaction amount bi-annually, for the purpose of ensuring that the Annual Caps will not be exceeded; and
- (iv) the Company has adopted relevant reporting and record-keeping procedures to allow independent non-executive Directors, the audit committee of the Company and auditors of the Company to perform annual review of the supply and sale of goods under the 2020 Renewed Framework Agreement and ensure that the transactions conducted under the 2020 Renewed Framework Agreement complied with the Company's internal control procedures, the terms of the 2020 Renewed Framework Agreement and the relevant requirements under the Listing Rules.

Further, the Company has implemented additional measures to safeguard the Group's interest in respect of the consignment sales. These measures include:

- (i) retail outlet distributors (including Mai Sheng Yue He) are required to pay deposits to the Group to guarantee their due performance pursuant to the specific agreement;
- (ii) retail outlet distributors (including Mai Sheng Yue He) are required to install a software so that the Group can timely monitor the sales amount and the inventory level;
- (iii) the Group and each of retail outlet distributors (including Mai Sheng Yue He) will jointly cross check the system sales reports on a monthly basis; and

LETTER FROM THE BOARD

- (iv) the Group will conduct regular and ac-hoc stock take at retail outlets of the distributors (including Mai Sheng Yue He). For the ad-hoc stock take, the Group will inform the distributors 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.

Having considered the above, the Board is of the view that the internal control measures are effective to ensure that the transactions under the 2020 Renewed Framework Agreement will be conducted on terms no more favourable to those terms offered to independent third parties.

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.

LETTER FROM THE BOARD

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 2020 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 since 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 has abstained from voting in the board meeting approving the 2020 Renewed Framework Agreement and the Annual Caps as his associates are interested in the transactions contemplated under the 2020 Renewed Framework Agreement. The remaining Directors (including the independent non-executive Directors), having considered the reasons for and benefits of entering into the 2020 Renewed Framework Agreement, consider that the 2020 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 2020 Renewed Framework Agreement (including the Annual Caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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 2020 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 2020 Renewed Framework Agreement are subject to the reporting, annual review, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

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 2,507,762,472 Shares, representing 42.60% of the issued share capital of the Company. Any Shareholder with a material interest in the 2020 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 2020 Renewed Framework Agreement and the Annual Caps.

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 19 August 2020 at 10:30 a.m. is set out on pages 33 to 34 of this circular. At the EGM, ordinary resolutions will be proposed for the Independent Shareholders to consider and, if thought fit, to approve the 2020 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.

RECOMMENDATION

Due to the uncertainties surrounding the coronavirus situation and to avoid potential disruption to the business of the Group if the shareholders' meeting for approving the renewal of the Existing Framework Agreement cannot be held before its expiry, the Board has reviewed and determined the Annual Caps under the 2020 Renewed Framework Agreement more than 8 months in advance of the commencement of the 2020 Renewed Framework Agreement. The Board has taken into account various factors when determining the Annual Caps, including but not limited to (i) the historical transaction amount and growth of the business generated by Mai Sheng Yue He in the past years; (ii) Mai Sheng Yue He's business expansion plan in the coming three years, (iii) the historical and the expected increase of sales of Kappa brand products in China, and (iv) the plan of introduction of new brand(s) and products by the Group in the coming three years and the expected growth in sales. After considering these factors as a whole, the Board anticipates an increase of sales for approximately 30% for the financial year ending 2022,

LETTER FROM THE BOARD

approximately 20% for the financial year ending 2023 and approximately 15% for the financial year ending 2024. The expected increase has been reflected in the respective Annual Caps. As such, the Board considers the Annual Caps are fair and reasonable.

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, is of the opinion that the 2020 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 2020 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 2020 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)

4 August 2020

Dear Independent Shareholders,

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

We refer to the circular of the Company dated 4 August 2020 (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 2020 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 2020 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 2020 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 2020 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*

GAO Yu
*Independent non-executive
Director*

LIU Xiaosong
*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

4 August 2020

*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 transactions (the “**Continuing Connected Transactions**”) contemplated under the 2020 Renewed Framework Agreement and the respective proposed Annual Caps for the three years ending 31 March 2022, 2023 and 2024, in respect of which the Independent Shareholders’ approval will be sought at the EGM. Details of the 2020 Renewed Framework Agreement, the Continuing Connected Transactions 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 4 August 2020 (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 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 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 2020 Renewed Framework Agreement constitute continuing connected transactions 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 2020 Renewed Framework Agreement is/are more than 5%, the transactions contemplated under the 2020 Renewed Framework Agreement are subject to the reporting, annual review, announcement and Independent Shareholders’ approval requirements under Chapter 14A

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

of the Listing Rules. In this connection, the Company will seek the Independent Shareholders' approval for the 2020 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. Gao Yu and Mr. Liu Xiaosong, has been established to make a recommendation to the Independent Shareholders on whether (i) the 2020 Renewed Framework Agreement is entered into in the ordinary and usual course of business of the Group; (ii) the terms of the 2020 Renewed Framework Agreement are on normal commercial terms, and fair and reasonable; (iii) the entering into of the 2020 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 has only acted as the independent financial adviser to the independent board committee and independent shareholders of the Company in relation to the Existing Framework Agreement (the "**Past Engagement**"). Save for the Past Engagement which was limited to providing independent advice as disclosed above, as at the Latest Practicable Date, there had been no other relationships or interests existing between VMS Securities 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 adviser to the Independent Board Committee and the Independent Shareholders in respect of the 2020 Renewed Framework Agreement, the Continuing Connected Transactions contemplated thereunder and the proposed Annual Caps as detailed in the Circular. Accordingly, we are independent from the Group 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 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 2020 Renewed Framework Agreement is entered into in the ordinary and usual course of business of the Group; (ii) the terms of the 2020 Renewed Framework Agreement are on normal commercial terms, and fair and reasonable; (iii) the entering into of the 2020 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 business relationship with Mai Sheng Yue He. In compliance with the Listing Rules, Shanghai Kappa, an indirect wholly-owned subsidiary of the Company, entered into the 2020 Renewed Framework Agreement with Mai Sheng Yue He for regulating the terms for the supply and sale of goods from Shanghai Kappa to Mai Sheng Yue He. Approval from the Independent Shareholders in respect of the 2020 Renewed Framework Agreement and the Annual Caps in relation to the supply and sale of goods from Shanghai Kappa to Mai Sheng Yue He 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 (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 2020 Renewed Framework Agreement" below), we consider that the entering into of the 2020 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 2020 Renewed Framework Agreement

Set out below is a summary of the principal terms of the 2020 Renewed Framework Agreement. Further details of the terms of the 2020 Renewed Framework Agreement are set out in the Letter from the Board contained in the Circular.

The 2020 Renewed Framework Agreement dated 30 June 2020 entered into between Shanghai Kappa and Mai Sheng Yue He shall be valid from 1 April 2021 to 31 March 2024 unless early termination in accordance with the terms and conditions of the 2020 Renewed Framework Agreement. Duration of the 2020 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 2020 Renewed Framework Agreement is subject to the approval by the Independent Shareholders at the EGM.

Pursuant to the 2020 Renewed Framework Agreement, Shanghai Kappa shall grant Mai Sheng Yue He a non-exclusive right to distribute and sell on a consignment basis or otherwise sport-related products of the Group including sportswear and related products of the “Kappa” and “Kappa Kids” brand and other brands of the Group. The 2020 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. Shanghai Kappa 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 are not inconsistent with the terms of the 2020 Renewed Framework Agreement.

It is further stipulated in the 2020 Renewed Framework Agreement, the amount chargeable in connection with the supply and sale of goods contemplated under the 2020 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 or commissions in respect of the supply of similar goods or under similar sales arrangement offered to independent distributors by Shanghai Kappa.

As advised by the executive Directors, in addition to supplying goods to Mai Sheng Yue He, the Group also supply goods to other independent third party retail outlet distributors mainly on a consignment basis. The supply of goods to retail outlet distributors (including Mai Sheng Yue He) was carried out by direct sales previously. This posed pressure on working capital of distributors which, in turn, resulted in long aged accounts receivables from distributors. Moreover, the Group could not timely control the inventory level of distributors. After discussion with retail outlet distributors, the Group and the retail outlet distributors agree the supply of goods to be mainly made on a consignment basis. Although the goods are delivered to the retail outlet distributors (including Mai Sheng Yue He), the goods remain as inventory of the Group until the goods are sold to customers by the retail outlet distributors. After the sale of goods to customers by the retail outlet distributors, the retail outlet

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distributors would deduct the commission and relevant tax payable by the Group, and remit the remaining amount of sale proceeds from customers to the Group within the credit period set out in the agreement. We obtain copies of agreements of the Group with Mai Sheng Yue He and all of these independent third party retail outlet distributors in respect of supply and sale of goods on consignment basis for 2020. In determining the commission rate for the distributors, the management consider, among other things, (i) sales performance; (ii) location and distribution network; and (iii) capital commitment of each distributor. It is noted that the commission rate paid by the Group to Mai Sheng Yue He is at the low end of the range of that paid by the Group to independent third party retail outlet distributors. The credit term granted by the Group to Mai Sheng Yue He is 45 days which is also within the range of that granted by the Group to independent third party distributors. We note from the annual report of the Company for the year ended 31 March 2020 that customers are normally granted credit terms within 90 days. Accordingly, we consider that the commission rate and the credit term of Mai Sheng Yue He are comparable to that of independent third party distributors.

We noted from the annual reports of the Company for the year ended 31 December 2017, the fifteen months ended 31 March 2019 and the year ended 31 March 2020 that the Company engaged its auditors to report on the Continuing Connected Transactions for the year ended 31 December 2017, the fifteen months ended 31 March 2019 and the year ended 31 March 2020, and the auditors issued an unqualified letter containing its findings and conclusions in accordance with Rule 14A.56 of the Listing Rules for the year ended 31 December 2017, the fifteen months ended 31 March 2019 and the year ended 31 March 2020. Moreover, it was stated in the aforesaid annual reports of the Company that the independent non-executive Directors had reviewed the Continuing Connected Transactions for the year ended 31 December 2017, the fifteen months ended 31 March 2019 and the year ended 31 March 2020.

Given that the auditor and the independent non-executive Directors have reviewed the Continuing Connected Transactions for the year ended 31 December 2017, the fifteen months ended 31 March 2019 and the year ended 31 March 2020, we have, on a sampling basis, randomly selected eight transactions of supply of goods by Shanghai Kappa to Mai Sheng Yue He for the two months ended 31 May 2020 (the “**Sample Transactions**”) for review. We note from the selected samples that the commission paid by the Group was calculated by the commission rate set out in the agreement with Mai Sheng Yue He. In view of (1) the aforesaid review results by auditor and the independent non-executive Directors, and (2) no variances noted for the Sample Transactions, we consider the sample size to be appropriate.

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 and sale of goods by Shanghai Kappa to Mai Sheng Yue He are no less favourable than the terms offered by Shanghai Kappa to independent distributors. Based on our review results of (1) commission rate of Mai Sheng Yue He and all other

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

independent third party retail outlet distributors; and (2) credit terms of Mai Sheng Yue He set out above, we consider that the internal control measures are being implemented to safeguard the interests of the Group.

We enquire the executive Directors the additional measures implemented to safeguard the Group's interest in respect of the consignment sales. Details of key measures are as below:

- (1) retail outlet distributors (including Mai Sheng Yue He) have to pay deposits to the Group to guarantee their due performance pursuant to the agreement;
- (2) retail outlet distributors (including Mai Sheng Yue He) have to install a software so that the Group can timely monitor the sales amount and the inventory level;
- (3) the Group and each of retail outlet distributors (including Mai Sheng Yue He) will jointly cross check the system sales reports on a monthly basis; and
- (4) the Group would conduct regular and ad hoc stock take at retail outlets of the distributors (including Mai Sheng Yue He). For the ad hoc stock take, the Group would inform the distributors the date of stock take. Nevertheless, the Group would inform the distributors the selected retail outlet for stock take only on the date of stock take (i.e. on a surprise basis).

We check to the agreement between the Group and Mai Sheng Yue He governing the supply of goods for the financial year ending 31 March 2021, 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 agreement. It is further stipulated in the agreement that regular stock take will be conducted and Mai Sheng Yue He has to compensate the loss for variance of inventory identified during the stock take. Moreover, the Group and Mai Sheng Yue He have to complete the cross check of monthly sales system report within a period set out in the agreement. Accordingly, the representation from the executive Director is broadly consistent with our review of the agreement.

Moreover, based on (i) our review results of the Sample Transactions; (ii) the auditors review results of the Continuing Connected Transactions for the year ended 31 December 2017, the fifteen months ended 31 March 2019 and the year ended 31 March 2020; (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.

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3. Proposed Annual Caps with respect to the Continuing Connected Transactions contemplated under the 2020 Renewed Framework Agreement

The Continuing Connected Transactions contemplated under the 2020 Renewed Framework Agreement will be subject to the relevant proposed Annual Caps whereby for each of the three years ending 31 March 2022, 2023 and 2024, the amount of the Continuing Connected Transactions contemplated under the 2020 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.

Set out below are the historical transaction amount for the supply and sale of goods between Shanghai Kappa and Mai Sheng Yue He for the three months ended 31 March 2019 and the twelve months ended 31 March 2020 as stated in the Letter from the Board contained in this Circular:

	For the three months ended 31 March 2019 RMB'000	For the twelve months ended 31 March 2020 RMB'000
Historical transaction amount for the supply and sale of goods between Shanghai Kappa and Mai Sheng Yue He	<u>36,973</u>	<u>52,560 (Note)</u>

Note: The historical transaction amount between the Company and Mai Sheng Yue He for the year ended 31 March 2020 comprises: (i) the total revenue of approximately RMB4.9 million in respect of the transactions conducted under direct sales and (ii) total commission of approximately RMB47.7 million in respect of the transactions conducted under consignment sales.

The retail selling price of goods paid by customers in respect of consignment sales was recorded as the historical transaction amount with Mai Sheng Yue He for the three months ended 31 March 2019. As explained in the Letter from the Board contained in the Circular, the recognition of transaction amount for consignment sales with Mai Sheng Yue He was changed to record the commission payable to Mai Sheng Yue He for the year ended 31 March 2020 (i.e. multiplying the retail selling price of goods paid by customers by the commission rate) instead of recording the entire retail selling price. In order to achieve a fair comparison, the Company provides us with the historical transaction amount with Mai Sheng Yue He for the year ended 31 March 2019 prepared on the basis that the consignment sales with Mai Sheng Yue He were recorded by the commission payable by the Group to Mai Sheng Yue He. On this basis, the Company advised us that the historical transaction amount with Mai Sheng Yue He for the year ended 31 March 2019 amounted to approximately RMB56.7 million. The historical transaction amount with Mai Sheng Yue He for the year ended 31

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

March 2020 of approximately RMB52.6 million represented a drop of approximately 7.2% as compared to the amount of RMB56.7 million for the year ended 31 March 2019. The drop was mainly attributable to the outbreak of coronavirus in the beginning of 2020.

In determining the proposed Annual Caps for the transactions contemplated under the 2020 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 financial year ended 31 March 2020 as detailed above; (ii) the estimated transaction amount in respect of the supply and sale of goods for the financial year ending 31 March 2021; (iii) the expected increase in sales performance of “Kappa” products in view of recent product improvements and enhancement of retail store efficiency; and (iv) the potential introduction of new brand(s) by the Group in the coming years.

The Group has commenced to supply less popular goods on a consignment basis to Mai Sheng Yue He for sale to customers in the discount outlets for the year ending 31 March 2021. By applying the applicable commission rate to the historical sale of less popular goods for the year ended 31 March 2020, the transaction amount shall be approximately RMB19.2 million. Due to the outbreak of the COVID-19 pandemic, the executive Directors are of the view that 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 2021 would be approximately as same as that for the year ended 31 March 2020 in an amount of approximately RMB71.8 million (being the sum of RMB52.6 million (historical transaction amount with Mai Sheng Yue He for the year ended 31 March 2020) and RMB19.2 million). 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 first quarter of financial year ending 31 March 2021 (i.e. from April to June 2020) was approximately RMB16.5 million. Based on the amount of RMB16.5 million, the annualised amount for the year ending 31 March 2021 is approximately RMB66 million (being 16.5 million x 4), representing approximately 91.9% of the estimated transaction amount of RMB71.8 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. In view of the annualised amount representing over 90% of the estimated transaction amount for the year ending 31 March 2021, we consider the basis adopted by the executive Directors to estimate the transaction amount with Mai Sheng Yue He for the year ending 31 March 2021 to be appropriate.

The executive Directors anticipates that there will be recovery of the PRC economy after the outbreak of the COVID-19 pandemic. Accordingly, it is estimated by the executive Directors that there will be a growth of 30% for the transaction amount with Mai Sheng Yue He for the year ending 31 March 2022 as compared to that for the year ending 31 March 2021. The estimated transaction amount with Mai Sheng Yue He for the year ending 31 March 2022 is RMB93.34 million (71.8 x 1.3) which is rounded up to the nearest million of RMB94 million for the Annual Caps for

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the year ending 31 March 2022. For the expected growth of business, we are provided with a letter issued by Mai Sheng Yue He in June 2020 stating that for the coming few years up to March 2024, Mai Sheng Yue He plans to, (1) expand its number of retail stores in Beijing, Inner Mongolia, Jinan and Xian by 15% annually; and (2) enhance its retail store efficiency in a range of between 10% and 15% annually by improving the retail store image. Moreover, we note from the annual report of the Company for the year ended 31 March 2020 that the sale of Kappa brand products in China increased by approximately 24.3% for the year ended 31 March 2020 as compared to that of previous year. Furthermore, the Group will from time to time explore new business opportunities to introduce new brand(s) and/or products when the Group comes across suitable brands with good reputation and positive brand image. We note from 2019 annual report of Li Ning Company Limited that it believes that people will become more concern about their health and physical exercise after the COVID-19 pandemic. Hence, more potentials of the industry will be released. Similar view is also noted from 2019 annual report of Xtep International Holdings Limited. It believes that the sportswear sector would achieve steady long-term growth momentum given the increased health awareness of Chinese citizens following the coronavirus outbreak, coupled with growing urbanization and encouragement by the Chinese government of participation in sports. On this basis, in particular, (1) expansion of retail outlets and enhancement of retail store efficiency as set out in the letter issued by Mai Sheng Yue He; (2) the historical growth of sale of Kappa band products in China of 24.3% for the year ended 31 March 2020; and (3) the aforesaid view shared by the peers, we consider the estimated growth of 30% to be reasonable.

The executive Directors anticipate that the business with Mai Sheng Yue He will continue to grow. In view of greater amount in previous year, the growth rate is expected to be dropped gradually for the two years ending 31 March 2023 and 2024, a growth of 20% and 15% are built in by the executive Directors in determining the Annual Caps for the two years ending 31 March 2023 and 2024 respectively. Accordingly, the estimated transaction amount with Mai Sheng Yue He for the two years ending 31 March 2023 and 2024 are RMB112.8 million (94 x 1.2) and RMB129.7 million (112.8 x 1.15) respectively. For setting the Annual Caps for the two years ending 31 March 2023 and 2024, these figures are rounded up to the nearest million to RMB113 million and RMB130 million respectively. As a larger growth of 30% has been applied for setting the Annual Caps for the year ending 31 March 2022, we are of the view that it is reasonable to assume a smaller growth for the two years ending 31 March 2023 and 2024. Coupled with (1) the aforesaid letter issued by Mai Sheng Yue He in June 2020 regarding its expansion of retail outlets and enhancement of retail store efficiency, and (2) the view of the peers set out above, we consider the estimated growth of 20% and 15% for setting the respective Annual Caps for the two years ending 31 March 2023 and 2024 to be reasonable.

The utilization rate of annual cap for the year ended 31 March 2020 (calculated by reference to the actual transaction amount and the annual cap) was approximately 23.1% which was below 50%. Regarding the low utilization rate, we do not put much weighting on it because (1) the Continuing Connected Transactions contemplated under the 2020 Renewed Framework Agreement will be conducted on an arm's length

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basis according to the principles of fairness and reasonableness, which shall be comparable to, or no less favourable than, the fair market prices or commissions in respect of the supply of similar goods or under similar sales arrangement offered to independent distributors by Shanghai Kappa; (2) the Annual Caps provide flexibility for the Group to manage its business with Mai Sheng Yue He should the executive Directors consider that the conduct of the Continuing Connected Transactions is in the interests of the Group; and (3) the Annual Caps relate to future activities of the Group for coming three years. Accordingly, we focus mainly on the underlying assumptions adopted by the Directors in determining the Annual Caps.

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

	For the year ending 31 March		
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Annual Caps for the supply and sale of goods from Shanghai Kappa to Mai Sheng Yue He	94,000	113,000	130,000
Approximate increase as compared to the annual caps of previous year (%)		20%	15%

4. Conditions of the Continuing Connected Transactions contemplated under the 2020 Renewed Framework Agreement

In compliance with the Listing Rules, the Continuing Connected Transactions contemplated under the 2020 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 2020 Renewed Framework Agreement for the three years ending 31 March 2024 will not be exceeded;
- (ii) the independent non-executive Directors must, in accordance with the Listing Rules, review annually the Continuing Connected Transactions contemplated under the 2020 Renewed Framework Agreement and confirm in the Company's annual report whether the Continuing Connected Transactions contemplated under the 2020 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;

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- (iii) the auditors of the Company must, in accordance with the Listing Rules, report on the Continuing Connected Transactions contemplated under the 2020 Renewed Framework Agreement annually 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 2020 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 2020 Renewed Framework Agreement; and
 - (d) have exceeded the Annual Caps with respect to the Continuing Connected Transactions contemplated under the 2020 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
- (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 2020 Renewed Framework Agreement exceeds the relevant Annual Caps, or that there is any material amendment to the terms of the 2020 Renewed Framework Agreement.

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In light of the conditions imposed on the Continuing Connected Transactions contemplated under the 2020 Renewed Framework Agreement, in particular, (1) the limit of the value of the Continuing Connected Transactions contemplated under the 2020 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 2020 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 2020 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 2020 Renewed Framework Agreement is entered into in the ordinary and usual course of business of the Group; (ii) the terms of the 2020 Renewed Framework Agreement are on normal commercial terms, and fair and reasonable; (iii) the entering into of the 2020 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 2020 Renewed Framework Agreement, the 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) 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	Number of class of securities			Approximate percentage of total issued Shares
		Class of shares	Long position	Short position	
Mr. Chen Yihong	Interest of a controlled corporation ⁽¹⁾	Ordinary	2,286,024,000 Shares	—	38.84%
	Interest of a controlled corporation ⁽³⁾	Ordinary	317,001,025 Shares	—	5.39%
Mr. Zhang Zhiyong	Beneficial owner ⁽³⁾	Ordinary	166,120,025 Shares	—	2.82%
Ms. Chen Chen	Interest of a controlled corporation ⁽²⁾	Ordinary	160,587,730 Shares	—	2.73%
	Beneficial owner	Ordinary	40,000,000 Shares	—	0.68%
Mr. Lyu Guanghong	Beneficial owner	Ordinary	10,000,000 Shares	—	0.17%

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) 317,001,025 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, 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 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 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 March 2020 (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) and Type 6 (advising on corporate finance) 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 March 2020 (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 March 2020, 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 Chartered Governance Institute 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 2020 Renewed Framework Agreement;
- (c) the letter from the Board dated 4 August 2020, the text of which is set out on page 3 to 14 of this circular;
- (d) the letter from the Independent Board Committee dated 4 August 2020, the text of which is set out on page 15 of this circular;
- (e) the letter from the Independent Financial Adviser, the text of which is set out on pages 16 to 27 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 G/F., Lobby Area, Building 21, No. 2 Jingyuanbei Street, Beijing Economic-Technology Development Area, Beijing, the People’s Republic of China on 19 August 2020 at 10:30 a.m. for the purpose of considering and, if thought fit, passing the following ordinary resolution:

ORDINARY RESOLUTION

“**THAT:**

- (a) the agreement dated 30 June 2020 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 and sale of sport-related products by Shanghai Kappa to Mai Sheng Yue He, the transactions contemplated thereunder and the proposed annual caps for each of the financial years ending 31 March 2022, 2023 and 2024 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, 4 August 2020

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 14 August 2020 to 19 August 2020 (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 13 August 2020.
4. The ordinary resolution set out above will be determined by way of poll.
5. No refreshments or drinks or corporate gifts will be provided to attendees at the EGM.
6. For health and safety reasons, the Company would like to remind Shareholders that physical attendance in person at the EGM is not necessary for the purpose of exercising their voting rights, and the Company strongly encourages Shareholders to exercise their right to vote at the EGM by appointing the Chairman of the EGM as their proxy instead of attending the EGM in person.
7. Shareholders and participants attending the EGM are advised to arrive at the venue as early as possible due to the precautionary measures may cause delay in the registration process.