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

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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult 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)**

**(1) CONNECTED TRANSACTIONS INVOLVING  
SUBSCRIPTION OF NEW SHARES BY CONNECTED PERSONS  
(2) ISSUE OF NEW SHARES UNDER SPECIFIC MANDATES  
AND  
(3) NOTICE OF EXTRAORDINARY GENERAL MEETING**

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



**PLATINUM**  
Securities

**Platinum Securities Company Limited**

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A letter from the Board (as defined herein) is set out on pages 7 to 27 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 28 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 29 to 49 of this circular.

A notice convening the EGM (as defined herein) to be held at Regus, 35/F, Central Plaza, 18 Harbour Road, Hong Kong at 10:00 a.m. on Monday, 26 March 2018 is set out on pages 55 to 60 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.

9 March 2018

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## DEFINITIONS

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

“Announcement”	the announcement of the Company dated 19 January 2018 in relation to (i) the Connected Subscriptions and the Connected Subscription Loans and (ii) the Management Subscriptions and the Management Subscription Loans
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“BPEL”	Bright Pacific Enterprises Limited, a wholly-owned subsidiary of the Company
“Business Day(s)”	the day(s) on which the Stock Exchange is open for the transaction of business
“China” or “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
“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 Specific Mandate A”	the specific mandate proposed to be granted by the Independent Shareholders at the EGM for the Directors to allot and issue 24,910,000 Connected Subscription Shares to Mr. Zhang Zhiyong
“Connected Specific Mandate B”	the specific mandate proposed to be granted by the Independent Shareholders at the EGM for the Directors to allot and issue 37,000,000 Connected Subscription Shares to Ms. Chen Chen
“Connected Specific Mandate C”	the specific mandate proposed to be granted by the Independent Shareholders at the EGM for the Directors to allot and issue 25,200,000 Connected Subscription Shares to Mr. Ren Yi
“Connected Specific Mandate D”	the specific mandate proposed to be granted by the Independent Shareholders at the EGM for the Directors to allot and issue 9,000,000 Connected Subscription Shares to Mr. Yang Yang
“Connected Specific Mandate E”	the specific mandate proposed to be granted by the Independent Shareholders at the EGM for the Directors to allot and issue 9,000,000 Connected Subscription Shares to Mr. Lyu Guanghong

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## DEFINITIONS

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“Connected Specific Mandate F”	the specific mandate proposed to be granted by the Independent Shareholders at the EGM for the Directors to allot and issue 9,000,000 Connected Subscription Shares to Ms. Tang Lijun
“Connected Specific Mandate G”	the specific mandate proposed to be granted by the Independent Shareholders at the EGM for the Directors to allot and issue 9,000,000 Connected Subscription Shares to Ms. Sun Wei
“Connected Specific Mandates”	Connected Specific Mandate A, Connected Specific Mandate B, Connected Specific Mandate C, Connected Specific Mandate D, Connected Specific Mandate E, Connected Specific Mandate F and Connected Specific Mandate G, and “Connected Specific Mandate” should refer to any of them
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Connected Subscriber Borrowers”	the Connected Subscribers other than Ms. Chen Chen
“Connected Subscribers”	Mr. Zhang Zhiyong (executive Director and chief executive officer of the Company), Ms. Chen Chen (executive Director), Mr. Ren Yi (director of a subsidiary of the Company), Mr. Yang Yang (director of certain subsidiaries of the Company), Mr. Lyu Guanghong (director of certain subsidiaries of the Company), Ms. Tang Lijun (director of a subsidiary of the Company) and Ms. Sun Wei (supervisor of a subsidiary of the Company), each a connected person of the Company
“Connected Subscription Agreements”	a total of seven subscription agreements entered into between the Company and each of the Connected Subscribers, all dated 19 January 2018, the terms of which are substantially similar, save and except for the number of Connected Subscription Shares being subscribed for by the respective Connected Subscribers
“Connected Subscription Completion”	completion of the Connected Subscriptions in accordance with the terms and conditions of the Connected Subscription Agreements
“Connected Subscription Loans”	the 5-year secured term loans in the aggregate principal amount of HK\$116,248,500 to be extended by BPEL to the Connected Subscriber Borrowers pursuant to the Connected Subscription Loan Agreements

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## DEFINITIONS

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“Connected Subscription Loan Agreements”	a total of six loan agreements entered into between BPEL and each of the Connected Subscriber Borrowers, all dated 19 January 2018, the terms of which are substantially similar, save and except for the principal amount of the Connected Subscription Loan being extended to the respective Connected Subscriber Borrowers
“Connected Subscription Shares”	an aggregate of 123,110,000 new Shares to be subscribed for by the Connected Subscribers and allotted and issued by the Company in accordance with the terms and conditions of the Connected Subscription Agreements
“Connected Subscriptions”	the subscriptions of the Connected Subscription Shares by the Connected Subscribers in accordance with the terms and conditions of the respective Connected Subscription Agreements
“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held at Regus, 35/F, Central Plaza, 18 Harbour Road, Hong Kong at 10:00 a.m. on Monday, 26 March 2018 to approve each of the Connected Subscription Agreements and the proposed grant of the Specific Mandates
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board, comprising all the independent non-executive Directors, namely Dr. Chen Guogang, Mr. Chen Johnny and Mr. Gao Yu, established for the purpose of advising the Independent Shareholders in respect of, among other things, the Connected Subscriptions and the proposed grant of the Connected Specific Mandates
“Independent Financial Adviser”	Platinum Securities Company Limited, a licensed corporation registered under the SFO to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of, among other things, the Connected Subscriptions and the proposed grant of the Connected Specific Mandates

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## DEFINITIONS

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“Independent Shareholders”	Shareholders other than those who are required under the Listing Rules to abstain from voting at the EGM on the resolution(s) approving the relevant Connected Subscription Agreements and the relevant Connected Specific Mandates for the allotment and issue of the relevant Connected Subscription Shares to the relevant Connected Subscribers
“Independent Third Party”	a party that is independent of the Company and its connected persons
“Last Trading Day”	18 January 2018, being the last trading day of the Shares on the Stock Exchange before the date of the Connected Subscription Agreements and Management Subscription Agreements
“Latest Practicable Date”	6 March 2018, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular
“Listing Committee”	has the meaning ascribed thereto in the Listing Rules
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Management Specific Mandate”	the specific mandate proposed to be granted by the Shareholders at the EGM for the Directors to allot and issue 79,200,000 Management Subscription Shares to the Management Subscribers
“Management Subscribers”	Mr. Chen Shaowen, Mr. Song Li, Mr. Nan Peng and Mr. Wang Yalei, each a management personnel of the Group
“Management Subscription Agreements”	a total of four subscription agreements entered into between the Company and each of the Management Subscribers, all dated 19 January 2018, the terms of which are substantially similar, save and except for the numbers of Management Subscription Shares being subscribed for by the respective Management Subscribers
“Management Subscription Completion”	completion of the Management Subscriptions in accordance with the terms and conditions of the Management Subscription Agreements
“Management Subscription Loans”	the 5-year secured term loans in the aggregate principal amount of HK\$106,920,000 to be extended by BPEL to the Management Subscribers pursuant to the Management Subscription Loan Agreements

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## DEFINITIONS

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“Management Subscription Loan Agreements”	a total of four subscription loan agreements entered into between BPEL and each of the Management Subscribers, all dated 19 January 2018, the terms of which are substantially similar, save and except for the principal amount of the Management Subscription Loan being extended to the respective Management Subscribers
“Management Subscription Shares”	an aggregate of 79,200,000 new Shares to be subscribed for by the Management Subscribers and allotted and issued by the Company in accordance with the terms and conditions of the Management Subscription Agreements
“Management Subscriptions”	the subscriptions of the Management Subscription Shares by the Management Subscribers in accordance with the terms and conditions of the respective Management Subscription Agreements
“percentage ratios”	any of the five ratios set out in Rule 14.07 of the Listing Rules
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong)
“Share(s)”	ordinary shares of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of the Shares
“Specific Mandates”	the Connected Specific Mandates and the Management Specific Mandate
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Agreements”	the Connected Subscription Agreements and the Management Subscription Agreements
“Subscription Loans”	the Connected Subscription Loans and the Management Subscription Loans
“Subscription Loan Agreements”	the Connected Subscription Loan Agreements and the Management Subscription Loan Agreements
“Subscription Price”	HK\$1.35 per Connected Subscription Share or Management Subscription Share (as the case may be)
“Subscription Shares”	the Connected Subscription Shares and the Management Subscription Shares

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## DEFINITIONS

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“Subscriptions”            the Connection Subscriptions and the Management Subscriptions

“%”                            per cent.





**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)

*Independent non-executive Directors:*

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

*Registered Office:*

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

*Principal Place of Business  
in Hong Kong:*

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

9 March 2018

*To the Shareholders*

Dear Sir or Madam,

**(1) CONNECTED TRANSACTIONS INVOLVING  
SUBSCRIPTION OF NEW SHARES BY CONNECTED PERSONS  
AND  
(2) ISSUE OF NEW SHARES UNDER SPECIFIC MANDATES**

**INTRODUCTION**

Reference is made to the Announcement in relation to (i) the Connected Subscriptions and the Connected Subscription Loans and (ii) the Management Subscriptions and the Management Subscription Loans.

The purpose of this circular is to provide you with, among other things, (i) further details on the Connected Subscriptions and the Connected Subscription Loans, the Management Subscriptions and the Management Subscription Loans, and the Specific Mandates; (ii) the letter of advice from the Independent Board Committee to the Independent Shareholders in respect of the Connected Subscriptions and the proposed grant of the Connected Specific Mandates; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

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## LETTER FROM THE BOARD

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in respect of the Connected Subscriptions and the proposed grant of the Connected Specific Mandates; and (iv) the notice convening the EGM for the Independent Shareholders to consider and, if thought fit, pass resolutions to approve, among other things, the Connected Subscription Agreements and the proposed grant of the Specific Mandates.

### THE SUBSCRIPTIONS AND THE SUBSCRIPTION LOANS

#### (A) Connected Subscriptions and Connected Subscription Loans

##### *Connected Subscription Agreements*

On 19 January 2018, the Company and each of the Connected Subscribers entered into the respective Connected Subscription Agreements, pursuant to which each of the Connected Subscribers conditionally agreed to subscribe for, and the Company conditionally agreed to allot and issue, an aggregate of 123,110,000 Connected Subscription Shares for the aggregate subscription consideration of HK\$166,198,500 in cash, being the Subscription Price of HK\$1.35 per Connected Subscription Share multiplied by the aggregate number of Connected Subscription Shares.

The principal terms of each of the Connected Subscription Agreements are set out as follows:

##### *Date*

19 January 2018 (after trading hours)

##### *Parties*

- (i) the Company (as the issuer); and
- (ii) each of the Connected Subscribers (as the subscriber).

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## LETTER FROM THE BOARD

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### *Connected Subscription Shares and subscription consideration*

Pursuant to the respective Connected Subscription Agreements, each of the Connected Subscribers conditionally agreed to subscribe for, and the Company conditionally agreed to allot and issue, such number of Connected Subscription Shares at such subscription consideration as set out against his/her name as follows:

<b>Connected Subscriber</b>	<b>Subscription consideration (HK\$)</b>	<b>Number of Connected Subscription Shares</b>	<b>Approximate percentage of total issued Shares as at the Latest Practicable Date (%)</b>
1. Mr. Zhang Zhiyong	33,628,500	24,910,000	0.44
2. Ms. Chen Chen	49,950,000	37,000,000	0.65
3. Mr. Ren Yi	34,020,000	25,200,000	0.44
4. Mr. Yang Yang	12,150,000	9,000,000	0.16
5. Mr. Lyu Guanghong	12,150,000	9,000,000	0.16
6. Ms. Tang Lijun	12,150,000	9,000,000	0.16
7. Ms. Sun Wei	<u>12,150,000</u>	<u>9,000,000</u>	<u>0.16</u>
<b>Total:</b>	<u>166,198,500</u>	<u>123,110,000</u>	<u>2.17</u>

The aggregate nominal value of the 123,110,000 Connected Subscription Shares is HK\$1,231,100.

### *Conditions precedent*

Completion of each Connected Subscription is conditional upon the following conditions (the “**Connected Subscription Conditions**”):

- (a) the passing of resolutions by the Independent Shareholders at the EGM approving the relevant Connected Subscription Agreement, the issue of the Connected Subscription Shares under the relevant Connected Specific Mandate and the transactions contemplated thereunder;
- (b) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Connected Subscription Shares;
- (c) trading in the Shares on the Stock Exchange not being revoked or withdrawn at any time prior to Connected Subscription Completion;

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## LETTER FROM THE BOARD

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- (d) there being no indication being received from the Stock Exchange that the listing of the Shares on the Stock Exchange will be suspended, revoked or withdrawn at any time after Connected Subscription Completion, whether in connection with any of the transactions contemplated by the relevant Connected Subscription Agreement or otherwise;
- (e) the representation and warranties given by the relevant Connected Subscriber and the Company in the relevant Connected Subscription Agreement remaining true and accurate in all material respects;
- (f) the Company having obtained all necessary consents and approvals as may be required to be obtained by the Company in respect of the Connected Subscription and the transactions contemplated under the relevant Connected Subscription Agreement; and
- (g) the relevant Connected Subscriber having obtained all necessary consents and approvals as may be required to be obtained by such Connected Subscriber in respect of the Connected Subscription and the transactions contemplated under the relevant Connected Subscription Agreement.

The relevant Connected Subscriber may at any time by notice in writing to the Company waive the Connected Subscription Condition set out in paragraph (e) above (in respect of the representation and warranties given by the Company only). The Company may at any time by notice in writing to the relevant Connected Subscriber waive the Connected Subscription Condition set out in paragraph (e) above (in respect of the representation and warranties given by the relevant Connected Subscriber only). The Connected Subscription Conditions set out in paragraphs (a), (b), (c), (d), (f) and (g) are non-waivable by the Company and the relevant Connected Subscriber. In the event of any of the Connected Subscription Conditions not being fulfilled or waived in full within 120 days after the date of the relevant Connected Subscription Agreement (or such other time and date as may be agreed between the Company and the relevant Connected Subscriber in writing), the relevant Connected Subscription Agreement shall cease and terminate and thereafter, neither party shall have any obligations and liabilities thereunder save for any antecedent breaches of the provisions thereof.

As at the Latest Practicable Date, none of the Connected Subscription Conditions set out in paragraphs (a), (b), (f) and (g) above have been fulfilled, and the parties to the respective Connected Subscription Agreements are not aware of any facts or circumstances that will render the remaining Connected Subscription Conditions not to be fulfilled.

For the avoidance of doubt, completion of each of the Connected Subscription Agreements are independent of and not inter-conditional upon each other.

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## LETTER FROM THE BOARD

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### *Connected Subscription Completion*

Completion of each of the Connected Subscription Agreements shall take place on the tenth Business Day following the day on which the last of the Connected Subscription Conditions shall have been fulfilled or, as the case may be, waived, or such other date as agreed between the respective Connected Subscribers and the Company in writing.

The subscription consideration for the Connected Subscription Shares will be payable by the respective Connected Subscribers to the Company in cash upon the respective Connected Subscription Completion. The Connected Subscribers (other than Ms. Chen Chen) will fund the subscription consideration by the proceeds of the Connection Subscription Loans. Ms. Chen Chen will fund the subscription consideration using her own funds.

### *Undertaking to acquire Shares*

Pursuant to the terms of the Connected Subscription Agreements, each Connected Subscriber who is also a Connected Subscriber Borrower has undertaken to the Company that he/she will immediately upon relevant Connected Subscription Completion and in any event no later than 3 months thereafter acquire at his/her own costs and with his/her own funds no less than such number of Shares as set out against his/her name as follows (the “**Connected Acquired Shares**”):

<b>Connected Subscriber Borrower</b>	<b>Number of Connected Acquired Shares</b>
1. Mr. Zhang Zhiyong	2,770,000
2. Mr. Ren Yi	2,800,000
3. Mr. Yang Yang	1,000,000
4. Mr. Lyu Guanghong	1,000,000
5. Ms. Tang Lijun	1,000,000
6. Ms. Sun Wei	<u>1,000,000</u>
<b>Total:</b>	<u><u>9,570,000</u></u>

As disclosed below, the respective Connected Subscription Loan will be secured by, *inter alia*, the Connected Acquired Shares once acquired by the respective Connected Subscriber Borrower. Failure of the respective Connected Subscriber Borrower to acquire the relevant number of Connected Acquired Shares in accordance with the respective Connected Subscription Agreement and provide such Connected Acquired Shares as security for the respective Connected Subscription Loan in accordance with the respective Connected Subscription Loan Agreement and related security document(s) will constitute an event of default under the respective Connected

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## LETTER FROM THE BOARD

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Subscription Loan Agreement, and in such event BPEL will have the right to, *inter alia*, demand repayment of all or any part of the respective Connected Subscription Loan.

For the avoidance of doubt, the Connected Subscription Agreements contain no requirements or restrictions for the Connected Subscriber Borrowers to acquire the Connected Acquired Shares on or off the Stock Exchange.

### *Connected Subscription Loan Agreements*

On 19 January 2018, each of the Connected Subscriber Borrowers and BPEL entered into the respective Connected Subscription Loan Agreements for financing the respective Connected Subscription.

The principal terms of each of the Connected Subscription Loan Agreements are set out as follows:

#### *Date*

19 January 2018 (after trading hours)

#### *Parties*

- (i) BPEL (as the lender); and
- (ii) each of the Connected Subscriber Borrowers (as the borrower).

#### *Conditions precedent*

BPEL making an advance pursuant to each of the Connected Subscription Loan Agreements is conditional upon, among others, fulfilment or waiver (as applicable) of all of the Connected Subscription Conditions.

#### *Details of the Connected Subscription Loans*

The principal amount of each of the Connected Subscription Loans is set out against the name of each Connected Subscriber Borrower as follows:

<b>Connected Subscriber Borrower</b>	<b>Principal amount</b> (HK\$)
1. Mr. Zhang Zhiyong	33,628,500
2. Mr. Ren Yi	34,020,000
3. Mr. Yang Yang	12,150,000
4. Mr. Lyu Guanghong	12,150,000
5. Ms. Tang Lijun	12,150,000
6. Ms. Sun Wei	<u>12,150,000</u>
<b>Total:</b>	<u><u>116,248,500</u></u>

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## LETTER FROM THE BOARD

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Each of the Connected Subscription Loans is for a term of 5 years at the interest rate of one month HIBOR + 1% per annum (which may be adjusted according to the benchmark interest rate) which is to be paid monthly. The interest rate for the Connected Subscription Loans was arrived at after arm's length negotiations between the Company and the Connected Subscriber Borrowers with reference to similar interest rates offered by commercial banks in Hong Kong to the Company for a contemporaneous bank loan of similar terms. Therefore, the Company considers that the interest rate for the Connected Subscription Loans is fair and reasonable and on normal commercial terms.

The respective Connected Subscription Loan will be secured by the Connected Subscription Shares and the Connected Acquired Shares (as defined above) subscribed for or acquired by the respective Connected Subscriber Borrower. Each of the Connected Subscription Loans is subject to mandatory repayment upon sale of any of the Connected Subscription Shares or the Connected Acquired Shares, and the amount of Connected Subscription Loan to be repaid shall correspond to such amount of Shares sold.

Drawdown of the respective Connected Subscription Loans and the Connected Subscription Completion will take place simultaneously. Pursuant to the respective Connected Subscription Agreements, proceeds of the Connected Subscription Loan shall, upon drawdown, be paid directly by BPEL to the Company to settle the consideration for the relevant Connected Subscription.

### *Funding of the Connected Subscription Loans*

The Connected Subscription Loans shall be funded by the internal resources of BPEL.

## **(B) Management Subscriptions and Management Subscriptions Loans**

### *Management Subscription Agreements*

On 19 January 2018, the Company and each of the Management Subscribers entered into the respective Management Subscription Agreements, pursuant to which each of the Management Subscribers conditionally agreed to subscribe for, and the Company conditionally agreed to allot and issue, an aggregate of 79,200,000 Management Subscription Shares for the aggregate subscription consideration of HK\$106,920,000 in cash, being the Subscription Price of HK\$1.35 per Management Subscription Share multiplied by the aggregate number of Management Subscription Shares.

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## LETTER FROM THE BOARD

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The principal terms of each of the Management Subscription Agreements are set out as follows:

*Date*

19 January 2018 (after trading hours)

*Parties*

- (i) the Company (as the issuer); and
- (ii) each of the Management Subscribers (as the subscriber).

*Management Subscription Shares and subscription consideration*

Pursuant to the respective Management Subscription Agreements, each of the Management Subscribers conditionally agreed to subscribe for, and the Company conditionally agreed to allot and issue, such number of Management Subscription Shares at such subscription consideration as set out against his/her name as follows:

<b>Management Subscriber</b>	<b>Subscription consideration (HK\$)</b>	<b>Number of Management Subscription Shares</b>	<b>Approximate percentage of total issued Shares as at the Latest Practicable Date (%)</b>
1. Mr. Chen Shaowen	34,020,000	25,200,000	0.45
2. Mr. Song Li	34,020,000	25,200,000	0.45
3. Mr. Nan Peng	19,440,000	14,400,000	0.25
4. Mr. Wang Yalei	<u>19,440,000</u>	<u>14,400,000</u>	<u>0.25</u>
<b>Total:</b>	<u><u>106,920,000</u></u>	<u><u>79,200,000</u></u>	<u><u>1.40</u></u>

The aggregate nominal value of the 79,200,000 Management Subscription Shares is HK\$792,000.

*Conditions precedent*

Completion of each Management Subscription is conditional upon the following conditions (the “**Management Subscription Conditions**”):

- (a) the passing of resolutions by the Shareholders at the EGM approving the issue of the Management Subscription Shares under the Management Specific Mandate;



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## LETTER FROM THE BOARD

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- (b) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Management Subscription Shares;
- (c) trading in the Shares on the Stock Exchange not being revoked or withdrawn at any time prior to Management Subscription Completion;
- (d) there being no indication being received from the Stock Exchange that the listing of the Shares on the Stock Exchange will be suspended, revoked or withdrawn at any time after Management Subscription Completion, whether in connection with any of the transactions contemplated by the relevant Management Subscription Agreement or otherwise;
- (e) the representation and warranties given by the relevant Management Subscriber and the Company in the relevant Management Subscription Agreement remaining true and accurate in all material respects;
- (f) the Company having obtained all necessary consents and approvals as may be required to be obtained by the Company in respect of the Management Subscription and the transactions contemplated under the relevant Management Subscription Agreement; and
- (g) the relevant Management Subscriber having obtained all necessary consents and approvals as may be required to be obtained by such Management Subscriber in respect of the Management Subscription and the transactions contemplated under the relevant Management Subscription Agreement.

The relevant Management Subscriber may at any time by notice in writing to the Company waive the Management Subscription Condition set out in paragraph (e) above (in respect of the representation and warranties given by the Company only). The Company may at any time by notice in writing to the relevant Management Subscriber waive the Management Subscription Condition set out in paragraph (e) above (in respect of the representation and warranties given by the relevant Management Subscriber only). The Management Subscription Conditions set out in paragraphs (a), (b), (c), (d), (f) and (g) are non-waivable by the Company and the relevant Management Subscriber. In the event of any of the Management Subscription Conditions not being fulfilled or waived in full within 120 days after the date of the relevant Management Subscription Agreement (or such other time and date as may be agreed between the Company and the relevant Management Subscriber in writing), the relevant Management Subscription Agreement shall cease and terminate and thereafter, neither party shall have any obligations and liabilities thereunder save for any antecedent breaches of the provisions thereof.

As at the Latest Practicable Date, none of the Management Subscription Conditions set out in paragraphs (a), (b), (f) and (g) above have been fulfilled, and the parties to the respective Management Subscription Agreements are not aware of any facts or circumstances that will render the remaining Management Subscription Conditions not to be fulfilled.

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## LETTER FROM THE BOARD

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For the avoidance of doubt, completion of each of the Management Subscription Agreements are independent of and not inter-conditional upon each other.

### *Management Subscription Completion*

Completion of each of the Management Subscription Agreements shall take place on the tenth Business Day following the day on which the last of the Management Subscription Conditions shall have been fulfilled or, as the case may be, waived, or such other date as agreed between the respective Management Subscribers and the Company in writing.

The subscription consideration for the Management Subscription Shares will be payable by the respective Management subscribers to the Company in cash upon the respective Management Subscription Completion, which will be funded by the proceeds of the Management Subscription Loans.

### *Undertaking to acquire Shares*

Pursuant to the terms of the Management Subscription Agreements, each Management Subscriber has undertaken to the Company that he/she will immediately upon relevant Management Subscription Completion and in any event no later than 3 months thereafter acquire at his/her own costs and with his/her own funds no less than such number of Shares as set out against his/her name as follows (the “**Management Acquired Shares**”):

<b>Management Subscriber</b>	<b>Number of Management Acquired Shares</b>
1. Mr. Chen Shaowen	2,800,000
2. Mr. Song Li	2,800,000
3. Mr. Nan Peng	1,600,000
4. Mr. Wang Yalei	<u>1,600,000</u>
<b>Total:</b>	<u><u>8,800,000</u></u>

As disclosed below, the respective Management Subscription Loan will be secured by, *inter alia*, the Management Acquired Shares once acquired by the respective Management Subscriber. Failure of the respective Management Subscriber to acquire the relevant number of Management Acquired Shares in accordance with the respective Management Subscription Agreement and provide such Management Acquired Shares as security for the respective Management Subscription Loan in accordance with the respective Management Subscription Loan Agreement and related security document(s) will constitute an event of default under the respective Management Subscription Loan Agreement, and in such event BPEL will have the right to, *inter alia*, demand repayment of all or any part of the respective Management Subscription Loan.

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## LETTER FROM THE BOARD

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For the avoidance of doubt, the Management Subscription Agreements contain no requirements or restrictions for the Management Subscriber Borrowers to acquire the Management Acquired Shares on or off the Stock Exchange.

### *Management Subscription Loan Agreements*

On 19 January 2018, each of the Management Subscribers and BPEL entered into the respective Management Subscription Loan Agreements for financing the respective Management Subscription.

The principal terms of each of the Management Subscription Loan Agreements are set out as follows:

#### *Date*

19 January 2018 (after trading hours)

#### *Parties*

- (i) BPEL (as the lender); and
- (ii) each of the Management Subscribers (as the borrower).

#### *Conditions precedent*

BPEL making an advance pursuant to each of the Management Subscription Loan Agreements is conditional upon, among others, fulfilment or waiver (as applicable) of all of the Management Subscription Conditions.

#### *Details of the Management Subscription Loans*

The principal amount of each of the Management Subscription Loans is set out against the name of each Management Subscriber as follows:

<b>Management Subscriber</b>	<b>Principal amount (HK\$)</b>
1. Mr. Chen Shaowen	34,020,000
2. Mr. Song Li	34,020,000
3. Mr. Nan Peng	19,440,000
4. Mr. Wang Yalei	<u>19,440,000</u>
<b>Total:</b>	<u><u>106,920,000</u></u>

Each of the Management Subscription Loans is for a term of 5 years at the interest rate of one month HIBOR + 1% per annum (which may be adjusted according to the benchmark interest rate) which is to be paid monthly. The interest rate for the Management Subscription Loans was arrived at after arm's length negotiations between the Company and the Management Subscribers with reference to similar

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## LETTER FROM THE BOARD

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interest rates offered by commercial banks in Hong Kong to the Company for a contemporaneous bank loan of similar terms. Therefore, the Company considers that the interest rate for the Management Subscription Loans is fair and reasonable and on normal commercial terms.

The respective Management Subscription Loan will be secured by the Management Subscription Shares and the Management Acquired Shares (as defined above) subscribed for or acquired by the respective Management Subscriber. Each of the Management Subscription Loans is subject to mandatory repayment upon sale of any of the Management Subscription Shares or the Management Acquired Shares, and the amount of Management Subscription Loan to be repaid shall correspond to such amount of Shares sold.

Drawdown of the respective Management Subscription Loans and the Management Subscription Completion will take place simultaneously. Pursuant to the respective Management Subscription Agreements, proceeds of the Management Subscription Loans shall, upon drawdown, be paid directly by BPEL to the Company to settle the consideration for the relevant Management Subscription.

### *Funding of the Management Subscription Loans*

The Management Subscription Loans shall be funded by the internal resources of BPEL.

## THE SUBSCRIPTION PRICE

The Subscription Price of HK\$1.35 per Connected Subscription Share or Management Subscription Share (as the case may be) represents:

- (i) a discount of approximately 14.01% to the closing price of HK\$1.57 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- (ii) a discount of approximately 9.40% to the closing price of HK\$1.49 per Share as quoted on the Stock Exchange on the date of the Connected Subscription Agreements and the Management Subscription Agreements;
- (iii) a discount of approximately 8.16% to the closing price of HK\$1.47 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iv) a discount of approximately 9.88% to the average closing price of approximately HK\$1.498 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day; and
- (v) a discount of approximately 10.24% to the average closing price of approximately HK\$1.504 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day.

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## LETTER FROM THE BOARD

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The net Subscription Price, after deduction of relevant expenses, is estimated to be approximately HK\$1.344 per Connected Subscription Share or Management Subscription Share.

The Subscription Price was arrived at after arm's length negotiations between the Company and the Connected Subscribers or the Management Subscribers (as the case may be) based on a discount of 10% to HK\$1.50 per Share, being the approximate average closing price of the Shares as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day. The said 10% discount was arrived at between the parties after having taken into account (i) the low liquidity of the Subscription Shares in light of (a) the lock-up arrangements in respect of the Connected Subscription Shares and the Management Subscription Shares as described in the paragraphs headed "Lock-up Undertaking" below and (b) the relatively low trading volume of the Shares, as compared with the total size of the Subscriptions, during the immediately preceding period; and (ii) that allowing the Connected Subscribers and the Management Subscribers to subscribe for the Subscription Shares at a reasonable discount to the current market price which is in line with the market practice for placing and subscription transactions, would better achieve the Company's objective to reward the Connected Subscribers and the Management Subscribers for their past contribution to, and to incentivise them for future development of, the Group.

### **RANKING OF THE SUBSCRIPTION SHARES**

The Connected Subscription Shares and the Management Subscription Shares, when fully paid for and allotted and issued, will rank *pari passu* in all respects among themselves and with all the Shares in issue on the date of allotment and issue of the Connected Subscription Shares and the Management Subscription Shares, respectively.

### **SPECIFIC MANDATES TO ISSUE THE CONNECTED SUBSCRIPTION SHARES AND THE MANAGEMENT SUBSCRIPTION SHARES**

The Connected Subscription Shares will be allotted and issued pursuant to the Connected Specific Mandates to be granted by the Independent Shareholders at the EGM. The Management Subscription Shares will be allotted and issued pursuant to the Management Specific Mandate to be granted by the Shareholders at the EGM.

### **LOCK-UP UNDERTAKING**

Pursuant to the terms of the Connected Subscription Agreements and the Management Subscription Agreements, each of the Connected Subscribers and the Management Subscribers has undertaken to the Company that:

- (i) for a period of 12 months from the date of Connected Subscription Completion or Management Subscription Completion (as the case may be) (the "**First Lock-up Period**"), he/she will not sell, transfer, grant options over or otherwise dispose of (either conditionally or unconditionally, or directly or indirectly, or otherwise) more than 15% of the aggregate number of the Connected Subscription Shares

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## LETTER FROM THE BOARD

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and the Connected Acquired Shares or the aggregate number of the Management Subscription Shares and the Management Acquired Shares (as the case may be) subscribed for or acquired by him/her or any interests therein;

- (ii) for the period commencing from the date of Connected Subscription Completion or Management Subscription Completion (as the case may be) and ending on the date which is three years from the date of Connected Subscription Completion or Management Subscription Completion (as the case may be) (the “**Second Lock-up Period**”), he/she will not sell, transfer, grant options over or otherwise dispose of (either conditionally or unconditionally, or directly or indirectly, or otherwise) more than 50% of the aggregate number of the Connected Subscription Shares and the Connected Acquired Shares or the aggregate number of the Management Subscription Shares and the Management Acquired Shares (as the case may be) subscribed for or acquired by him/her or any interests therein (including such number of the Connected Subscription Shares and the Connected Acquired Shares or such number of the Management Subscription Shares and the Management Acquired Shares (as the case may be) being sold, transferred, granted options over or otherwise disposed of by him/her during the First Lock-up Period); and
- (iii) in the event of a disposal of any of the Connected Subscription Shares or the Connected Acquired Shares or any of the Management Subscription Shares or the Management Acquired Shares (as the case may be) at any time after the Second Lock-up Period, the relevant Connected Subscriber or Management Subscriber (as the case may be) will (a) first notify the Company in writing prior to the disposal and will use his/her best endeavours to ensure that any such disposal will not create a disorderly and false market in the Shares and will comply with all applicable laws; and (b) not enter into transactions with any other person who, to his/her knowledge, engages directly or indirectly a business that completes or potentially competes with the business of the Company, or with any other entity which is a holding company, subsidiary or associate of such person, without prior written consent of the Company.

### APPLICATION FOR LISTING

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Connected Subscription Shares and the Management Subscription Shares.

### REASON FOR AND THE BENEFITS OF THE CONNECTED SUBSCRIPTIONS, THE CONNECTED SUBSCRIPTION LOANS, THE MANAGEMENT SUBSCRIPTIONS AND THE MANAGEMENT SUBSCRIPTION LOANS

It is the intention and objective of the Company to incentivize, reward and ensure the long-term service of the Connected Subscribers and the Management Subscribers who have throughout their service shown tremendous contribution to the Group and are considered by the Company to be vital to the success and the long-term growth of the Group. Accordingly, (i) the allotment and issue of the Connected Subscription Shares to the Connected Subscribers and the Management Subscription Shares to the Management



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## LETTER FROM THE BOARD

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Subscribers; and (ii) the provision of the Connected Subscription Loans to the Connected Subscriber Borrowers and the Management Subscription Loans to the Management Subscribers, which will enable them to use the proceeds of the Connected Subscription Loans or the Management Subscription Loans (as the case may be) to settle the subscription consideration for the relevant Connected Subscription Shares or the Management Subscription Shares (as the case may be), will in each case, enable the Company to achieve such objective.

The Company has also considered other alternative incentive schemes such as granting share options or vesting restricted shares under the share option scheme or restricted share award scheme adopted by the Company. However, the Company is of the view that those alternatives do not fit into its intention behind the Subscriptions because the grant of share options or restricted shares under the respective scheme does not require the grantees to pay any consideration on the date of grant and the grantees will not incur any losses should the Share price fall below the option price or the current market price. On the contrary, under the Subscriptions arrangement, the Connected Subscribers and the Management Subscribers are required to pay a total subscription consideration of approximately HKD273 million for the Subscription Shares (despite that for the Connected Subscriber Borrowers and the Management Subscribers the subscription consideration will be settled by the proceeds of the Connected Subscription Loans and the Management Subscription Loans which are to be repaid by them at a later time). This represents substantial capital investments that the Connected Subscribers and the Management Subscribers have to make, and the Company believes that by aligning their interests with the Shareholders' interests through such commitment, the Connected Subscribers and the Management Subscribers will have stronger incentive and motivation to continue to make long-term contributions to the Company.

In addition, the current Subscription arrangements will have no adverse impact on, whereas the grant of share options or restricted shares would adversely impact, the profit and loss statement of the Company. For the grant of restricted shares or share options, the market value of the relevant shares (in the case of the grant of restricted shares) or the difference between the market price of the underlying shares and the fair value of the options (in the case of the grant of share options) on the date of grant will be accounted for as employee expenses in the profit and loss statement of the Company. On the contrary, for the Subscriptions, in light of the lock-up arrangements, the Subscription Shares are valued by an independent valuer of the Company at the same price as the Subscription Price, and therefore it is estimated that the 10% discount will not have any impact on the profit and loss statement of the Company.

Having considered the reasons for and benefits of the Connected Subscriptions and the Management Subscriptions, the terms of the Connected Subscriptions Agreements, the Connected Subscription Loan Agreements, the Management Subscription Agreements and the Management Subscription Loan Agreements and the fact that, unlike other alternative incentive schemes such as granting share options or vesting restricted shares, the Subscriptions will have no adverse impact on the financial statements of the Group:

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## LETTER FROM THE BOARD

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- (a) with regard to the Connected Subscription Agreements and the Connected Subscription Loans, the Directors (other than Mr. Chen Yihong (father of Ms. Chen Chen), Mr. Zhang Zhiyong and Ms. Chen Chen who have abstained from voting on the Board resolutions) consider that the terms of the Connected Subscription Agreements (including the Subscription Price) and the Connected Subscription Loans are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and
- (b) with regard to the Management Subscription Agreements and the Management Subscription Loans, the Directors consider that the terms of the Management Subscription Agreements (including the Subscription Price) and the Management Subscription Loan Agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### USE OF PROCEEDS

The aggregate gross proceeds of the Connected Subscriptions and the Management Subscriptions will be approximately HK\$273 million and the aggregate net proceeds of the Connected Subscriptions and the Management Subscriptions, after the deduction of the related expenses, are estimated to be approximately HK\$272 million.

However, as approximately HK\$223 million of the said proceeds will be set off against the Connected Subscription Loans and the Management Subscription Loans to be provided by BPEL to the Connected Subscriber Borrowers and the Management Subscribers, the net cash amount to be received by the Group immediately upon completion of the Subscriptions will be approximately HK\$49 million. Therefore, the immediate impact upon completion of the Subscriptions on the financial statements of the Group will be (i) increase in cash balance by HK\$49 million and other receivables by HK\$223 million; and (ii) increase in share capital and reserves by HK\$272 million.

The aforesaid approximately HK\$49 million is expected to be used to settle certain expenses of the Group incurred outside the PRC, including interest payments for bank loans, office rent and other administrative expenses.

Proceeds from repayment of the Connected Subscription Loans and the Management Subscription Loans upon (i) sale of any of the Connected Subscription Shares or the Connected Acquired Shares, or any of the Management Subscription Shares or the Management Acquired Shares (as the case may be); or (ii) maturity of the 5 year term will be used for expansion of sales network of the Group or acquisition(s) of new brands.

### INFORMATION OF THE GROUP

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



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## LETTER FROM THE BOARD

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### INFORMATION OF THE CONNECTED SUBSCRIBERS AND THE MANAGEMENT SUBSCRIBERS

#### (A) The Connected Subscribers

Set out below is the position held by each of the Connected Subscribers in the Group:

<b>Connected Subscriber</b>	<b>Position</b>
Mr. Zhang Zhiyong	executive Director and chief executive officer of the Company
Ms. Chen Chen	executive Director
Mr. Ren Yi	director of a subsidiary of the Company
Mr. Yang Yang	director of certain subsidiaries of the Company
Mr. Lyu Guanghong	director of certain subsidiaries of the Company
Ms. Tang Lijun	director of a subsidiary of the Company
Ms. Sun Wei	supervisor of a subsidiary of the Company

#### (B) The Management Subscribers

Each of the Management Subscribers is senior management personnel of the Group and is an Independent Third Party.

### EFFECT ON SHAREHOLDING STRUCTURE OF THE COMPANY FOLLOWING ALLOTMENT AND ISSUE OF THE CONNECTED SUBSCRIPTION SHARES AND THE MANAGEMENT SUBSCRIPTION SHARES

As at the Latest Practicable Date, the Company has 5,674,811,025 Shares in issue.

The shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately upon the allotment and issue of the Connected Subscription Shares and the Management Subscription Shares, assuming no other changes in the issued share capital of the Company between (i) and (ii) and without taking into account the Connected Acquired Shares and the Management Acquired Shares that the Connected Subscriber Borrowers and the Management Subscribers have undertaken to acquire immediately upon the Connected Subscription Completion and the Management Subscription Completion (as the case may be); and (iii) immediately after acquisition of the Connected Acquired Shares by the

## LETTER FROM THE BOARD

Connected Subscriber Borrowers and the Management Acquired Shares by the Management Subscribers, assuming no other changes in the issued share capital of the Company between (ii) and (iii), are summarised as follows:

	As at the Latest Practicable Date		Immediately after allotment and issue of Connected Subscription Shares and Management Subscription Shares		Immediately after acquisition of Connected Acquired Shares and Management Acquired Shares <i>(Note 5)</i>	
	Number of Shares held	Approximate percentage of total issued Shares	Number of Shares held	Approximate percentage of total issued Shares	Number of Shares held	Approximate percentage of total issued Shares
Poseidon Sports Limited <i>(Note 1)</i>	2,249,387,000	39.64%	2,249,387,000	38.27%	2,249,387,000	38.27%
Talent Hill Group Limited <i>(Note 2)</i>	64,928,372	1.14%	64,928,372	1.11%	64,928,372	1.11%
Forever Step Investment Limited <i>(Note 3)</i>	9,280,000	0.16%	9,280,000	0.16%	9,280,000	0.16%
Mr. Zhang Zhiyong	138,410,025	2.44%	163,320,025	2.78%	166,090,025	2.83%
Ms. Chen Chen <i>(Note 4)</i>	119,944,100	2.11%	156,944,100	2.67%	156,944,100	2.67%
Mr. Ren Yi	0	0%	25,200,000	0.43%	28,000,000	0.48%
Mr. Yang Yang	0	0%	9,000,000	0.15%	10,000,000	0.17%
Mr. Lyu Guanghong	0	0%	9,000,000	0.15%	10,000,000	0.17%
Ms. Tang Lijun	0	0%	9,000,000	0.15%	10,000,000	0.17%
Ms. Sun Wei	0	0%	9,000,000	0.15%	10,000,000	0.17%
Public						
— The Management Subscribers	0	0%	79,200,000	1.35%	88,000,000	1.50%
— Other public Shareholders	<u>3,092,861,528</u>	<u>54.50%</u>	<u>3,092,861,528</u>	<u>52.63%</u>	<u>3,074,491,528</u>	<u>52.31%</u>
<b>Total</b>	<u>5,674,811,025</u>	<u>100%</u>	<u>5,877,121,025</u>	<u>100%</u>	<u>5,877,121,025</u>	<u>100%</u>

*Notes:*

- (1) Mr. Chen Yihong (“**Mr. Chen**”), an executive Director and the Chairman of the Board, Harvest Luck Development Limited (“**Harvest Luck**”) and Talent Rainbow Far East Limited (“**Talent Rainbow**”) are deemed to be interested in the Shares held by Poseidon Sports Limited (“**Poseidon**”) by virtue of Harvest Luck and Talent Rainbow being entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of Poseidon. Harvest Luck is wholly owned and controlled by Mr. Chen. The entire issued share capital of Talent Rainbow is held by Billion Giant Development Limited (“**Billion Giant**”). The entire issued share capital of Billion Giant is in turn held by BOS Trustee Limited as trustee of the Cerises Trust. The Cerises Trust is an irrevocable discretionary trust set up by Mr. Chen as settlor and BOS Trust Company (Jersey) Limited as trustee on 20 April 2010. The beneficiaries under the Cerises Trust are family members of Mr. Chen. Mr. Chen as founder of the Cerises Trust is deemed to be interested in the Shares held by Talent Rainbow. On 16 December 2016, the trustee has been changed from BOS Trust Company (Jersey) Limited to BOS Trustee Limited.
- (2) Talent Hill Group Limited is wholly-owned and controlled by Mr. Chen Yiyong, Mr. Chen’s brother.
- (3) Forever Step Investment Limited is wholly-owned and controlled by Mr. Chen Yiliang, Mr. Chen’s brother.
- (4) As at the Latest Practicable Date, 116,944,100 Shares are held by Bountiful Talent Ltd, a company wholly-owned and controlled by Ms. Chen Chen, an executive Director.

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## LETTER FROM THE BOARD

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- (5) Based on the assumption that the Connected Subscriber Borrowers will acquire all Connected Acquired Shares and the Management Subscribers will acquire all Management Acquired Shares from the other public Shareholders.

### FUND RAISING ACTIVITY OF THE COMPANY DURING THE PAST TWELVE MONTHS

Apart from the fund raising activity mentioned below, the Company had not conducted any other fund raising activities in the past twelve months immediately prior to the Latest Practicable Date.

Date of announcement	Event	Net proceeds	Intended use of proceeds	Actual use of proceeds
9 October 2017	Issue of Shares pursuant to the subscription agreement dated 9 October 2017	HK\$173.4 million	General working capital for the Group	Utilised as intended

### LISTING RULES IMPLICATIONS

The Connected Subscribers are directors of the Company or the Company's subsidiaries (as the case may be), and therefore are connected persons of the Company under Chapter 14A of the Listing Rules. Accordingly, the Connected Subscriptions and the Connected Specific Mandates in respect of the Connected Subscriptions constitute connected transactions of the Company under Chapter 14A of the Listing Rules and are subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Connected Subscription Loans also constitute connected transactions of the Company. As all of the applicable percentage ratios in respect of each of the Connected Subscription Loans to the respective Connected Subscriber Borrowers (other than Mr. Zhang Zhiyong), who are directors at the subsidiary level, are less than 1%, the Connected Subscription Loans to the Connected Subscriber Borrowers (other than Mr. Zhang Zhiyong) are exempt from the reporting and announcement requirements and are exempt from the circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As disclosed in the announcement of the Company dated 9 October 2017, BPEL extended a 5-year term loan of a principal amount of HK\$156,956,969 to Mr. Zhang Zhiyong ("**First Subscription Loan**") for financing his subscription of 138,410,250 Shares from the Company. As the First Subscription Loan was extended within 12 months from the Connected Subscription Loan, pursuant to Rule 14A.81 of the Listing Rules, the Connected Subscription Loan to Mr. Zhang Zhiyong is required to be aggregated with the First Subscription Loan. As the applicable percentage ratios in respect of the Connected Subscription Loan to Mr. Zhang Zhiyong when aggregated with the First Subscription Loan are more than 0.1% and less than 5%, the Connected Subscription Loan to Mr.

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## LETTER FROM THE BOARD

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Zhang Zhiyong is subject to the reporting and announcement requirements and is exempt from the circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As all the applicable percentage ratios in respect of the Connected Subscription Loans and the Management Subscription Loans are less than 5%, the provision of the Connected Subscription Loans and the Management Subscription Loans are exempt from the reporting and announcement, and shareholders' approval requirements under Chapter 14 of the Listing Rules.

### EGM

The EGM will be held at Regus, 35/F, Central Plaza, 18 Harbour Road, Hong Kong on Monday, 26 March 2018 at 10:00 a.m., for the Independent Shareholders to consider and, if thought fit, pass the requisite resolutions to approve, *inter alia*, the Connected Subscription Agreements and the proposed grant of the Specific Mandates.

Mr. Chen Yihong (father of Ms. Chen Chen), Ms. Chen Chen and their respective associates (together holding 2,496,134,270 Shares, being approximately 43.99% of the total issued Shares as at the Latest Practicable Date) are required to abstain from voting at the EGM on the resolution relating to the Connected Subscription Agreement entered into between the Company and Ms. Chen Chen and the proposed grant of the Connected Specific Mandate B. Mr. Zhang Zhiyong and his associates (together holding 138,410,025 Shares, being approximately 2.44% of the total issued Shares as at the Latest Practicable Date) are required to abstain from voting at the EGM on the resolutions relating to the Connected Subscription Agreement entered into between the Company and Mr. Zhang Zhiyong and the proposed grant of the Connected Specific Mandate A. Save as disclosed, to the best knowledge, information and belief of the Directors, no other Shareholder has a material interest in the Connected Subscriptions and the proposed grant of the Specific Mandates and therefore would be required to abstain from voting on the relevant resolutions to be proposed at the EGM.

A notice convening the EGM is set out on pages 55 to 60 of this circular. A form of proxy for use by the Independent Shareholders at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, please complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM should you so wish.

The resolutions to be proposed at the EGM will be determined by way of poll by the Independent Shareholders. An announcement on the poll results of the EGM will be made by the Company following the EGM in accordance with the Listing Rules.

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## LETTER FROM THE BOARD

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### RECOMMENDATION

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that the terms of the Connected Subscription Agreements and the proposed grant of the Connected Specific Mandates are on normal commercial term and in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM in respect of the approval of the Connected Subscription Agreements and the proposed grant of the Connected Specific Mandates.

The Board (excluding Mr. Chen Yihong (father of Ms. Chen Chen), Mr. Zhang Zhiyong and Ms. Chen Chen in relation to the relevant Connected Subscription Agreements and the relevant Connected Specific Mandates in which they or their associate are/is interested) considers that the terms of the Connected Subscription Agreements and the proposed grant of the Specific Mandates are on normal commercial term and in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned, and accordingly recommends the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM in respect of the approval of the Connected Subscription Agreements and the proposed grant of the Specific Mandates.

### 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.

### WARNING

**Shareholders and potential investors should note that the Connected Subscription Completion and the Management Subscription Completion are subject to the fulfilment or waiver of certain conditions precedent under the Connected Subscription Agreements and the Management Subscription Agreements, respectively, and the Connected Subscriptions and/or the Management Subscriptions may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.**

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)**

9 March 2018

Dear Independent Shareholders,

**(1) CONNECTED TRANSACTIONS INVOLVING  
SUBSCRIPTION OF NEW SHARES BY CONNECTED PERSONS  
AND  
(2) ISSUE OF NEW SHARES UNDER SPECIFIC MANDATES**

We refer to the circular of the Company dated 9 March 2018 (the “**Circular**”) of which this letter forms a part. Terms defined in the Circular bear the same meanings herein unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to advise you in respect of the fairness and reasonableness of the Connected Subscriptions and the proposed grant of the Connected Specific Mandates. Platinum Securities Company 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 terms of the Connected Subscription Agreements and the proposed grant of the Connected Specific Mandates, despite not in the ordinary and usual course of business of the Company, are on normal commercial terms and in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we would advise you to vote in favour of the resolutions to be proposed at the EGM in respect of the approval of the Connected Subscription Agreements and the proposed grant of the Connected Specific Mandates.

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

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

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

**CHEN Johnny**  
*Independent non-executive  
Director*

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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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



**PLATINUM** Securities Company Limited

21/F LHT Tower  
31 Queen's Road Central  
Hong Kong

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9 March 2018

*To the Independent Board Committee and the Independent Shareholders*

Dear Sir or Madam,

### **(1) CONNECTED TRANSACTIONS INVOLVING SUBSCRIPTION OF NEW SHARES BY CONNECTED PERSONS AND (2) ISSUE OF NEW SHARES UNDER SPECIFIC MANDATES**

#### **INTRODUCTION**

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Connected Subscriptions and the Connected Specific Mandates (“**the Transactions**”). Details of the Transactions are contained in the circular of the Company dated 9 March 2018 (the “**Circular**”). Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

The Board announced on 19 January 2018 that the Company and each of the Connected Subscribers entered into the respective Connected Subscription Agreements, pursuant to which each of the Connected Subscribers conditionally agreed to subscribe for, and the Company conditionally agreed to allot and issue, an aggregate of 123,110,000 Connected Subscription Shares for the aggregate subscription consideration of approximately HK\$166,198,500 in cash, being the Subscription Price of HK\$1.35 per Connected Subscription Share multiplied by the aggregate number of Connected Subscription Shares. The Connected Subscription Shares will be allotted and issued pursuant to the Connected Specific Mandates.

Accordingly, the Connected Subscriptions and the Connected Specific Mandates constitute connected transactions of the Company under Chapter 14A of the Listing Rules and are subject to the reporting, announcement, circular and Independent Shareholder’s approval requirements under Chapter 14A of the Listing Rules.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In our capacity as the Independent Financial Adviser, our role is to advise the Independent Board Committee and the Independent Shareholders as to whether the transactions contemplated under the Connected Subscription Agreements and the proposed grant of the Connected Specific Mandates, despite not in the ordinary and usual course of business of the Company, are on normal commercial terms, and are fair and reasonable so far as the Independent Shareholders are concerned, as well as are in the interests of the Company and the Shareholders as a whole, and to give independent advice to the Independent Board Committee and the Independent Shareholders.

In formulating our opinion, we have relied on the information and facts supplied to us by the Directors and/or management of the Company. We have reviewed, among other things: i) the Connected Subscription Agreements; ii) Management Subscription Agreements; iii) the announcement of the Company dated 19 January 2018 (the “**Announcement**”); iv) the audited annual report of the Company for the year ended 31 December 2016 (the “**2016 Annual Report**”); and v) the unaudited interim report of the Company for the six months ended 30 June 2017 (the “**2017 Interim Report**”).

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

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



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As at the Latest Practicable Date, we were independent from, and were not associated with the Company or any other party to the Transactions, or their respective substantial shareholder(s) or connected person(s), as defined under the Listing Rules and accordingly, are considered eligible to give independent advice on the Transactions. We will receive a fee from the Company for our role as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Transactions. Apart from this normal professional fee payable to us in connection with this appointment, no arrangements exist whereby we will receive any fees or benefits from the Company or any other party to the Transactions or their respective substantial shareholder(s) or connected person(s), as defined under the Listing Rules.

The Independent Board Committee, comprising Dr. Chen Guogang, Mr. Chen Johnny and Mr. Gao Yu, has been established to advise the Independent Shareholders as to whether the transactions contemplated under the Connected Subscription Agreements and the proposed grant of the Connected Specific Mandates, despite not in the ordinary and usual course of business of the Company, are on normal commercial terms, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

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

#### **1. Background of the Transactions**

The Board announced on 19 January 2018 that the Company and each of the Connected Subscribers entered into the respective Connected Subscription Agreements, pursuant to which each of the Connected Subscribers conditionally agreed to subscribe for, and the Company conditionally agreed to allot and issue, an aggregate of 123,110,000 Connected Subscription Shares for the aggregate subscription consideration of approximately HK\$166,198,500 in cash, being the Subscription Price of HK\$1.35 per Connected Subscription Share multiplied by the aggregate number of Connected Subscription Shares. The Connected Subscription Shares will be allotted and issued pursuant to the Connected Specific Mandates.

##### ***1.1 Information on the Group***

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

The following table summarises the audited financial information of the Group for the two years ended 31 December 2016 and the unaudited financial information of the Group for the six months ended 30 June 2017, as extracted from the 2016 Annual Report and the 2017 Interim Report respectively.

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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*Consolidated statement of profit or loss*

	<b>For the year ended</b>		<b>For the six</b>
	<b>31 December</b>		<b>Months ended</b>
	<b>2015</b>	<b>2016</b>	<b>30 June 2017</b>
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
	(audited)	(audited)	(unaudited)
Revenue	1,468.89	1,501.48	626.33
— China	1,052.76	1,129.87	517.65
— Japan	416.13	371.61	108.68
Profit (loss) for the year/ period	801.62	869.74	532.69
— attributable to equity shareholders of the Company	802.90	870.31	536.01
— attributable to non-controlling interests	(1.28)	(0.57)	(3.3)

*Consolidated statement of financial position*

	<b>As at</b>	<b>As at</b>	<b>As at</b>
	<b>31 December</b>	<b>31 December</b>	<b>30 June</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
	(audited)	(audited)	(unaudited)
Restricted cash	67.65	397.49	390.85
Cash and cash equivalents	909.87	1,713.46	1,867.82
Bank loan	454.55	750.79	524.10
Net assets value	9,548.69	9,674.52	10,371.39

According to the Company's consolidated financial statements prepared in accordance with the Hong Kong Financial Reporting Standards, we noted that the Group's revenue from the sales for the year ended 31 December 2016 ("FY2016") amounted to approximately RMB1,501.48 million, representing an increase of 2.2% year-on-year as compared with approximately RMB1,468.89 million for the year ended 31 December 2015 ("FY2015"). The revenue was mainly contributed by retail sales of apparel and sportswear products in China and Japan, where by geographical segments; retail sales generated in China segment accounted 75.3% of the Group's revenue in FY2016, whereas Japan segment contributed 24.7%. For the reporting period, profit attributable to equity shareholders of the Company was approximately RMB869.74 million in FY2016, representing an increase by 8.5% as compared to approximately RMB801.62 million in FY2015. With reference to the 2016 Annual Report and as advised by the management of

the Company, a better performance in FY2016 was primarily attributable to (i) overall recovery of globe's economy, (ii) significant growth of 20.1% in the e-commerce revenue of the Company for FY2016 as compared to the previous year; (iii) strong enhancement of brand focus; and (iv) rapid expansion of the consumer group by the brand injection to the market in China and corresponding penetration of products coverage leading to high demand from the kid's wear business.

According to 2017 Interim Report, the Group's revenue was recorded RMB626.33 million for the six months ended 30 June 2017, while the profit attributable to equity shareholders of the Group for the six months ended 30 June 2017 was RMB536.01 million. By geographical segments, 82.7% of the revenue was generated by the retail sales of sportswear in China whereas 17.3% was generated in Japan.

The cash and cash equivalents of the Group amounted to approximately RMB1,867.82 million and restricted cash of approximately RMB390.85 million as at 30 June 2017, representing a slight decrease as compared to approximately RMB1,713.46 million and RMB397.49 million as at 31 December 2016, such changes were mainly due to the deposits of restricted cash with the bank which is mainly for issuance of letters of credit and new bank loan raised.

The Group recorded secured bank loan of approximately RMB524.10 million as at 30 June 2017. As discussed with the management of the Company, we concur with the view of the management of the Company that the Group is in a strong and healthy financial position and has sufficient working capital to support its operations and meet its foreseeable capital expenditures.

### ***1.2 Information on the Connected Subscribers***

The Connected Subscribers include (i) Zhang Zhiyong (an executive Director and chief executive officer), (ii) Ms. Chen Chen (an executive Director), (iii) Mr. Ren Yi (director of a subsidiary of the Company), (iv) Mr. Yang Yang (director of certain subsidiaries of the Company), (v) Mr. Lyu Guanghong (director of certain subsidiaries of the Company), (vi) Ms. Tang Lijun (director of a subsidiary of the Company); and (vii) Ms. Sun Wei (supervisor of a subsidiary of the Company).

**2. Reasons for and benefits of the Connected Subscriptions and Management Subscriptions**

With reference to the letter of the Board, it is the intention and objective of the Company to incentivize, reward and ensure the long term service of the Connected Subscribers and Management Subscribers who have throughout their service shown tremendous contribution to the Group and are considered by the Board to be vital to the success and the long-term growth of the Group. As per our discussion with the management of the Company, the Directors are of the view that the Connected Subscriptions and the Management Subscriptions will provide an incentive to retain or maintain on-going relationships with the Connected Subscribers and Management Subscribers whose contributions are or will be beneficial to the long-term growth and development of the Group. The Subscriptions will reflect the confidence and support for the development of the Group, and will accelerate the Company's growth by further strengthening the capital base and financial position of the Company.

Accordingly, (i) the allotment and issue of the Connected Subscription Shares to the Connected Subscribers and the Management Subscription Shares to the Management Subscribers; and (ii) the provision of the Connected Subscription Loans to the Connected Subscriber Borrowers and the Management Subscription Loans to the Management Subscribers, which will enable them to use the proceeds of the Connected Subscription Loans or the Management Subscription Loans (as the case may be) to settle the subscription consideration for the relevant Connected Subscription Shares or the Management Subscription Shares (as the case may be), will in each case, enable the Company to achieve such objective.

Based on our discussion with the management of the Company, the Company has considered other alternative incentives schemes such as granting share options or vesting restricted shares under the share option scheme or restricted share award scheme adopted by the Company. We concurred with the view of the Company that those alternatives do not fit into its intention behind the Subscriptions because the grant of share options or restricted shares under the respective scheme does not require the grantees to pay any consideration on the date of grant and the grantees will not incur any losses should the Share price fall below the option price or the current market price. On the contrary, under the Subscriptions arrangement, the Connected Subscribers and the Management Subscribers are required to pay a total subscription consideration of approximately HKD273 million for the Subscription Shares (despite that for the Connected Subscriber Borrowers and the Management Subscribers the subscription consideration will be settled by the proceeds of the Connected Subscription Loans and the Management Subscription Loans which are to be repaid by them at a later time). This represents substantial capital investments that the Connected Subscribers and the Management Subscribers have to make, and the Company believes that by aligning their interests with the Shareholders' interests through such commitment, the Connected Subscribers and the Management Subscribers will have stronger incentive and motivation to continue to make long-term contributions to the Company.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In addition, the management of the Company is of the view that the current Subscriptions arrangements will have no adverse impact on, whereas the grant of share options or restricted shares would adversely impact, the profit and loss statement of the Company. For the grant of restricted shares or share options, the market value of the relevant shares (in the case of the grant of restricted shares) or the difference between the market price of the underlying shares and the fair value of the options (in the case of the grant of share options) on the date of grant will be accounted for as employee expenses in the profit and loss statement of the Company. On the contrary, for the Subscriptions, in light of the lock-up arrangements, the Subscription Shares are valued by an independent valuer of the Company at the same price as the Subscription Price, and therefore it is estimated that the 10% discount will not have any impact on the profit and loss statement of the Company.

Furthermore, we consider the Connected Subscriptions and Connected Subscriptions Loans, and the Management Subscriptions and Management Subscription Loans, are a package of incentives and rewards to the Connected Subscribers and Management Subscribers respectively. Given that the amount of respective subscription consideration is relatively substantial for each Connected Subscribers and Management Subscribers to afford, we understand from the management of the Company that the Connected Subscriber Borrowers and Management Subscribers have limited funds to subscribe for the Connected Subscription Shares and Management Subscription Shares by themselves. Therefore, non-provision of the Connected Subscription Loans and the Management Subscription Loans will result in the Connected Subscriptions and Management Subscriptions being unsuccessful which would be contrary to the Company's intention and objective of motivating, rewarding and ensuring the long term service of the Connected Subscribers and Management Subscribers to the Company. In addition, we noted that the Connected Subscription Loans and the Management Subscription Loans are for a term of 5 years with the interest rate of one month HIBOR + 1% per annum (which may be adjusted according to the benchmark interest rate) to be paid monthly, which will have the effect of creating attachment on the part of the Connected Subscribers and Management Subscribers with the Company. We believe that it would be beneficial for the Company and Shareholders as a whole in the perspective of long term development of the Company.

Moreover, we think that the Connected Subscriptions and Management Subscriptions will result in actual ownership of the Shares and provide a more direct and ongoing financial connection among the Connected Subscribers, Management Subscribers and the Company. As such we consider that the reasons for the Connected Subscriptions and Management Subscriptions by the Connected Subscribers and Management Subscribers are justifiable and are in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 3. Principal terms of the Connected Subscription Agreements

The principal terms of the each Connected Subscription Agreements are set out as follows:

***Date***

19 January 2018 (after trading hours)

***Parties***

- (i) the Company (as the issuer); and
- (ii) each of the Connected Subscribers (as the subscribers).

***Details of the Connected Subscribers and the Connected Subscription Shares***

Pursuant to the respective Connected Subscription Agreements, each of the Connected Subscribers conditionally agreed to subscribe for, and the Company conditionally agreed to allot and issue, such number of Connected Subscription Shares at such subscription consideration as set out against his/her name as follows:

	<b>Connected Subscriber(s)</b>	<b>Position</b>	<b>Subscription Consideration (HK\$)</b>	<b>Number of Connected Subscription Shares</b>	<b>Approximate percentage of total issued Shares as at the Latest Practicable Date (%)</b>
1	Mr. Zhang Zhiyong	executive Director and chief executive officer of the Company	33,628,500	24,910,000	0.44
2	Ms. Chen Chen	executive Director	49,950,000	37,000,000	0.65
3	Mr. Ren Yi	director of a subsidiary of the Company	34,020,000	25,200,000	0.44
4	Mr. Yang Yang	director of certain subsidiaries of the Company	12,150,000	9,000,000	0.16
5	Mr. Lyu Guanghong	director of certain subsidiaries of the Company	12,150,000	9,000,000	0.16
6	Ms. Tang Lijun	director of a subsidiary of the Company	12,150,000	9,000,000	0.16
7	Ms. Sun Wei	supervisor of a subsidiary of the Company	12,150,000	9,000,000	0.16
	<b>Total:</b>		<b>166,198,500</b>	<b>123,110,000</b>	<b>2.17</b>

The aggregate nominal value of the 123,110,000 Connected Subscription Shares is HK\$1,231,100.

*Conditions Precedent*

Completion of each Connected Subscription is conditional upon the following conditions (the “**Connected Subscription Conditions**”):

- (i) the passing of resolutions by the Independent Shareholders at the EGM approving the Connected Subscription Agreements, the issue of Connected Subscription Shares under the Connected Specific Mandates and the transactions contemplated thereunder;
- (ii) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Connected Subscription Shares;
- (iii) trading in the Shares on the Stock Exchange not being revoked or withdrawn at any time prior to Connected Subscription Completion;
- (iv) there being no indication being received from the Stock Exchange that the listing of the Shares on the Stock Exchange will be suspended, revoked or withdrawn at any time after Connected Subscription Completion, whether in connection with any of the transactions contemplated by the Connected Subscription Agreements or otherwise;
- (v) the representation and warranties given by the Connected Subscribers and the Company in the Connected Subscription Agreements remaining true and accurate in all material respects;
- (vi) the Company having obtained all necessary consents and approvals as may be required to be obtained by the Company in respect of the Connected Subscriptions and the transactions contemplated under the Connected Subscription Agreements; and
- (vii) the Connected Subscribers having obtained all necessary consents and approvals as may be required to be obtained by the Connected Subscribers in respect of the Connected Subscriptions and the transactions contemplated under the Connected Subscription Agreements.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Connected Subscriber may at any time by notice in writing to the Company waive the Connected Subscription Conditions set out in paragraph (v) above (in respect of the representation and warranties given by the Company only). The Company may at any time by notice in writing to the Connected Subscribers waive the Connected Subscription Conditions set out in paragraph (v) above (in respect of the representation and warranties given by the Connected Subscribers only). The Connected Subscription Conditions set out in paragraphs (i), (ii), (iii), (iv), (vi) and (vii) are non-waivable by the Company and the Connected Subscribers. In the event of any of the Connected Subscription Conditions is not being fulfilled or waived in full within 120 days after the date of the Connected Subscription Agreements (or such other time and date as may be agreed between the Company and the relevant Connected Subscribers in writing), the Connected Subscription Agreements shall cease and terminate and thereafter, neither party shall have any obligations and liabilities thereunder save for any antecedent breaches of the provisions thereof.

As at the Latest Practicable Date, none of the Connected Subscription Conditions set out in paragraphs (i), (ii), (vi) and (vii) above have been fulfilled, and the parties to the respective Connected Subscription Agreements are not aware of any facts or circumstances that will render the remaining Connected Subscription Conditions not to be fulfilled.

### ***Connected Subscription Completion***

Completion of each of the Connected Subscription Agreements shall take place on the tenth Business Day following the day on which the last of the Connected Subscription Conditions shall have been fulfilled or, as the case may be, waived, or such other date as agreed between the respective Connected Subscribers and the Company in writing.

The subscription consideration for the Connected Subscription Shares will be payable by the respective Connected Subscribers to the Company in cash upon the respective Connected Subscription Completion. The Connected Subscribers (other than Ms. Chen Chen) will fund the subscription consideration by the proceeds of the Connected Subscription Loans. Ms. Chen Chen will fund the subscription consideration using her own funds.



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### *Undertaking to acquire Shares*

Pursuant to the terms of the Connected Subscription Agreements, each Connected Subscriber who is also a Connected Subscriber Borrower has undertaken to the Company that he/she will immediately upon relevant Connected Subscription Completion and in any event no later than 3 months thereafter acquire at his/her own costs and with his/her own funds no less than such number of Shares as set out against his/her name as follows (the “**Connected Acquired Shares**”):

<b>Connected Subscriber Borrower</b>	<b>Number of Connected Acquired Shares</b>
1. Mr. Zhang Zhiyong	2,770,000
2. Mr. Ren Yi	2,800,000
3. Mr. Yang Yang	1,000,000
4. Mr. Lyu Guanghong	1,000,000
5. Ms. Tang Lijun	1,000,000
6. Ms. Sun Wei	<u>1,000,000</u>
<b>Total:</b>	<b><u>9,570,000</u></b>

The respective Connected Subscription Loan will be secured by, *inter alia*, the Connected Acquired Shares once acquired by the respective Connected Subscriber Borrower. Failure of the respective Connected Subscriber Borrower to acquire the relevant number of Connected Acquired Shares in accordance with the respective Connected Subscription Agreements and provide such Connected Acquired Shares as security for the respective Connected Subscription Loan in accordance with the respective Connected Subscription Loan Agreements and related security document(s) will constitute an event of default under the respective Connected Subscription Loan Agreements, and in such event BPEL will have the right to, *inter alia*, demand repayment of all or any part of the respective Connected Subscription Loans.

For the avoidance of doubt, the Connected Subscription Agreements contain no requirements or restrictions for the Connected Subscriber Borrowers to acquire the Connected Acquired Shares on or off the Stock Exchange.

#### **4. The Subscription Loans**

As advised by the management of the Company, it is the Company’s intention and objective to incentivize and reward the Connected Subscribers and Management Subscribers. The proceeds of the Subscription Loans under the Connected Subscription Loan Agreements and the Management Subscription Loan Agreements are solely for the payments of respective Connected Subscriptions and Management Subscriptions, and cannot be used for other purposes. The Directors consider that the

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loans provide incentives to the Connected Subscriber Borrowers and the Management Subscribers and will allow the Group to retain talents for the future development of the Group and the Company believes that by aligning their interests with the Shareholders' interests through such commitment, the Connected Subscribers and the Management Subscribers will have stronger incentive and motivation to continue to make long-term contributions to the Company.

In addition, we note that there is no difference between the terms of loans offered to the Connected Subscriber Borrowers and the Management Subscribers. Each of the subscription loans is for a term of 5 years at the interest rate of one month HIBOR + 1% per annum (which may be adjusted according to benchmark interest rate) which is to be paid monthly.

The respective Connected Subscription Loans and Management Subscription Loans will be secured by the Connected Subscription Shares and the Connected Acquired Shares, and the Management Subscription Shares and the Management Acquired Shares. Each of the Connected Subscription Loans and Management Subscription Loans is subject to mandatory repayment upon sale of any of the Connected Subscription Shares and Management Subscription Shares or the Connected Acquired Shares and Management Acquired Shares, and the amount of Connected Subscription Loans and Management Subscription Loans to be repaid shall correspond to such amount of Shares sold.

Furthermore, as advised by the Company that the interest rate for the Connected Subscription Loans and the Management Subscription Loans was arrived at after arm's length negotiations among the Company, the Connected Subscriber Borrowers and the Management Subscribers with reference to similar interest rates offered by commercial banks in Hong Kong to the Company for a contemporaneous bank loan of similar terms. We understand that usually different corporate would have different corporate loan rate taking into consideration of company's financial position and credit rating that would be evaluated and offered privately by the commercial banks. As such, we have discussed with the management of the Company and note that the Company has discussed with two commercial banks and the interest rate being offered ranged from approximately 1.8%-2.0% which is consistent with the interest rate offered to the Connected Subscriber Borrowers and the Management Subscribers. Moreover, the Company has also evaluated each personal credit rating of the Connected Subscriber Borrowers and the Management Subscribers and considered that all of them are in good credit condition. We concur with the view of the management of the Company that the Subscription Loans offered to the Connected Subscriber Borrowers and the Management Subscribers have minimal risks and it would be supervised by the Company properly. Also, as stated under the section of "Reasons for and benefits of the Connected Subscriptions and Management Subscriptions", we consider that the Connected Subscriptions and Connected Subscriptions Loans, the Management Subscriptions and Management Subscription Loans, are a package of incentive and rewards to the Connected Subscribers and Management Subscribers respectively, such arrangement is in the interests of the Company and the Shareholders to keep the Connected Subscribers and Management

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Subscribers with the Group and could supplement the Connected Subscriptions and Management Subscriptions in serving the purpose of incentivizing and rewarding the Connected Subscribers and Management Subscribers and aligning the interests of them with Shareholders as a whole.

### 5. The Subscription Price

The Subscription Price is HK\$1.35 per Connected Subscription Share or Management Subscription Share (as the case may be).

The Subscription Price represents:

- (i) a discount of approximately 14.01% to the closing price of HK\$1.57 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- (ii) a discount of approximately 9.40% to the closing price of HK\$1.49 per Share as quoted on the Stock Exchange on the date of the Connected Subscription Agreements and the Management Subscription Agreements;
- (iii) a discount of approximately 8.16% to the closing price of HK\$1.47 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iv) a discount of approximately 9.88% to the average closing price of approximately HK\$1.498 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including 18 January 2018, being the trading day immediately preceding the date of the Connected Subscription Agreements and the Management Subscription Agreements; and
- (v) a discount of approximately 10.24% to the average closing price of approximately HK\$1.504 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including 18 January 2018, being the trading day immediately preceding the date of the Connected Subscription Agreements and the Management Subscription Agreements.

The net Subscription Price, after deduction of relevant expenses, is estimated to be approximately HK\$1.344 per Connected Subscription Share or Management Subscription Share.

We understand from the Company that the Subscription Price was arrived at after arm's length negotiations between the Company and the Connected Subscribers or the Management Subscribers (as the case may be) based on a discount of 10% to HK\$1.50 per Share, being the approximate average closing price of the Shares as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day. The said 10% discount was arrived at between the parties after having taken into account (i) the low liquidity of the Subscription Shares in light of (a) the lock-up arrangements in respect of the Connected Subscription Shares and the Management Subscription

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Shares as described in the paragraphs headed “Lock-up Undertaking” in the “Letter from the Board” of the Circular; and (b) the relatively low trading volume of the Shares, as compared with the total size of the Subscriptions, during the immediately preceding period; and (ii) that allowing the Connected Subscribers and the Management Subscribers to subscribe for the Subscription Shares at a reasonable discount to the current market price which is in line with the market practice for placing and subscription transactions, would better achieve the Company’s objective to reward the Connected Subscribers and the Management Subscribers for their past contribution to, and to incentivise them for future development of, the Group.

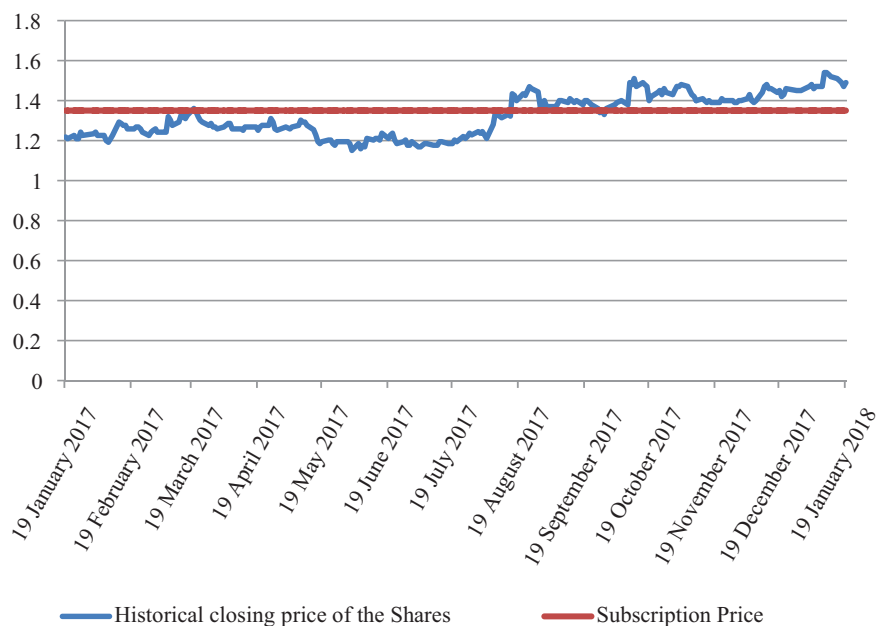
To further assess the fairness and reasonableness of the Subscription Price, we set out the following analyses for illustrative purpose:

### *Review of share prices*

The diagram shown below demonstrating the daily closing price of the Shares as quoted on the Hong Kong Stock Exchange during the period commencing from 19 January 2017, being approximately one year up to and including the date of Connected Subscription Agreements and Management Subscription Agreements (the “**Review Period**”), which we think that a one year review period on the Share price is a common market practice that is fair and reasonable for shareholders’ reference in regard to the Subscription Price:

### Historical Closing Price of the Shares

Price per Share (HK\$)



Source: The Hong Kong Stock Exchange’s web-site ([www.hkex.com.hk](http://www.hkex.com.hk))

As shown by the above diagram, the daily closing prices of the Shares fluctuated between HK\$1.15 per Share and HK\$1.54 per Share with an average closing price of HK\$1.32 per Share during the Review Period. We noted that the Subscription Price of HK\$1.35 is within the range of the lowest and highest closing prices of the Shares and is above the average closing price of the Shares as quoted on the Hong Kong Stock Exchange during the Review Period, representing a premium of approximately 17.4% over the lowest closing price of HK\$1.15 recorded on 02 June 2017, a discount of approximately 12.3% to the highest closing price of HK\$1.54 recorded in 09 January 2018 and a premium of approximately 2.3% over the average closing price of HK\$1.32 during the Review Period. As such, we consider that the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned.

***Comparable Transactions analysis***

As part of our analysis, we have also identified companies listed on the main board of the Stock Exchange which have announced transaction in relation to the issuing or subscription of new shares by (a) connected person(s) under general mandate or specific mandate during the period from 1 July 2017 up to the Last Trading Day, being the recent period of approximately six months around the date of Connected Subscription Agreements and Management Subscription Agreements were entered into (the “**Comparable Transactions**”).

The Comparable Transactions have been selected exhaustively based on the above criteria, and have been identified, to the best of our endeavours, in our research through public information. However, there’s no similar transaction in relation to the subscriptions that are financed by the loans offered by the issuer to incentivize the management of the company in the past one year.

As the Comparable Transactions involve issuing or subscription of new ordinary shares by (a) connected person(s) under general mandate or subscription mandate, also we consider that a review period of approximately six months up to the date of Connected Subscription Agreements and Management Subscription Agreements is appropriate to capture the recent market practice because the Comparable Transactions are considered for the purpose of taking a general reference for the recent market practice in relation to the subscription price under other subscription as compared to the relevant prevailing market share prices under the recent market conditions and sentiments.

It should be noted that all the subject companies involved in the Comparable Transactions may have different principal activities, market capitalisation, profitability, financial position and use of proceeds as compared with those of the Company. Circumstances leading to the subject

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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companies to proceed with the issue or subscription of new shares may also be different from that of the Company. We consider the Comparable Transactions might not constitute close reference with the Connected Subscriptions and Management Subscriptions. Nevertheless, as the Comparable Transactions fulfill the above criteria and can provide a general reference of this type of transaction in Hong Kong equity market and the recent market practice to the Independent Shareholders, hence we consider that the Comparable Transactions selected are fair and reasonable, as well as to be an appropriate basis to assess the fairness of the Subscription Price.

*Comparable Transactions analysis on Subscription Price*

Date of Announcement	Company Name	Ticker	Premium/(discount) of the subscription price over/(to)		
			Last trading day prior to/on the date of the relevant announcement/agreement	Last 5 consecutive trading days prior to/on the date of the relevant announcement/agreement	Last 10 consecutive trading days prior to/on the date of the relevant announcement/agreement
25-Jul-17	Beijing Sports and Entertainment Industry Group Limited	1803 HK	(21.01%)	(20.34%)	(18.97%)
17-Aug-17	Yida China Holdings Limited	3639 HK	1.77%	1.77%	1.63%
30-Aug-17	C&D International Investment Group Limited	1908 HK	(12.26%)	(11.88%)	(10.50%)
01-Sep-17	Kwan On Holding Limited	1559 HK	(3.70%)	(5.39%)	(8.52%)
12-Sep-17	Truly International Holdings Limited	732 HK	(12.93%)	(13.53%)	(14.62%)
12-Sep-17	Ourgame International Holdings Limited	6899 HK	0.00%	(0.43%)	(0.59%)
29-Nov-17	AKM Industrial Company Limited	1639 HK	(6.83%)	(7.29%)	(7.86%)
29-Dec-17	Chinese People Holdings Company Limited	681 HK	1.96%	2.56%	2.56%
10-Jan-18	News Sports Group Limited	299 HK	(23.08%)	(32.25%)	(32.89%)
		Maximum	1.96%	2.56%	2.56%
		Minimum	(23.08%)	(32.25%)	(32.89%)
		Average	(8.45%)	(9.64%)	(9.97%)
Subscription Price of Connected Subscription Share and Management Subscription Share			(9.40%)	(9.88%)	(10.24%)

As shown in the table above, the subscription prices of the Comparable Transactions ranged from: (i) a discount of approximately 23.08% to a premium of approximately 1.96% to/over the respective closing prices of their shares on the last trading days prior to/on the date of the announcement/agreement in relation to the relevant share subscription (the “**Comparable Transactions Range I**”), with an average of a discount of approximately 8.45% (the “**Comparable Transactions Average I**”); (ii) a discount of approximately 32.25% to a premium of approximately 2.56% to/over the average closing prices of their shares on the last five consecutive trading days prior to/on the date of the announcement/agreement in relation to the relevant share subscription (the “**Comparable Transactions Range II**”), with an average of a discount of approximately 9.64% (the “**Comparable Transactions Average II**”); and (iii) a discount of approximately 32.89% to a premium of approximately 2.56% to/over the average closing prices of their



shares on the last ten consecutive trading days prior to/on the date of the announcement/agreement in relation to the relevant share subscription (the “**Comparable Transactions Range III**”), with an average of a discount of approximately 9.97% (the “**Comparable Transactions Average III**”).

The Subscription Price of Connected Subscription Share and Management Subscription Share represent a discount of 9.40% to the closing price of the Shares on 19 January 2018, being the date of the Connected Subscription Agreements and the Management Subscription Agreements (the “**Subscription Price Discount I**”), a discount of 9.88% to the average closing price of the Shares on last five consecutive trading days immediately prior to the date of the Connected Subscription Agreements and the Management Subscription Agreements (the “**Subscription Price Discount II**”) and a discount of 10.24% to the average closing price of the Shares on last 10 consecutive trading days immediately prior to the date of the Connected Subscription Agreements and the Management Subscription Agreements (the “**Subscription Price Discount III**”).

We note that all of the Subscription Price Discount I, Subscription Price Discount II and Subscription Price Discount III are slightly higher than the Comparable Transactions Average I, the Comparable Transactions Average II and the Comparable Transactions Average III, respectively, however within the Comparable Transactions Range I, Comparable Transactions Range II and Comparable Transactions Range III, respectively. We are of the view that Subscription Price of Connected Subscription Share and Management Subscription Share is generally in line with market practice by issuing subscription shares at a discount of approximately 10% to 30% to the relevant closing price of the shares. Therefore, we consider that the Subscription Price of Connected Subscription Share and Management Subscription Share is fair and reasonable to the Company so far as the Independent Shareholders are concerned.

## 6. Financial effects of the Connected Subscriptions and Management Subscriptions

### 6.1 *Effect on net assets value*

As discussed with the management of the Company, the net Subscription Price, after deduction of relevant expenses, is estimated to be approximately HK\$1.344 per Connected Subscription Share or Management Subscription Share, the Connected Subscriptions and the Management Subscriptions are expected to generate net proceeds of approximately HK\$272 million and increase the issued capital and reserve of the Company by approximately HK\$272 million. Upon Connected Subscription Completion and Management Subscription Completion and assuming there is no other change to the balance sheet items since 30 June 2017 save for the changes caused by the Connected Subscriptions and the



Management Subscriptions, the net assets value of the Group shall be increased by the amount of the net proceeds from the Connected Subscriptions and the Management Subscriptions.

Nevertheless, it should be noted that the aforementioned analyses do not consider the effect of the Connected Subscription Loans and the Management Subscription Loans under the Connected Subscription Loan Agreements and the Management Subscription Loan Agreements provided to the Connected Subscriber Borrowers and the Management Subscribers for payments of the related Connected Subscription Shares and the Management Subscription Shares. By taking into account the loans provided to Connected Subscriber Borrowers and the Management Subscribers, the net proceeds from the Connected Subscriptions and the Management Subscriptions would be approximately HK\$49 million, representing the net proceeds from the Connected Subscriptions and the Management Subscriptions of approximately HK\$272 million netting off the Connected Subscription Loans and the Management Subscription Loans to the Connected Subscriber Borrowers and the Management Subscribers of approximately HK\$223 million.

#### ***6.2 Effect on working capital***

As discussed with the management of the Company, the net proceeds will be recognised as cash and equity. Hence, the cash position and the current assets of the Group will be increased by the net proceeds from the Connected Subscriptions and the Management Subscriptions and that the gearing ratio of the Group shall be decreased.

However, it should be noted that the aforementioned analyses are estimation for illustrative purpose only and do not purport to represent how the financial position of the Group will be upon Connected Subscription Completion and Management Subscription Completion.

In general, we think that the Connected Subscriptions and the Management Subscriptions will have a relatively positive effect on the net assets value of the Company.

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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**7. Dilution effects of the Connected Subscriptions and Management Subscriptions**

The shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately upon the allotment and issue of the Connected Subscription Shares and the Management Subscription Shares, assuming no other changes in the issued share capital of the Company between (i) and (ii) and without taking into account of the Connected Acquired Shares and the Management Acquired Shares that the Connected Subscribers and the Management Subscribers have undertaken to acquire immediately upon the Connected Subscription Completion and the Management Subscription Completion (as the case may be), and (iii) immediately after acquisition of the Connected Acquired Shares by the Connected Subscriber Borrowers and the Management Acquired Shares by the Management Subscribers, assuming no other changes in the issued share capital of the Company between (ii) and (iii), are summarised as follows:

	As at the Latest Practicable Date		Immediately after allotment and issue of Connect Subscription Shares and Management Subscription Shares		Immediately after acquisition of Connected Acquired Shares and Management Acquired Shares (Note 5)	
	Number of Shares held	Approximate % of total issued Shares	Number of Shares held	Approximate % of total issued Shares	Number of Shares held	Approximate % of total issued Shares
Poseidon Sports Limited (Note 1)	2,249,387,000	39.64%	2,249,387,000	38.27%	2,249,387,000	38.27%
Talent Hill Group Limited (Note 2)	64,928,372	1.14%	64,928,372	1.11%	64,928,372	1.11%
Forever Step Investment Limited (Note 3)	9,280,000	0.16%	9,280,000	0.16%	9,280,000	0.16%
Mr. Zhang Zhiyong	138,410,025	2.44%	163,320,025	2.78%	166,090,025	2.83%
Ms. Chen Chen (Note 4)	119,944,100	2.11%	156,944,100	2.67%	156,944,100	2.67%
Mr. Ren Yi	0	0%	25,200,000	0.43%	28,000,000	0.48%
Mr. Yang Yang	0	0%	9,000,000	0.15%	10,000,000	0.17%
Mr. LYU Guanghong	0	0%	9,000,000	0.15%	10,000,000	0.17%
Ms. Tang Lijun	0	0%	9,000,000	0.15%	10,000,000	0.17%
Ms. Sun Wei	0	0%	9,000,000	0.15%	10,000,000	0.17%
Public						
— The Management Subscribers	0	0%	79,200,000	1.35%	88,000,000	1.50%
— Other public Shareholders	3,092,861,528	54.50%	3,092,861,528	52.63%	3,074,491,528	52.31%
<b>Total</b>	<u>5,674,811,025</u>	<u>100%</u>	<u>5,877,121,025</u>	<u>100%</u>	<u>5,877,121,025</u>	<u>100%</u>

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*Notes:*

- (1) Mr. Chen Yihong (“**Mr. Chen**”), an executive Director and the Chairman of the Board, Harvest Luck Development Limited (“**Harvest Luck**”) and Talent Rainbow Far East Limited (“**Talent Rainbow**”) are deemed to be interested in the Shares held by Poseidon Sports Limited (“**Poseidon**”) by virtue of Harvest Luck and Talent Rainbow being entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of Poseidon. Harvest Luck is wholly owned and controlled by Mr. Chen. The entire issued share capital of Talent Rainbow is held by Billion Giant Development Limited (“**Billion Giant**”). The entire issued share capital of Billion Giant is in turn held by BOS Trustee Limited as trustee of the Cerises Trust. The Cerises Trust is an irrevocable discretionary trust set up by Mr. Chen as settlor and BOS Trust Company (Jersey) Limited as trustee on 20 April 2010. The beneficiaries under the Cerises Trust are family members of Mr. Chen. Mr. Chen as founder of the Cerises Trust is deemed to be interested in the Shares held by Talent Rainbow. On 16 December 2016, the trustee has been changed from BOS Trust Company (Jersey) Limited to BOS Trustee Limited.
- (2) Talent Hill Group Limited is wholly-owned and controlled by Mr. Chen Yiyong, Mr. Chen’s brother.
- (3) Forever Step Investment Limited is wholly-owned and controlled by Mr. Chen Yiliang, Mr. Chen’s brother.
- (4) As at the Latest Practicable Date, 116,944,100 Shares are held by Bountiful Talent Ltd, a company wholly-owned and controlled by Ms. Chen Chen, an executive Director.
- (5) Based on the assumption that the Connected Subscriber Borrowers will acquire all Connected Acquired Shares and the Management Subscribers will acquire all Management Acquired Shares from the other public Shareholders.

We note that the shareholding of the shareholders (including Poseidon Sports Limited, Talent Hill Group, Forever Step Investment and Other public Shareholders other than those who are interested in the Connected Subscriptions and the Management Subscriptions) will be diluted from approximately 95.44% before the Connected Subscription Completion and Management Subscription Completion to approximately 92.17% immediately after Connected Subscription Completion and Management Subscription Completion and will decrease to approximately 91.85% immediately after the acquisition of Connected Acquired Shares and Management Acquired Shares. Nonetheless, in view of (i) the reasons for and the possible benefits of the Connected Subscriptions and Management Subscriptions by the Connected Subscribers and Management Subscribers to the Company, and (ii) the terms of the Connected Subscription Agreements being fair and reasonable, we are of the view that the aforementioned level of dilution to the shareholding interests of the Independent Shareholders is acceptable.

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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**RECOMMENDATION**

Having considered the principal factors and reasons described above, we are of the opinion that the terms of the Connected Subscription Agreements and the proposed grant of the Connected Specific Mandate, despite not in the ordinary and usual course of business of the Company, are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Shareholders, as well as the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Transactions.

Yours faithfully,  
For and on behalf of  
**Platinum Securities Company Limited**  
**Li Lan**  
*Director and Co-head of Corporate Finance*

*Mr. Li Lan is a licensed person registered with the Securities and Futures Commission and as a responsible officer of Platinum Securities Company Limited to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and has over eleven years of experience in corporate finance industry.*

## 1 RESPONSIBILITY STATEMENT

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

## 2 DISCLOSURE OF INTERESTS

### (a) Interests of Directors

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

Name of Directors	Nature of interest	Class of shares	Number of class of securities		Approximate percentage of total issued Shares
			Long position	Short position	
Mr. Chen Yihong	Interest of a controlled corporation (Note 1)	Ordinary	2,249,387,000 Shares	—	39.64%
Mr. Zhang Zhiyong	Beneficial owner	Ordinary	138,410,025 Shares	—	2.44%
Ms. Chen Chen	Interest of a controlled corporation (Note 2)	Ordinary	116,944,100 Shares	—	2.06%
	Beneficial owner	Ordinary	3,000,000 Shares	—	0.05%

*Notes:*

- (1) Mr. Chen Yihong, Harvest Luck Development Limited (“**Harvest Luck**”) and Talent Rainbow Far East Limited (“**Talent Rainbow**”) are deemed to be interested in the Shares held by Poseidon Sports Limited (“**Poseidon**”) by virtue of Harvest Luck and Talent Rainbow being entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of Poseidon. Harvest Luck is wholly owned and controlled by Mr. Chen Yihong. The entire issued share capital of Talent Rainbow is held by Billion Giant Development Limited (“**Billion Giant**”). The entire issued share capital of Billion Giant is in turn held by BOS Trust Company (Jersey) Limited as trustee of the Cerises Trust. The Cerises Trust is an irrevocable discretionary trust set up by Mr. Chen Yihong as settlor and BOS Trust Company (Jersey) Limited as trustee on 20 April 2010. The beneficiaries under the Cerises Trust are family members of Mr. Chen Yihong. Mr. Chen Yihong as founder of the Cerises Trust is deemed to be interested in the Shares held by Talent Rainbow under the SFO. On 16 December 2016, the trustee has been changed from BOS Trust Company (Jersey) Limited to BOS Trustee Limited.
- (2) Bountiful Talent Ltd is wholly-owned and controlled by Ms. Chen Chen and Ms. Chen Chen is therefore deemed to be interested in the Shares held by Bountiful Talent Ltd.

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

**(b) Directors’ positions in substantial shareholders**

As at the Latest Practicable Date, each of Harvest Luck, Talent Rainbow and Poseidon was a company with interests which fell to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO.

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

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

### 3 DIRECTORS' INTEREST IN CONTRACTS AND ASSETS

Save as disclosed in this circular, none of the Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group taken as a whole.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2016 (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, none of the Directors and his or her respective close associates were 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:

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

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

The Independent Financial Adviser confirmed that it did not have any shareholding interest in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of any member of the Group as at the Latest Practicable Date.

As at the Latest Practicable Date, the Independent Financial Adviser was not interested, directly or indirectly, in any assets which had since 31 December 2016 (being the date to which the latest published audited accounts of the Company were made up) been acquired or disposed of by or leased to any member of the Group or which were proposed to be acquired or disposed of by or leased to any member of the Group.



**6 MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Company is not aware of any material adverse change in the financial or trading position of the Group since 31 December 2016, being the date to which the latest published audited financial statements of the Group were made up.

**7 SERVICE CONTRACTS**

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

**8 LITIGATION**

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

**9 MISCELLANEOUS**

- (a) The company secretary of the Company is Ms. Wai Pui Man who is an associate member of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.
- (b) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (c) The principal place of business of the Company in Hong Kong is at Office Unit 9, 13/F, Tower Two, Lippo Centre, No. 89 Queensway, Hong Kong.
- (d) The branch share registrar of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited.
- (e) The principal share registrar and transfer office of the Company is SMP Partners (Cayman) Limited, Royal Bank House — 3rd Floor, 24 Shedden Road, P.O. Box 1586, 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 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 memorandum and articles of association of the Company;
- (b) each of the Subscription Agreements and the Subscription Loan Agreements;
- (c) the letter from the Board dated 9 March 2018, the text of which is set out on pages 7 to 27 of this circular;
- (d) the letter from the Independent Board Committee dated 9 March 2018, the text of which is set out on page 28 of this circular;
- (e) the letter from the Independent Financial Adviser, the text of which is set out on pages 29 to 49 of this circular;
- (f) the consent letter from the Independent Financial Adviser referred to in the paragraph headed “5. 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 Regus, 35/F, Central Plaza, 18 Harbour Road, Hong Kong on Monday, 26 March 2018 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following ordinary resolutions. Capitalised terms defined in the circular dated 9 March 2018 issued by the Company (the “Circular”) shall have the same meanings when used herein unless otherwise specified.

**ORDINARY RESOLUTIONS**

**Resolution in relation to the Connected Subscription by Mr. Zhang Zhiyong**

1. “**THAT:**

- (a) the Connected Subscription Agreement dated 19 January 2018 and entered into between the Company and Mr. Zhang Zhiyong (as described in the Circular, a copy signed by the Chairman of the meeting for the purposes of identifications, has been produced to the meeting marked “A”) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) subject to fulfillment of the conditions precedent set out in the Connected Subscription Agreement as referred to in this resolution no. 1, the allotment and issue of the Connected Subscription Shares to Mr. Zhang Zhiyong in accordance with the terms thereof be and is hereby approved;
- (c) conditional upon the Listing Committee granting the listing of, and the permission to deal in, the Connected Subscription Shares, the grant of the Connected Specific Mandate A for the allotment and issue of 24,910,000 Connected Subscription Shares to Mr. Zhang Zhiyong be and is hereby approved; and
- (d) the Directors 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 this resolution no. 1.”

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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### **Resolution in relation to the Connected Subscription by Ms. Chen Chen**

2. **“THAT:**

- (a) the Connected Subscription Agreement dated 19 January 2018 and entered into between the Company and Ms. Chen Chen (as described in the Circular, a copy signed by the Chairman of the meeting for the purposes of identifications, has been produced to the meeting marked “B”) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) subject to fulfillment of the conditions precedent set out in the Connected Subscription Agreement as referred to in this resolution no. 2, the allotment and issue of the Connected Subscription Shares to Ms. Chen Chen in accordance with the terms thereof be and is hereby approved;
- (c) conditional upon the Listing Committee granting the listing of, and the permission to deal in, the Connected Subscription Shares, the grant of the Connected Specific Mandate B for the allotment and issue of 37,000,000 Connected Subscription Shares to Ms. Chen Chen be and is hereby approved; and
- (d) the Directors 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 this resolution no. 2.”

### **Resolution in relation to the Connected Subscription by Mr. Ren Yi**

3. **“THAT:**

- (a) the Connected Subscription Agreement dated 19 January 2018 and entered into between the Company and Mr. Ren Yi (as described in the Circular, a copy signed by the Chairman of the meeting for the purposes of identifications, has been produced to the meeting marked “C”) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) subject to fulfillment of the conditions precedent set out in the Connected Subscription Agreement as referred to in this resolution no. 3, the allotment and issue of the Connected Subscription Shares to Mr. Ren Yi in accordance with the terms thereof be and is hereby approved;

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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- (c) conditional upon the Listing Committee granting the listing of, and the permission to deal in, the Connected Subscription Shares, the grant of the Connected Specific Mandate C for the allotment and issue of 25,200,000 Connected Subscription Shares to Mr. Ren Yi be and is hereby approved; and
- (d) the Directors 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 this resolution no. 3.”

### **Resolution in relation to the Connected Subscription by Mr. Yang Yang**

#### **4. “THAT:**

- (a) the Connected Subscription Agreement dated 19 January 2018 and entered into between the Company and Mr. Yang Yang (as described in the Circular, a copy signed by the Chairman of the meeting for the purposes of identifications, has been produced to the meeting marked “D”) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) subject to fulfillment of the conditions precedent set out in the Connected Subscription Agreement as referred to in this resolution no. 4, the allotment and issue of the Connected Subscription Shares to Mr. Yang Yang in accordance with the terms thereof be and is hereby approved;
- (c) conditional upon the Listing Committee granting the listing of, and the permission to deal in, the Connected Subscription Shares, the grant of the Connected Specific Mandate D for the allotment and issue of 9,000,000 Connected Subscription Shares to Mr. Yang Yang be and is hereby approved; and
- (d) the Directors 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 this resolution no. 4.”

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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### **Resolution in relation to the Connected Subscription by Mr. Lyu Guanghong**

5. **“THAT:**

- (a) the Connected Subscription Agreement dated 19 January 2018 and entered into between the Company and Mr. Lyu Guanghong (as described in the Circular, a copy signed by the Chairman of the meeting for the purposes of identifications, has been produced to the meeting marked “E”) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) subject to fulfillment of the conditions precedent set out in the Connected Subscription Agreement as referred to in this resolution no. 5, the allotment and issue of the Connected Subscription Shares to Mr. Lyu Guanghong in accordance with the terms thereof be and is hereby approved;
- (c) conditional upon the Listing Committee granting the listing of, and the permission to deal in, the Connected Subscription Shares, the grant of the Connected Specific Mandate E for the allotment and issue of 9,000,000 Connected Subscription Shares to Mr. Lyu Guanghong be and is hereby approved; and
- (d) the Directors 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 this resolution no. 5.”

### **Resolution in relation to the Connected Subscription by Ms. Tang Lijun**

6. **“THAT:**

- (a) the Connected Subscription Agreement dated 19 January 2018 and entered into between the Company and Ms. Tang Lijun (as described in the Circular, a copy signed by the Chairman of the meeting for the purposes of identifications, has been produced to the meeting marked “F”) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) subject to fulfillment of the conditions precedent set out in the Connected Subscription Agreement as referred to in this resolution no. 6, the allotment and issue of the Connected Subscription Shares to Ms. Tang Lijun in accordance with the terms thereof be and is hereby approved;

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- (c) conditional upon the Listing Committee granting the listing of, and the permission to deal in, the Connected Subscription Shares, the grant of the Connected Specific Mandate F for the allotment and issue of 9,000,000 Connected Subscription Shares to Ms. Tang Lijun be and is hereby approved; and
- (d) the Directors 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 this resolution no. 6.”

### **Resolution in relation to the Connected Subscription by Ms. Sun Wei**

7. **“THAT:**

- (a) the Connected Subscription Agreement dated 19 January 2018 and entered into between the Company and Ms. Sun Wei (as described in the Circular, a copy signed by the Chairman of the meeting for the purposes of identifications, has been produced to the meeting marked “G”) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) subject to fulfillment of the conditions precedent set out in the Connected Subscription Agreement as referred to in this resolution no. 7, the allotment and issue of the Connected Subscription Shares to Ms. Sun Wei in accordance with the terms thereof be and is hereby approved;
- (c) conditional upon the Listing Committee granting the listing of, and the permission to deal in, the Connected Subscription Shares, the grant of the Connected Specific Mandate G for the allotment and issue of 9,000,000 Connected Subscription Shares to Ms. Sun Wei be and is hereby approved; and
- (d) the Directors 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 this resolution no. 7.”

### **Resolution in relation to the grant of the Management Specific Mandate**

8. **“THAT** conditional upon the Listing Committee granting the listing of, and the permission to deal in, the Management Subscription Shares:
- (a) the grant of the Management Specific Mandate for the allotment and issue of the Management Subscription Shares to the Management Subscribers be and is hereby approved; and



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- (b) the Directors 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 this resolution no. 8.”

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

Hong Kong, 9 March 2018

*Notes:*

1. Any member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and to vote in his stead. A proxy need not be a shareholder of the Company.
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 21 March 2018 to 26 March 2018 (both days inclusive) during which period no transfer of shares of the Company will be registered. In order to qualify to attend and vote at the EGM, all transfers of shares of the Company accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-16, 17/F Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on 20 March 2018.
4. The ordinary resolutions 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](http://www.dxsport.com)) for arrangements of the meeting.

The meeting will be held as scheduled when an Amber or Red Rainstorm Warning Signal is in force. Shareholders should decide on their own whether they would attend the meeting under bad weather condition bearing in mind their own situations.