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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)**

**CONTINUING CONNECTED TRANSACTIONS**

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



**VMS Securities Limited**

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A letter from the Board (as defined herein) is set out on pages 4 to 10 of this circular. A letter from the Independent Board Committee (as defined herein) containing its advice to the Independent Shareholders (as defined herein) is set out on page 11 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 12 to 21 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 on Wednesday, 18 May 2016 at 10:45 a.m. is set out on pages 26 to 27 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.

22 April 2016

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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 11 March 2016 in relation to the Continuing Connected Transactions
“Annual Caps”	the annual caps of the Framework Agreement in the amount of RMB251,316,000, RMB301,579,000 and RMB361,895,000 for each of the financial years ending 31 December 2016, 2017 and 2018, respectively
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Chen Co”	北京億天博佑投資有限公司 (Beijing Yi Tian Bo You Investment Co., Limited*), a limited liability company incorporated on 4 June 2009 in the PRC, owned by Mr. Chen Yiliang, Mr. Chen Yiyong and Mr. Chen Yizhong as to 45%, 35% and 20% respectively
“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 person(s)”	has the meaning ascribed to it under the Listing Rules
“Continuing Connected Transactions”	the transactions to be carried out pursuant to the Framework Agreement, which are subject to the reporting, annual review, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules
“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 on Wednesday, 18 May 2016 at 10:45 a.m. to approve the Continuing Connected Transactions and the Annual Caps
“Framework Agreement”	an agreement dated 11 March 2016 entered into by Shanghai Kappa and Mai Sheng Yue He which regulates the terms for the supply of goods from Shanghai Kappa to Mai Sheng Yue He
“Group”	the Company and its subsidiaries

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## DEFINITIONS

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“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent committee of the Board, comprising all the independent non-executive Directors, formed for the purpose of advising the Independent Shareholders in respect of the Continuing Connected Transactions and the Annual Caps
“Independent Financial Adviser”	VMS Securities Limited, a corporation licensed to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities as defined under the Securities and Futures Ordinance, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions and the Annual Caps
“Independent Shareholders”	the Shareholders, excluding Mr. Chen Yihong and his associates
“Independent Third Parties”	party(ies) that is/are independent of the Company and its connected persons
“JV Partners”	the other shareholders of Mai Sheng Yue He prior to the reorganisation of Mai Sheng Yue He as discussed in this circular
“Latest Practicable Date”	18 April 2016, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Mai Sheng Yue He”	邁盛悅合體育用品有限公司 (Mai Sheng Yue He Sportswear Company Limited)*, previously known as 翰博嘉業(北京)貿易有限公司 (Han Bo Jia Ye (Beijing) Company Limited)*, a limited liability company established in the PRC
“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)
“Shanghai Gabanna”	上海嘉班納體育用品有限公司 (Shanghai Gabanna Sporting Goods Co., Limited)*, a company established in the PRC and is an indirect wholly-owned subsidiary of the Company

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## DEFINITIONS

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“Shanghai Kappa”	上海卡帕體育用品有限公司 (Shanghai Kappa Sporting Goods Co., Limited)*, a company established in the PRC on 26 January 2007 and is an indirect wholly-owned subsidiary of the Company
“Share(s)”	share(s) of the Company
“Shareholder(s)”	the holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent.

\* *Denotes an English translation of a Chinese name and is provided for identification purposes only.*

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)**

*Executive Directors:*

Mr. Chen Yihong (陳義紅)

Ms. Chen Chen (陳晨)

*Independent non-executive Directors:*

Mr. Gao Yu (高煜)

Dr. Xiang Bing (項兵)

Mr. Xu Yudi (徐玉棣)

*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

22 April 2016

*To the Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS**

**INTRODUCTION**

Reference is made to the Announcement regarding the Continuing Connected Transactions dated 11 March 2016.

As disclosed in the Announcement, the Board was informed that there had been a reorganisation of the capital structure of Mai Sheng Yue He, one of the largest distributors of the Group, as a result of which Mai Sheng Yue He had become a connected person of the Company. In compliance with the Listing Rules, on 11 March 2016, Shanghai Kappa, an indirect wholly-owned subsidiary of the Company, entered into the Framework Agreement with Mai Sheng Yue He regulating the terms for the supply of goods from Shanghai Kappa to Mai Sheng Yue He.

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## LETTER FROM THE BOARD

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

The purpose of this circular is to provide you with details of the Continuing Connected Transactions and the Annual Caps and to seek your approval of the ordinary resolutions set out in the notice of the EGM on pages 26 to 27 of this circular. The recommendation of the Independent Board Committee to the Independent Shareholders in respect of the Continuing Connected Transactions and the Annual Caps is set out on page 11 of this circular. The letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders containing its advice in relation to the Continuing Connected Transactions and the Annual Caps is set out on pages 12 to 21 of this circular.

### CONTINUING CONNECTED TRANSACTIONS

Mai Sheng Yue He has been one of the largest distributors of the Group, following the merger of the then six key distributors of the Group (including Chen Co) into Mai Sheng Yue He in 2010 as discussed in the Company's announcement dated 7 September 2010. Immediately after the completion of the merger in November 2010, Mai Sheng Yue He was held by Shanghai Gabanna (an indirect wholly-owned subsidiary of the Company) as to approximately 22.05%, by Chen Co (a connected person of the Company) as to approximately 13.35% and by the other JV Partners (all being Independent Third Parties) as to an aggregate of approximately 64.6%. Mai Sheng Yue He had not been a connected person of the Company as Chen Co had remained to control less than 30% interest in Mai Sheng Yue He until the reorganisation described below.

The Board was informed that there had been a reorganisation of the capital structure of Mai Sheng Yue He, as a result of which Chen Co's interest in Mai Sheng Yue He increased to approximately 67.4% and hence, Mai Sheng Yue He had become a connected person of the Company. After such reorganization, Mai Sheng Yue He continues to be a distributor of the Group through the distributor network principally in Beijing and nearby areas, Shandong, Shaanxi and Inner Mongolia whereas the JV Partners who have ceased to be the shareholders of Mai Sheng Yue He continue to distribute the Group's products in other provinces in the PRC through their own companies.

As Mai Sheng Yue He continues to be a distributor of the Group, in compliance with the Listing Rules, on 11 March 2016, Shanghai Kappa, an indirect wholly-owned subsidiary of the Company, entered into the Framework Agreement with Mai Sheng Yue He for regulating the terms for the supply of goods from Shanghai Kappa to Mai Sheng Yue He.

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## LETTER FROM THE BOARD

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

**Date**

11 March 2016

**Parties**

- (1) Shanghai Kappa; and
- (2) Mai Sheng Yue He.

**Term**

The Framework Agreement is valid until 31 December 2018, which can be renewed on terms to be agreed upon between parties stated therein subject to compliance with the applicable Listing Rules. The transactions contemplated under the Framework Agreement shall be conducted in compliance with the Annual Caps and the applicable Listing Rules.

**Transactions under the Framework Agreement**

A non-exclusive right to distribute Kappa brand and other brands sportswear products of the Group in the PRC.

The Framework Agreement is a framework agreement which contains general terms and conditions upon which the parties stated therein are to carry out the transaction contemplated thereunder. Shanghai Kappa and Mai Sheng Yue He may from time to time enter into specific agreements in respect of the supply of goods from Shanghai Kappa to Mai Sheng Yue He, provided that the terms of such detailed agreements are not inconsistent with the terms of the Framework Agreement. The actual supply of goods from Shanghai Kappa to Mai Sheng Yue He will be subject to such detailed agreements to be entered into between Shanghai Kappa and Mai Sheng Yue He from time to time during the terms of the Framework Agreement.

**Consideration and Payment**

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

Shanghai Kappa shall, before it enters into specific agreements in respect of the supply of goods pursuant to the Framework Agreement, arrange relevant personnel from the finance department of the Company to obtain the latest sales record on the supply of the same or similar goods by Shanghai Kappa to independent distributors, as the reference market price of such supply of goods.



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## LETTER FROM THE BOARD

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If Shanghai Kappa enters into a transaction with Mai Sheng Yue He for the supply of goods contemplated under the Framework Agreement, the price and other conditions at which such goods are to be supplied shall be no less favourable than any of the abovementioned sales records obtained.

### **Historical Amounts**

For the financial year ended 31 December 2013, 2014 and 2015, the amount paid to Shanghai Kappa by Mai Sheng Yue He adjusted to reflect the supply of goods attributable to Chen Co only was RMB160,048,000, RMB134,916,000 and RMB192,953,000, respectively. As discussed above, prior to the reorganisation, Mai Sheng Yue He was an entity formed by the merger of the then six key distributors (comprising Chen Co). Hence, the total sales to Mai Sheng Yue He in the past three years were related to the supply of goods by Shanghai Kappa to Chen Co and the JV Partners. In order to form a more comparable basis when determining the Annual Caps after the reorganisation of Mai Sheng Yue He which is now controlled by Chen Co, the historical amounts stated above have been adjusted to reflect the amount paid to Shanghai Kappa by Mai Sheng Yue He in respect of the supply of goods attributable to Chen Co.

### **Annual Caps and basis**

The amount to be paid by Mai Sheng Yue He to Shanghai Kappa for the supply of goods under the Framework Agreement for each of the financial years ending 31 December 2016, 2017 and 2018 will not exceed the following Annual Caps:

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

The Annual Caps have been determined by reference to, among others, (i) the adjusted historical transaction amounts in respect of the supply of goods attributable to Chen Co for the years ended 31 December 2013, 2014 and 2015; (ii) the projected increase in sales volume of Kappa brand; and (iii) the potential co-operation opportunity for distributing the two new lines of clothing in the PRC: children's clothing under "Kappa kids" brand and ski clothing under "Phenix" brand in the coming years.

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## LETTER FROM THE BOARD

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### Internal Control Measures

In order to ensure that the terms for the supply of goods by Shanghai Kappa to Mai Sheng Yue He are not less favourable than those offered to Independent Third Parties, the Company has adopted the following measures:

1. the prices for the goods to be supplied by Shanghai Kappa to Mai Sheng Yue He will be negotiated on arm's length basis according to the principles of fairness and reasonableness and shall be comparable to, or no less favourable than, the fair market prices for similar goods offered to independent distributors by the Company;
2. the relevant personnel of the Company will monitor the Annual Caps so that such Annual Caps will not be exceeded and will obtain the relevant sales records to ensure that the pricing monitoring procedures are duly carried out so that the supply of goods under the Framework Agreement will be conducted in accordance to its pricing terms; and
3. adopt reporting and record-keeping procedures to allow independent non-executive Directors and auditors of the Company to properly review the supply of goods under the Framework Agreement annually.

### INFORMATION OF THE COMPANY, SHANGHAI KAPPA AND MAI SHENG YUE HE

The Company and its subsidiaries are principally engaged in brand development, design and sales of sport-related apparel, footwear and accessories and investment activities in PRC, Macau and Japan.

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

Mai Sheng Yue He is a limited liability company incorporated in the PRC engaging in the distribution and retail of sportswear business of the Group principally in Beijing and nearby areas, Shandong, Shaanxi and Inner Mongolia. Mai Sheng Yue He is owned by Shanghai Gabanna (an indirect wholly-owned subsidiary of the Company) as to approximately 32.6% and by Chen Co as to approximately 67.4%. Chen Co is a company owned by Mr. Chen Yiliang, Mr. Chen Yiyong and Mr. Chen Yizhong, who are brothers of Mr. Chen Yihong, the Chairman and an executive Director.

### REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

Mai Sheng Yue He has been one of the largest distributors of the Group since 2010 and has maintained a very good business relationship with the Group due to its sales performance, reputation for reliability as a distributor, experience in sporting goods retail, and extensive network. Despite its recent reorganisation whereby Chen Co has become its

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## LETTER FROM THE BOARD

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controlling shareholder, the Directors consider that Mai Sheng Yue He will remain as one of the Group's key distributors as Chen Co has been a distributor of the Group prior to the merger with the other distributors to form Mai Sheng Yue He in 2010 and has an extensive distributorship network in Beijing and nearby areas, Shandong, Shaanxi and Inner Mongolia.

Further, with the potential co-operation opportunity for distributing the children's and ski's clothing in the coming years, the Directors consider that the continuing business relationship with Mai Sheng Yue He will contribute to the stable development of the Group's existing sportswear business and provide a solid foundation to the development of its two new lines of clothing in the coming years.

Mr. Chen Yihong was abstained in voting in the board meeting approving the Framework Agreement as his associates are interested in the Continuing Connected Transactions. The remaining Directors considered that (i) the Framework Agreement was entered into in the ordinary and usual course of business and on normal commercial terms; (ii) the terms of the Framework Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (iii) the Annual Caps for the transactions under the Framework Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **IMPLICATIONS OF THE CONTINUING CONNECTED TRANSACTIONS UNDER THE LISTING RULES**

As at the Latest Practicable Date, Mai Sheng Yue He is owned by Shanghai Gabanna (an indirect wholly-owned subsidiary of the Company) as to approximately 32.6% and by Chen Co as to approximately 67.4%. Chen Co is a company owned by Mr. Chen Yiliang, Mr. Chen Yiyong and Mr. Chen Yizhong, who are brothers of Mr. Chen Yihong, the Chairman and an executive Director. Hence, Mai Shen Yue He is a connected person of the Company by virtue of it being an associate of Mr. Chen Yihong and the continuing transactions contemplated under the Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one of the applicable percentage ratios in respect of the Annual Caps for the transactions contemplated under the Framework Agreement is more than 5%, the transactions contemplated under the Framework Agreement are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As at the Latest Practicable Date, Mr. Chen Yiliang, Mr. Chen Yiyong and Mr. Chen Yizhong and their associates (including Mr. Chen Yihong) together control or are entitled to exercise control over the voting rights in respect of 2,328,795,266 Shares, representing 42.06% of the issued share capital of the Company. Any Shareholder with a material interest in the Continuing Connected Transactions and its associates will abstain from voting at the EGM. Therefore, Mr. Chen Yiling, Mr. Chen Yiyong and Mr. Chen Yizhong and their associates (including Mr. Chen Yihong) are required to abstain from voting at the EGM to approve the Continuing Connected Transactions and the Annual Caps.

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## LETTER FROM THE BOARD

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### EGM

A notice convening the EGM to be held at Regus, 35/F, Central Plaza, 18 Harbour Road, Hong Kong on Wednesday, 18 May 2016 at 10:45 a.m. is set out on pages 26 to 27 of this circular. At the EGM, ordinary resolutions will be proposed for the Independent Shareholders to consider and, if thought fit, to approve the Continuing Connected Transactions and the Annual Caps.

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

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

### RECOMMENDATION

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

### GENERAL

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

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

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)**

22 April 2016

Dear Independent Shareholders,

**CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular of the Company dated 22 April 2016 (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 Continuing Connected Transactions. VMS Securities Limited has been appointed as the independent financial adviser to advise us and the Independent Shareholders in this regard.

Having taken into account the advice of the Independent Financial Adviser, including the basis of the pricing of the Continuing Connected Transactions and the internal control measures adopted by the Group to ensure that the Continuing Connected Transactions are in accordance with the pricing policies and the terms of the Framework Agreement, we are of the opinion that the Continuing Connected Transactions have been entered into in the ordinary and usual course of the business of the Group and are based on normal commercial terms, and the Continuing Connected Transactions and the Annual Caps are fair and reasonable and in the interests of the Company and its Shareholders as a whole. Accordingly, we would advise the Independent Shareholders to vote in favour of the ordinary resolutions to approve the Continuing Connected Transactions and the Annual Caps at the EGM.

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

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

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

**XIANG Bing**  
*Independent non-executive  
Director*

**XU Yudi**  
*Independent non-executive  
Director*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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



VMS Securities Limited  
49/F, One Exchange Square  
8 Connaught Place, Central, Hong Kong  
香港中環康樂廣場8號交易廣場1期49樓  
Tel/電話: (852) 2996 2100  
Fax/傳真: (852) 2996 1210

22 April 2016

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

Dear Sirs,

### CONTINUING CONNECTED TRANSACTIONS

#### INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders on the Continuing Connected Transactions contemplated under the Framework Agreement and the respective proposed Annual Caps for the three years ending 31 December 2016, 2017 and 2018, in respect of which the Independent Shareholders' approval will be sought at the EGM. Details of the Framework Agreement, the Continuing Connected Transactions contemplated thereunder and the relevant proposed Annual Caps are set in the Letter from the Board contained in the circular of the Company to the Shareholders dated 22 April 2016 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined herein.

After completion of reorganisation of the capital structure of Mai Sheng Yue He (one of the largest distributors of the Group), Mai Sheng Yue He is owned by Shanghai Gabanna (an indirect wholly-owned subsidiary of the Company) as to approximately 32.6% and by Chen Co as to approximately 67.4%. Chen Co is a company owned by Mr. Chen Yiliang, Mr. Chen Yiyong and Mr. Chen Yizhong, who are brothers of Mr. Chen Yihong, the Chairman and an executive Director. Hence, Mai Sheng Yue He is a connected person of the Company by virtue of it being an associate of Mr. Chen Yihong. The transactions contemplated under the Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As one of the applicable percentage ratios in respect of the Annual Caps for the transactions contemplated under the Framework Agreement is more than 5%, the transactions contemplated under the Framework Agreement are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Chapter 14A of the Listing Rules. In this connection, the Company will seek the Independent Shareholders' approval for the Framework Agreement, the Continuing Connected Transactions and the proposed Annual Caps at the EGM.

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

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

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

## **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In considering whether (i) the Framework Agreement is entered into in the ordinary and usual course of business of the Group; (ii) the terms of the Framework Agreement are on normal commercial terms, and fair and reasonable; (iii) the entering into of the Framework Agreement is in the interests of the Company and the Shareholders as whole; and (iv) the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned, we have taken into account the principal factors and reasons set out below:

### **1. Background to and reasons for the Continuing Connected Transactions**

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

As set out in the Letter from the Board contained in the Circular, Mai Sheng Yue He has been one of the largest distributors of the Group following the merger of the then six key distributors of the Group (including Chen Co) into Mai Sheng Yue He in 2010 as discussed in the Company's announcement dated 7 September 2010. After reorganization of the capital structure of Mai Sheng Yue He, Mai Sheng Yue He continues to be a distributor of the Group through the distribution network principally in, among other things, Beijing and nearby areas, Shandong, Shaanxi and Inner Mongolia. The executive Directors expect that Mai Sheng Yue He will remain as one of the Group's key distributors. As advised by the executive Directors, a stable business relationship has been maintained with Mai Sheng Yue He (including Chen Co). Moreover, the Group is satisfied with the sales performance of Mai Sheng Yue He (including Chen Co). On this basis, the executive Directors are of the view that it is in the interests of the Company and the Shareholders as a whole to continue the distribution business with Mai Sheng Yue He after reorganization of the capital structure of Mai Sheng Yue He. In compliance with the Listing Rules, Shanghai Kappa, an indirect wholly-owned subsidiary of the Company, entered into the Framework Agreement with Mai Sheng Yue He for regulating the terms for the supply of goods from Shanghai Kappa to Mai Sheng Yue He. Approval from the Independent Shareholders in respect of the Framework Agreement and the Annual Caps in relation to the supply of goods from Shanghai Kappa to Mai Sheng Yue He would be sought at the EGM.

We note that the amount paid to Shanghai Kappa by Mai Sheng Yue He adjusted to reflect the supply of goods attributable to Chen Co only was approximately RMB160.0 million, RMB134.9 million and RMB193.0 million in 2013, 2014 and 2015 respectively, representing approximately 11.3%, 10.7% and 13.1% of the Group's respective revenue in 2013, 2014 and 2015. We understand from the executive Directors that there would be adverse impact on the Group's business and sales if Mai Sheng Yue He ceases to be a distributor of the Group given that (1) Mai Sheng Yue He (as adjusted to reflect the supply of goods attributable to Chen Co only) contributed over 10% of the Group's revenue in the past three years; and (2) it would take time for the Group to engage another distributor to replace Mai Sheng Yue He's role. On this basis



and given that the Continuing Connected Transactions will be conducted on normal commercial terms (as more particularly discussed in the sub-section headed “**Principal terms of the Framework Agreement**” below), we consider that the entering into of the Framework Agreement is in the interests of the Company and the Shareholders as a whole. In light of the principal activities of the Group, we also consider that the Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Group.

## **2. Principal terms of the Framework Agreement**

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

The Framework Agreement dated 11 March 2016 entered into between Shanghai Kappa and Mai Sheng Yue He is valid until 31 December 2018, which can be renewed on terms to be agreed upon between parties stated therein subject to compliance with the applicable Listing Rules. The Framework Agreement is subject to the approval by the Independent Shareholders at the EGM.

Pursuant to the terms of the Framework Agreement, Mai Sheng Yue He has a non-exclusive right to distribute Kappa brand and other brands sportswear products of the Group in the PRC. The Framework Agreement is a framework agreement which contains general terms and conditions upon which the parties stated therein are to carry out the transaction contemplated thereunder. Shanghai Kappa and Mai Sheng Yue He may from time to time enter into specific agreements in respect of the supply of goods from Shanghai Kappa to Mai Sheng Yue He, provided that the terms of such detailed agreements are not inconsistent with the terms of the Framework Agreement. As set out in the Framework Agreement, the price for the goods to be supplied under the Framework Agreement are to be agreed and determined on an arm’s length basis according to the principles of fairness and reasonableness between parties from time to time, which shall be comparable to, or no less favourable than, the fair market prices for similar goods offered to independent distributors by Shanghai Kappa. We have, on a sampling basis, randomly selected three purchase transactions by Mai Sheng Yue He from Shanghai Kappa for the three months ended 31 March 2016 for review. As advised by the executive Directors, the Group classified all the distributors into different tiers according to the management, sales performance and the credit rating of the distributors. Product prices charged by the Group to distributors vary among different tiers of distributors. We note from delivery invoices of the selected samples that the prices for the goods supplied to Mai Sheng Yue He by Shanghai Kappa are comparable to, or no less favourable than, the prices of the same goods offered to independent distributors belonging into the same tier as Mai Sheng Yue He.

It is stated in the Letter from the Board contained in the Circular that the Company has adopted certain internal control measures, including (1) the prices charged to Mai Sheng Yue He shall be comparable to, or no less favourable than, the fair market prices for similar goods offered to independent distributors by the

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Company; (2) the Annual Caps shall be monitored by relevant personnel of the Company to ensure the Annual Caps not to be exceeded, and relevant sales records shall be obtained to ensure that the pricing monitoring procedures are duly carried out so that the supply of goods under the Framework Agreement will be conducted in accordance to its pricing terms; and (3) adoption of reporting and record-keeping procedures to allow independent non-executive Directors and auditors of the Company to properly review the supply of goods under the Framework Agreement annually. We are of the view that these measures can safeguard interests of the Group. Further details of the internal control measures are set out in the Letter from the Board contained in the Circular.

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

The Continuing Connected Transactions contemplated under the Framework Agreement will be subject to the relevant proposed Annual Caps whereby for each of the three financial years ending 31 December 2016, 2017 and 2018, the amount of the Continuing Connected Transactions contemplated under the Framework Agreement will not exceed the applicable annual amounts stated in the Letter from the Board contained in the Circular. In assessing the reasonableness of the proposed Annual Caps, we have discussed with executive Directors and management of the Group the basis and underlying assumptions for the purpose of setting the proposed Annual Caps.

Set out below are (i) the approximate amount of sales of the Group derived from distribution of Kappa brand products in China; and (ii) the approximate amount of supply of goods from Shanghai Kappa to Mai Sheng Yue He (adjusted to reflect the supply of goods attributable to Chen Co only) for the three years ended 31 December 2013, 2014 and 2015:

*Sales of the Group derived from distribution of Kappa brand products in China*

	Financial year ended 31 December			A
	2013	2014	2015	
	RMB'000	RMB'000	RMB'000	
Approximate amount of sales derived from distribution of Kappa brand products in China	700,640	534,008	627,801	A
Approximate (decrease)/increase as compared to previous year (%)		(23.8%)	17.6%	

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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*Supply of goods from Shanghai Kappa to Mai Sheng Yue He*

	<b>Financial year ended 31 December</b>			
	<b>2013</b>	<b>2014</b>	<b>2015</b>	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
Approximate aggregate amount of supply of goods from Shanghai Kappa to Ma Sheng Yue He (adjusted to reflect the supply of goods attributable to Chen Co only)	160,048	134,916	192,953	<b>B</b>
Approximate (decrease)/increase as compared to previous year (%)		(15.7%)	43.0%	
Contribution from Mai Sheng Yue He (adjusted to reflect the supply of goods attributable to Chen Co only) to the Group's sales derived from distribution of Kappa brand products in China (= <b>B/A</b> )	22.8%	25.3%	30.7%	

Sales of the Group of Kappa brand products in China to the distributors would be classified as sales derived from distribution of Kappa brand products in China under the segment information contained in the financial report or results announcement of the Group. As shown in the table above, the trend of aggregate amount of supply of goods from Shanghai Kappa to Mai Sheng Yue He (adjusted to reflect the supply of goods attributable to Chen Co only) was, in general, in line with the Group's overall sales derived from distributions of Kappa brand products in China for the past three years. The sporting industry was in downturn in 2014. Moreover, the Group implemented the new business model to operate self-owned retail outlets in 2014. These two factors contributed mainly to the drop of amount of sales derived from distribution of Kappa brand products in China in 2014 by approximately 23.8% as compared to that of 2013. As the Group did not operate self-owned retail outlets in Beijing and nearby areas, Shandong, Shaanxi and Inner Mongolia, the drop of amount of supply of goods from Shanghai Kappa to Mai Sheng Yue He (adjusted to reflect the supply of goods attributable to Chen Co only) in 2014 was principally due to industry downturn and a lower level of drop of 15.7% was recorded in 2014. Due to industry recovery, adjustment of sales channels and more promotion of Kappa brand products, amount of supply of goods from Shanghai Kappa to Mai Sheng Yue He (adjusted to reflect the supply of goods attributable to Chen Co only) improved in 2015 as compared to that of previous year.

In determining the proposed Annual Caps for the transactions contemplated under the Framework Agreement, the executive Directors have taken into account, among other things, (i) the adjusted historical transaction amounts in respect of the supply of goods attributable to Chen Co for the past three years ended 31 December 2013, 2014 and 2015; (ii) the projected increase in sales volume of Kappa brand

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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products; and (iii) the potential co-operation opportunity for distributing the two new lines of clothing in the PRC: children's clothing under "Kappa kids" brand and ski clothing under "Phenix" brand in the coming years. As advised by the executive Directors, they have discussed with management of Mai Sheng Yue He regarding future development plans of Mai Sheng Yue He and note that the number of retail stores of Mai Sheng Yue He as at 31 December 2016 is planned to be increased by approximately 4.6% as compared to that as at 31 December 2015. Also, we are advised by the executive Directors that the sales per retail store of Mai Sheng Yue He in 2016 are estimated to increase by approximately 15.0% as compared to that of 2015. Therefore, the projected increase in sales of Kappa brand products in 2016 is estimated to be approximately 20.29% as compared to that of 2015. We understand from the executive Directors that the Group took back the license of "Kappa Kids" in late 2015 and a wholly owned subsidiary was set up in January 2016 which is responsible for the design, research and development, production and sales and marketing of "Kappa Kids" products. The PRC government has scrapped its one-child policy, allowing all couples to have two children since draconian family planning rules were introduced more than three decades ago. Therefore, the executive Directors consider that the launch of "Kappa Kids" products can capture this business opportunity and promote business of the Group. Coupled with the potential co-operation for distribution of ski clothing under "Phenix" brand, the executive Directors expect that the sales to Mai Sheng Yue He will grow by approximately 6.0% in 2016 as a result of this new business opportunity. On this basis and together with a buffer of approximately 4%, the Annual Cap in relation to the supply of goods from Shanghai Kappa to Mai Sheng Yue He is estimated by executive Directors to be approximately RMB251.3 million for 2016, representing an increase of approximately 30.2% as compared to the historical sales amount in 2015. It was shown in the table above that the contribution from Mai Sheng Yue He (adjusted to reflect the supply of goods attributable to Chen Co only) to the Group's sales derived from distribution of Kappa brand products in China was on increasing trend from approximately 22.8% in 2013 to 30.7% in 2015. The growth of amount of supply of goods from Shanghai Kappa to Mai Sheng Yue He (adjusted to reflect the supply of goods attributable to Chen Co only) of approximately 43.0% in 2015 significantly outperformed the growth of amount of sales of the Group derived from distribution of Kappa brand products in China of approximately 17.6% in that year. On this basis, we are of the view that the growth rate of approximately 30.2% adopted in setting the 2016 Annual Cap to be fair and reasonable so far as the Independent Shareholders are concerned.

Following significant increase in the supply of goods from Shanghai Kappa to Mai Sheng Yue He in 2016, it is estimated by the executive Directors that the growth in the transaction amounts for the supply of products from Shanghai Kappa to Mai Sheng Yue He will slow down but maintain steady growth in 2017 and 2018. As advised by the executive Directors, the number of retail stores of Mai Sheng Yue He as at 31 December 2017 and 31 December 2018 is planned to increase by approximately 5.0% annually as compared to that of the previous year end. Also, we are advised by the executive Directors that the sales per retail store of Mai Sheng Yue He in 2017 and 2018 are estimated to increase by approximately 10.0% annually as compared to that of the previous year. Therefore, the projected annual increase in sales to Mai Sheng

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Yue He in 2017 and 2018 are both estimated to be approximately 15.5%. A buffer of approximately 4.5% is built in for the purpose of setting the Annual Caps of approximately RMB301.6 million and RMB361.9 million for 2017 and 2018, respectively, to make allowance for possible additional sales growth. We consider the 4.5% buffer to be acceptable because such buffer provides flexibility for the Group to capture the business opportunities offered by Mai Sheng Yue He when it places more orders with the Group. We consider it to be reasonable to adopt a lower annual growth rate of approximately 20.0% in setting 2017 and 2018 Annual Caps given that a larger growth rate is built in to estimate 2016 Annual Cap. Moreover, the annual growth rate of approximately 20.0% is close to the increase of amount of sales derived from distribution of Kappa brand products in China of approximately 17.6% in 2015. On this basis, we consider the 2017 and 2018 Annual Caps to be fair and reasonable so far as the Independent Shareholders are concerned.

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

	<b>Financial year ending 31 December</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Annual Caps for the supply of goods from Shanghai Kappa to Mai Sheng Yue He	251,316	301,579	361,895
Approximate increase as compared to the annual cap of previous year (%)		20.0%	20.0%

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

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

- (i) the Annual Caps for the Continuing Connected Transactions contemplated under the Framework Agreement for each of the three financial years ending 31 December 2016, 2017 and 2018 will not be exceeded;
- (ii) the independent non-executive Directors must, in accordance with the Listing Rules, review annually the Continuing Connected Transactions contemplated under the Framework Agreement and confirm in the Company's annual report whether the Continuing Connected Transactions contemplated under the Framework Agreement have been entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

In light of the conditions imposed on the Continuing Connected Transactions contemplated under the Framework Agreement, in particular, (1) the limit of the value of the Continuing Connected Transactions contemplated under the Framework Agreement by way of the relevant Annual Caps; (2) the on-going review by the independent non-executive Directors and auditors of the Company regarding the terms of the Continuing Connected Transactions contemplated under the Framework Agreement; and (3) the aforesaid on-going review by the auditors of the Company

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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regarding the Annual Caps, we are of the view that appropriate measures will be in place to govern the conduct of the Continuing Connected Transactions contemplated under the Framework Agreement and safeguard the interests of the Independent Shareholders.

### OPINION

Having taken into account the above principal factors, we consider that (i) the Framework Agreement is entered into in the ordinary and usual course of business of the Group; (ii) the terms of the Framework Agreement are on normal commercial terms, and fair and reasonable; (iii) the entering into of the Framework Agreement is in the interests of the Company and the Shareholders as a whole; and (iv) the Annual Caps for 2016, 2017 and 2018 are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Framework Agreement and the Annual Caps in relation to the Continuing Connected Transactions.

Yours faithfully,  
for and on behalf of  
**VMS Securities Limited**  
**Richard Leung**  
*Managing Director*  
*Corporate Finance*

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

## 1 RESPONSIBILITY STATEMENT

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

## 2 DISCLOSURE OF INTERESTS

### (a) Interests of Directors

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

Name of Directors	Nature of interest	Class of shares	Number of class of securities		Approximate percentage of total issued Shares
			Long position	Short position	
Mr. Chen Yihong	Interest of a controlled corporation <sup>(1)</sup>	Ordinary	2,227,081,000 Shares	—	40.23%
Ms. Chen Chen	Interest of a controlled corporation <sup>(2)</sup>	Ordinary	113,444,100 Shares	—	2.049%

*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.



- (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, Chairman and executive Director, is the ultimate controlling shareholder of each of Harvest Luck, Talent Rainbow and Poseidon.

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

**3 DIRECTORS' INTEREST IN CONTRACTS AND ASSETS**

None of the Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group taken as a whole.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2015 (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 was considered to have an interest in a business which competed or was likely to compete, enter directly or indirectly, with the business of the Group other than those business to which the Directors and his or her close associates who 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>
VMS Securities Limited	a corporation licensed to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities as defined under the SFO

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

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

As at the Latest Practicable Date, the Independent Financial Adviser was not interested, directly or indirectly, in any assets which had since 31 December 2015 (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 2015, 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 Royal Bank of Canada Trust Company (Cayman) Limited.
- (f) The English text of this circular shall prevail over the Chinese text in case of any inconsistency.

**10 DOCUMENTS AVAILABLE FOR INSPECTION**

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

- (a) the Framework Agreement;
- (b) the letter from the Board dated 22 April 2016, the text of which is set out on page 4 to 10 of this circular;
- (c) the letter from the Independent Board Committee dated 22 April 2016, the text of which is set out on page 11 of this circular;
- (d) the letter from the Independent Financial Adviser, the text of which is set out on pages 12 to 21 of this circular;
- (e) the consent letter from the Independent Financial Adviser referred to in the paragraph headed “Qualification and Consent of Expert” in this Appendix; and
- (f) this circular.

DONGXIANG

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

**中國動向（集團）有限公司**

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

**(Stock Code: 3818)**

**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 Wednesday, 18 May 2016 at 10:45 a.m. for the purpose of considering and, if thought fit, passing the following ordinary resolutions:

**ORDINARY RESOLUTIONS**

**“THAT:**

- (a) the agreement (the “**Framework Agreement**”) dated 11 March 2016 entered into by 上海卡帕體育用品有限公司 (Shanghai Kappa Sporting Goods Co., Limited)\* (“**Shanghai Kappa**”) and 邁盛悅合體育用品有限公司 (Mai Sheng Yue He Sportswear Company Limited)\* (“**Mai Sheng Yue He**”) regulating the terms for the supply of goods from Shanghai Kappa to Mai Sheng Yue He, the transactions contemplated thereunder and the proposed annual caps for each of the three years ending 31 December 2018 be and are hereby approved, confirmed and ratified; and
- (b) the directors of the Company be and are hereby authorised to do all such acts and things and to sign and execute all such documents, instruments and agreements for and on behalf of the Company as they may consider necessary, appropriate, desirable or expedient to give effect to or in connection with paragraph (a) of this resolution”

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

Hong Kong, 22 April 2016

**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.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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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 16 May 2016 to 18 May 2016 (both days inclusive) during which period no transfer of shares of the Company will be registered. In order to qualify to attend and vote at the EGM, all transfers of shares of the Company accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-16, 17/F Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on 13 May 2016.
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.