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. Lyu Guanghong (呂光宏)

Independent non-executive Directors:
Mr. Gao Yu (高煜)
Ms. Tang Songlian (唐松蓮)
Mr. Zhou Zhiyi (周志毅) Mr.
Du Zhongbing (杜中兵)

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11 September 2026

To the Shareholders

Dear Sir or Madam,

(1) PROPOSED OFF-MARKET SHARE BUY-BACKS;
(2) PROPOSED SET-OFF;
(3) PROPOSED LOAN WAIVER;
AND
(4) CONNECTED TRANSACTION

INTRODUCTION

Reference is made to the Announcement in relation to the Settlement Deeds and the transactions contemplated thereunder.

The purpose of this circular is to provide you with, among other things, (i) details of the Settlement; (ii) the letter from the Independent Board Committee to the Disinterested Shareholders on the Settlement; (iii) the letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Disinterested Shareholders in respect of the Settlement; (iv) the notice convening the EGM; and (v) other information as required under the Share Buy-backs Code, the Takeovers Code and the Listing Rules.

BACKGROUND OF THE SUBSCRIPTION LOANS

In 2015, the Group launched a new brand building strategy to strengthen its sportswear business, with a focus on consumer-oriented product design and enhanced brand positioning for the Kappa brand. This strategic repositioning delivered significant results over the following two years, including the expansion of e-commerce operations, strengthened brand development initiatives, and improved supply chain capabilities.

To support the continued execution of these strategic initiatives, the Company sought to strengthen its senior management team. In October 2017, the Company recruited Mr. Zhang as an executive Director and chief executive officer. Mr. Zhang's extensive experience in China's consumer market, sporting goods brand development, digitalisation and corporate transformation was considered valuable to the further development of the Group's sportswear business.

As the Company and Mr. Zhang shared a positive outlook on the Group's sportswear business and its future prospects, it was agreed that Mr. Zhang's recruitment package would include a share incentive arrangement whereby Mr. Zhang would subscribe for new Shares, with 90% of the subscription consideration financed through a Subscription Loan.

Similar share incentive arrangements were also implemented in 2018 to recruit, retain and incentivise other senior management personnel, and in the meanwhile additional subscription of Shares were also made by Mr. Zhang. Under these arrangements, Subscription Loans were granted to the subscribers (except Ms. Chen, who used her own funds) to finance their subscription of Shares, and each borrower (i.e. the Borrowers) undertook to acquire additional Shares in the market as additional collateral for the Subscription Loans. For further information on the share incentive arrangements, the Subscriptions and Subscription Loans, please refer to the Previous Announcements.

From early 2020, a combination of external factors adversely affected the retail and consumer sectors. These included the outbreak of the COVID-19 pandemic, resulting volatility in global financial markets, subdued market sentiment, significant disruption to retail operations and consumer activities, and subsequent shifts in consumer spending patterns. As a result, the Share price began to trade at levels substantially below the original subscription prices instead of appreciating as originally anticipated at the time of the Subscriptions. Consequently, the original incentive objectives for the Borrowers to be able to realize gains from the sale of the Charged Shares upon appreciation of the Share price and also be able to repay the Subscription Loans have not happened as originally intended. In the meantime, all of the Borrowers, with the exception of Mr. Lyu, have ceased to be employees of the Group as at the date of the Settlement Deeds.

In order to resolve the ongoing uncertainties regarding the recoverability of the Subscription Loans, the Company undertook a comprehensive assessment of available options. Following discussions with the Vendors, the Company, GSL and each of the Vendors entered into the Settlement Deeds to settle the outstanding amounts of the Vendor Subscription Loans.

THE SETTLEMENT DEEDS

Key terms of each of the Settlement Deeds are as follows:

Date

24 July 2026 (after trading hours)

Parties

(i) the Company;

(ii) GSL; and

(iii) each of the Vendors.

As at the date of the Announcement, with the exception of Mr. Lyu, who is an executive Director, all the other Vendors have ceased to be employees of the Group and are Independent Third Parties.

Subject Matter

Pursuant to the terms of the Settlement Deeds, the parties agreed as follows:

(i) the Company shall buy back an aggregate of 256,090,025 Buy-back Shares, representing approximately 4.34% of the total issued share capital of the Company as at the Latest Practicable Date, at the Buy-back Price of HK$0.285 per Buy-back Share (i.e. the Share Buy-backs) from the Vendors;

(ii) the consideration payable to each Vendor for the Share Buy-backs and any outstanding amount of Retained Dividends shall be set off against the equivalent amount of the outstanding balance of the respective Vendor Subscription Loan owed by such Vendor to GSL (i.e. the Set-off);

(iii) GSL shall waive any residual amount of the respective Vendor Subscription Loan owed by each Vendor following the Set-off (i.e. the Loan Waiver); and

(iv) with respect to Mr. Zhang only, Mr. Zhang shall pay the Company HK$20 million as the ZZY Compensation.

The Company has elected to agree to the Loan Waiver in respect of each of the Vendors for the following reasons.

First, the Subscriptions and the Subscription Loans were structured as an employee incentive measure designed to align the interests of the Company and its selected employees (being the Borrowers) by having the Borrowers pay for 10% of their holdings with their own funds, and the remaining balance of payment financed by the Group. With this, the entire 100% shareholdings of the Borrowers under the share incentive arrangements were charged to the Group as collateral for the Subscription Loans. The arrangement was never intended to operate punitively in circumstances where the Share price has fallen below the level at which the Subscriptions were made.

Second, enforcing repayment against the Vendors (who are existing or former employees of the Company) will likely create financial challenges for them. Such an outcome would be contrary to the spirit of the share incentive arrangements and could materially impair employee morale, trust and engagement, and may give rise to reputational harm to the Company in terms of how it is perceived to treat its workforce. Further, any legal action taken against the Vendors, which will need to be pursued in the PRC, is likely to entail significant legal costs and management time.

For further details of the reasoning, please refer to the paragraph headed "Reasons for and benefits of the Settlement".

The ZZY Compensation was proposed by Mr. Zhang, as a goodwill one-off offer to the Company to expedite the Settlement, having regard to the costs and expenses incurred, and expected to be incurred, by the Company in connection with the engagement of external professional advisers and service providers for the purposes of (i) designing, structuring and implementing the incentive arrangements, including the Subscriptions and the Subscription Loans; (ii) undertaking subsequent reviews and revisions to such arrangements from time to time to ensure their continued compliance with applicable laws, rules and regulations; and (iii) negotiating, documenting and effecting the termination of the Subscription Loans pursuant to the Settlement. In arriving at the ZZY Compensation, Mr. Zhang took into account the professional fees, administrative costs and related disbursements that the Company has borne throughout the lifecycle of the incentive arrangements, from their initial establishment through to the present unwinding, which he considered that it would be appropriate to compensate the Company for such costs as part of the overall settlement between the parties.

Details of the outstanding Vendor Subscription Loans, the respective number of Charged Shares and Buy-back Shares held by each Vendor, the consideration payable, the amount of Retained Dividends and the estimated amount of Vendor Subscription Loan to be waived by GSL are set out in the table below:

Vendors	Relationship with the Company	Outstanding principal amount of the Vendor Subscription Loan as at the Latest Practicable Date *(HK$ million)*	Number of Charged Shares/ Buy-back Shares as at the Latest Practicable Date	Approximate % of the total issued share capital of the Company as at the Latest Practicable Date	Repayment date under the Amendment Letters	Consideration *(HK$ million)*	Amount of Retained Dividends *(HK$ million)* *(Note 3)*	Estimated amount of Vendor Subscription Loan to be waived *(HK$ million)* *(Note 4)*
Mr. Zhang	Former executive Director and chief executive officer; special assistant to the chairman	149.79 *(Note 1)*	138,410,025	2.35%	31 October 2027	39.45	3.98	106.36 *(Note 5)*
		31.18 *(Note 2)*	27,680,000	0.47%	25 April 2028	7.89	0.70	22.59 *(Note 5)*
Mr. Chen Shaowen	Former member of the senior management	31.31	28,000,000	0.47%	25 April 2028	7.98	0.69	22.64
Mr. Nan Peng	Former member of the senior management	18.03	16,000,000	0.27%	25 April 2028	4.56	0.39	13.08
Mr. Wang Yalei	Former member of the senior management	18.03	16,000,000	0.27%	25 April 2028	4.56	0.39	13.08
Mr. Lyu	Executive Director	11.27	10,000,000	0.17%	25 April 2028	2.85	0.24	8.18
Ms. Sun Wei	Former member of the senior management	11.04	10,000,000	0.17%	25 April 2028	2.85	0.25	7.94
Mr. Yang Gang	Former member of the senior management	11.09	10,000,000	0.17%	25 April 2028	2.85	0.25	7.99
Total		281.74	256,090,025	4.34%	—	72.99	6.89	201.86

Notes:

1. This represents the Subscription Loan granted to Mr. Zhang on 9 October 2017.

2. This represents the Subscription Loan granted to Mr. Zhang on 19 January 2018.

3. The amounts set out herein are for reference only as they only represent the amount of Retained Dividends as of the Latest Practicable Date. Such amounts will be reduced by any interest *(Note 6)* of the Vendor Subscription Loans that becomes due and payable between the Latest Practicable Date and the date of Completion.

4. The amounts set out herein are for reference only as they only represent the outstanding principal amount of the Vendor Subscription Loans as at the Latest Practicable Date after deducting the consideration payable to each Vendor under the Share Buy-backs and current amount of Retained Dividends as at the Latest Practicable Date. The actual amount to be waived will be calculated based on the then outstanding amount of loan principal and accrued interest as at Completion after setting off against the consideration payable to each Vendor under the Share Buy-backs and the then outstanding amount of Retained Dividends pursuant to the Set-off.

5. This amount does not take into account the ZZY Compensation.

6. The Subscription Loans include interest at a fixed rate of 1% per annum, which is accrued daily and payable monthly at the last day of each calendar month. The Retained Dividends are applied to settle interest payments due to GSL on a monthly basis.

As at the date of the Settlement Deeds, the Company had not reached a consensus with the two remaining Borrowers (i.e. Mr. Ren Yi and Mr. Song Li) and therefore their respective Subscription Loans would not be included as part of the Settlement. Their Subscription Loans will remain payable by April 2028 and the Company will continue to communicate with them on the resolution of their Subscription Loans.

Consideration for the Share Buy-backs

The Company shall buy back an aggregate of 256,090,025 Buy-back Shares from the Vendors at the aggregate consideration of approximately HK$72.99 million, being the Buy-back Price of HK$0.285 per Buy-back Share multiplied by the aggregate number of Buy-back Shares.

The Buy-back Price was determined following arm's length negotiations between the Company and each of the Vendors with reference to, among other factors: (i) movements in the market price of the Shares over a period of five consecutive trading days up to the Last Trading Day; (ii) prevailing market conditions; and (iii) the closing price of the Shares on the Last Trading Day.

The Buy-back Price of HK$0.285 per Buy-back Share represents:

(i) a premium of approximately 5.56% over the closing price of HK$0.270 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) no premium over or discount to the closing price of HK$0.285 per Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) no premium over or discount to the average closing price of approximately HK$0.285 per Share based on the daily closing prices of the Shares as quoted on the Stock Exchange for the five consecutive trading days immediately prior to and including the Last Trading Day;

(iv) a discount of approximately 1.04% to the average closing price of approximately HK$0.288 per Share based on the daily closing prices of the Shares as quoted on the Stock Exchange for the ten consecutive trading days immediately prior to and including the Last Trading Day;

(v) a discount of approximately 6.25% to the average closing price of approximately HK$0.304 per Share based on the daily closing prices of the Shares as quoted on the Stock Exchange for the 30 consecutive trading days immediately prior to and including the Last Trading Day;

(vi) a discount of approximately 25.00% to the average closing price of approximately HK$0.380 per Share based on the daily closing prices of the Shares as quoted on the Stock Exchange for the 90 consecutive trading days immediately prior to and including the Last Trading Day;

(vii) a discount of approximately 32.30% to the average closing price of approximately HK$0.421 per Share based on the daily closing prices of the Shares as quoted on the Stock Exchange for the 180 consecutive trading days immediately prior to and including the Last Trading Day; and

(viii) a discount of approximately 83.40% to the audited consolidated net asset value of the Group attributable to the Shareholders of approximately RMB1.487 (equivalent to approximately HK$1.717 based on the exchange rate of HK$1 to RMB0.866) per Share as at 31 March 2026 based on the Company's latest audited financial statements published in the Company's annual report for the financial year ended 31 March 2026.

During the Relevant Period, the highest closing price of the Shares as quoted on the Stock Exchange was HK$0.475 per Share on 25 and 27 February 2026, and 2 March 2026, and the lowest closing price of the Shares as quoted on the Stock Exchange was HK$0.265 per Share on 31 August and 1, 2, 3 and 7 September 2026.

Conditions Precedent

Each Settlement Deed is conditional upon the satisfaction of the following conditions precedent:

(i) the Executive having approved the Share Buy-backs pursuant to Rule 2 of the Share Buy-backs Code (and such approval not having been withdrawn) and the condition(s) of such approval, if any, having been satisfied;

(ii) the passing of the necessary resolution at the EGM by at least three-fourths of the votes cast on a poll by Disinterested Shareholders in attendance in person or by proxy approving the Settlement;

(iii) all consents or approvals of any relevant government authorities or other relevant regulatory bodies which are required by the Company for entering into and the implementation of the relevant Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-backs) having been obtained;

(iv) each of the warranties given by the relevant Vendor under the relevant Settlement Deed remaining true, accurate and not misleading in all respects up to Completion; and

(v) the due performance and observance by the relevant Vendor of all of his/her undertakings and obligations under the relevant Settlement Deed.

Apart from the Executive's consent and the Disinterested Shareholders' approval as set out in conditions (i) and (ii) above, the Directors are not aware of any other approvals or consents that are required to be obtained from or any filings that are required to be made with any government or regulatory authority or any person in connection with the Settlement.

Save and except for the conditions set out in (iv) and (v) above which may be waived unilaterally by the Company, none of the above conditions precedent are capable of being waived by the Company or the Vendors.

If the above conditions are not fulfilled or waived (where applicable) on or before the date falling 180 days after the date of the Settlement Deed (i.e. 20 January 2027), or such other date as the Company and the relevant Vendor may from time to time agree in writing, the relevant Settlement Deed shall automatically lapse and be of no further effect automatically and neither party to the respective Settlement Deed shall have any further obligations or liabilities to the other thereunder, save for any antecedent breaches of the terms thereof. In such event, and for the avoidance of doubt, the obligations of the relevant Vendor to pay the outstanding balance of the Vendor Subscription Loan owed by him/her to GSL shall remain effective.

Completion

Completion is expected to take place on the twentieth Business Day after satisfaction of the above conditions precedent (or such other date as the Company and the relevant Vendor may from time to time agree in writing).

Upon Completion:

(i) the Buy-back Shares will be bought back by the Company and the Company shall cancel the Buy-back Shares and any rights attaching thereto shall cease with effect from such cancellation;

(ii) the consideration payable by the Company to each Vendor for the Share Buy-backs and any outstanding amount of Retained Dividends shall be set off against the equivalent amount of the outstanding balance of the respective Vendor Subscription Loan owed by such Vendor;

(iii) GSL shall waive any remaining amount of the Vendor Subscription Loans owed by each Vendor after the Set-off; and

(iv) with respect to Mr. Zhang only, Mr. Zhang shall pay the Company HK$20 million as the ZZY Compensation.

EFFECTS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is a summary of the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after Completion (assuming there will be no other changes in the shareholdings of the members of the Chen Family Group and the Vendors and no other changes in the issued share capital of the Company between the Latest Practicable Date and the date of Completion):

	As at the Latest Practicable Date		Immediately after Completion	
	Number of Shares held	Approximate % of the total issued share capital of the Company	Number of Shares held	Approximate % of the total issued share capital of the Company
Chen Family Group				
Mr. Chen	2,359,936,000 *(Note 1)*	40.03%	2,359,936,000 *(Note 1)*	41.85%
Ms. Chen	199,498,730 *(Notes 2, 3)*	3.38%	199,498,730 *(Notes 2, 3)*	3.54%
Mr. Chen Yiyong *(Note 4)*	12,094,742	0.21%	12,094,742	0.21%
Subtotal	2,571,529,472	43.62% *(Note 5)*	2,571,529,472	45.60%
Vendors				
Mr. Zhang	166,120,025 *(Note 6)*	2.82%	30,000	0.00%
Mr. Chen Shaowen	28,000,000	0.47%	—	0.00%
Mr. Nan Peng	16,000,000	0.27%	—	0.00%
Mr. Wang Yalei	16,000,000	0.27%	—	0.00%
Mr. Lyu *(Note 7)*	10,000,000 *(Note 8)*	0.17%	— *(Note 8)*	0.00%
Ms. Sun Wei	10,000,000	0.17%	—	0.00%
Mr. Yang Gang	10,000,000	0.17%	—	0.00%
Subtotal	256,120,025	4.34%	30,000	0.00%
Other Shareholders	3,067,423,528	52.04%	3,067,423,528	54.40%
Total	5,895,073,025	100.00%	5,638,983,000	100.00%

Notes:

1. The Shares are held through Poseidon, which is wholly-owned by Harvest Luck Development Limited, which is in turn wholly-owned and controlled by Mr. Chen.

2. The Shares are held through Bountiful which is wholly-owned by Ms. Chen. Ms. Chen is the daughter of Mr. Chen.

3. This excludes Mr. Men Xiaochen's interest in share options to subscribe for 3,960,000 Shares. Mr. Men Xiaochen is the spouse of Ms. Chen, and thus a close relative of Mr. Chen.

4. Mr. Chen Yiyong is a brother of Mr. Chen and therefore a close relative of Mr. Chen. Mr. Chen Yiyong is not a Director. Mr. Chen Yiyong directly holds 3,648,000 Shares and holds 8,446,742 Shares through his wholly-owned company, Talent Hill Group Limited.

5. The lowest percentage holding of Chen Family Group in the Company in the 12-month period ending on the date of the Announcement is 43.62%.

6. This includes the 166,090,025 Charged Shares held by Mr. Zhang and 30,000 Shares separately acquired by Mr. Zhang independent of the Company's employee share incentive arrangement. For the avoidance of doubt, these 30,000 Shares do not form part of the Charged Shares nor Buy-back Shares.

7. Mr. Lyu is an executive Director.

8. This excludes Mr. Lyu's interest in share options to subscribe for 3,640,000 Shares pursuant to the share options granted by the Company on 18 April 2023 under the share option scheme adopted by the Company on 8 August 2019 at an exercise price of HK$0.33 each.

As at the Latest Practicable Date, there are 5,895,073,025 Shares in issue. Save for 57,690,000 outstanding share options granted under the share option scheme adopted by the Company on 8 August 2019, the Company does not have any outstanding derivatives, warrants or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) which are convertible or exchangeable into Shares or other types of equity interest as at the Latest Practicable Date.

On Completion, the Buy-back Shares will be transferred to the Company and cancelled, and the number of Shares in issue following the Share Buy-backs will be reduced from 5,895,073,025 (being the number of issued Shares as at the Latest Practicable Date) to 5,638,983,000 (assuming there will be no other changes in the issued share capital of the Company between the Latest Practicable Date and the date of Completion). The percentage interest of all other Shareholders in the issued Shares will be proportionally increased following the cancellation of the Buy-back Shares and the resulting reduction in the number of issued Shares.

Following Completion, no less than 25% of the total issued Shares will remain in public hands.

INFORMATION OF GSL AND THE COMPANY

GSL is a limited liability company incorporated in Hong Kong and an indirect wholly-owned subsidiary of the Company. GSL is principally engaged in investment holding.

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 the PRC and abroad.

For the financial year ended 31 March 2025, the audited consolidated net profit before taxation of the Group and the audited consolidated net profit after taxation attributable to owners of the Company were approximately RMB248.2 million and RMB207.0 million, respectively. For the financial year ended 31 March 2026, the audited consolidated net loss before taxation of the Group and the audited consolidated net loss after taxation attributable to owners of the Company were approximately RMB182.6 million and RMB158.0 million, respectively.

The Group's audited total assets, and net asset value attributable to owners of the Company, as at 31 March 2026 were approximately RMB9,706.4 million and RMB8,730.3 million, respectively.

FINANCIAL EFFECTS OF THE SETTLEMENT

Pursuant to Schedule III of the Takeovers Code, the financial effects of the Settlement (including but not limited to the Share Buy-backs) are set out below, and the unaudited pro forma financial information of the Group upon Completion, illustrating the financial impact of the Settlement on the losses per share, net assets per share, liabilities and working capital (expressed as net current assets) of the Group, is set out in Appendix III to this circular (the "Unaudited Pro Forma Financial Information").

Expected loss arising from the Settlement

For the financial year ended 31 March 2026, the Group recognised an impairment loss of approximately HK$168.10 million in respect of the Vendor Subscription Loans. Such impairment loss was determined as the excess of (i) the aggregate outstanding principal amount of the Vendor Subscription Loans amounting to approximately HK$281.74 million as at 31 March 2026 over (ii) the recoverable amount, being the sum of (a) the market value of the Charged Shares of approximately HK$106.28 million, based on the closing price of HK$0.415 per Share as at 31 March 2026 (the Charged Shares being the underlying security for the Vendor Subscription Loans); and (b) the Retained Dividends of approximately HK$7.36 million as at 31 March 2026. Based on the then market value of the Charged Shares, the aggregate carrying value of the Vendor Subscription Loans, after impairment loss, was approximately HK$106.28 million as at 31 March 2026.

Further to the impairment loss as discussed above, for illustration purposes only, based on the Buy-back Price of HK$0.285 per Buy-back Share, the Group is expected to recognize a loss of approximately HK$19.25 million (before taxation) upon Completion of the Settlement (the "Expected Loss").

The Expected Loss is calculated as follows:

	HK$' million
Aggregate outstanding principal amount of the Vendor Subscription Loans as at 31 March 2026 and as at the Latest Practicable Date	281.74
Less: Expected Set-off Amount *(Note)*	(79.88)
Less: ZZY Compensation	(20.00)
Expected unrecovered amount	181.86
Less: Reversal of impairment loss recognised for the financial year ended 31 March 2026	(168.10)
Add: Expected transaction costs incurred in respect of the Settlement	5.49
Expected Loss	19.25

Note: Being the sum of (i) the aggregate consideration for the Share Buy-backs of approximately HK$72.99 million; and (ii) the amount of Retained Dividends as at the Latest Practicable Date of approximately HK$6.89 million, being the amount of Retained Dividends as at 31 March 2026 of approximately HK$7.36 million less the amount of Retained Dividends utilised for repayment of the interest of the Vendor Subscription Loans that became due and payable during the period from 1 April 2026 up to and including the Latest Practicable Date of approximately HK$0.47 million.

Although the Loan Waiver amounts to approximately HK$201.86 million, such waiver will not give rise to a corresponding accounting loss upon completion of the Settlement, as it represents the contractual implementation of the expected non-recovery already reflected in the carrying value of the Vendor Subscription Loans as at 31 March 2026, and is equivalent to the expected unrecovered amount of HK$181.86 million before deducting the ZZY Compensation of HK$20.00 million. As illustrated in the table above, the expected unrecovered amount had already been substantially reflected through the impairment loss recognised for the financial year ended 31 March 2026. Accordingly, only the loss of approximately HK$19.25 million is expected to be recognised upon completion of the Settlement.

The actual amount of gain or loss arising from the Settlement to be recognised by the Group for the financial year ending 31 March 2027 will be subject to the review and final audit by the auditor of the Company.

Losses per share

Based on the Unaudited Pro Forma Financial Information and assuming that Completion had occurred on 1 April 2025 (that is, all the Buy-back Shares had been bought-back and cancelled, the Set-off and the Loan Waiver had been completed, and payment of the ZZY Compensation had been made, in accordance with the terms and conditions of the Settlement Deeds), a loss of approximately RMB18.06 million (equivalent to approximately HK$20.85 million at the exchange rate of HK$1 to RMB0.866) on completion of the Settlement would have been recognised by the Group as at 1 April 2025 and, accordingly, the basic and diluted losses per Share for the financial year ended 31 March 2026 would, as a result, have increased by approximately 16.73% from RMB2.69 cents per Share to RMB3.14 cents per Share.

Net asset value per Share attributable to the Shareholders

Based on the Unaudited Pro Forma Financial Information and assuming that Completion had occurred on 31 March 2026, the net asset value per Share would, as a result, have increased by approximately 3.38% from approximately RMB1.48 per Share to RMB1.53 per Share.

Total liabilities

As the consideration for the Share Buy-backs will be fully satisfied by way of the Set-off, the total liabilities of the Group will not be affected by the Completion, as illustrated in the Unaudited Pro Forma Financial Information.

Working capital

As the consideration for the Share Buy-backs will be fully satisfied by way of the Set-off, the Settlement does not involve any cash outflow for the Group. Having considered this, and that the Group will receive the ZZY Compensation as part of the Settlement, the Group's working capital is expected to be slightly improved.

Based on the Unaudited Pro Forma Financial Information and assuming that the Completion had occurred on 31 March 2026, the working capital (expressed as net current assets) of the Group as at 31 March 2026 would, as a result, have increased by approximately 0.23% from approximately RMB4,816.11 million to RMB4,826.99 million.

REASONS FOR AND BENEFITS OF THE SETTLEMENT

In determining to proceed with the Settlement and in arriving at the terms of the Settlement Deeds, the Board took into consideration the following factors:

(i) the Company's share incentive arrangements, including the Subscription Loans, were designed to recruit, retain and incentivise the Borrowers. The Company did not structure these arrangements as speculative instruments linked to the Share price or standalone financing transactions, nor as a mechanism to penalize the Borrowers in the event of a decline in Share price. As part of the share incentive arrangements, the Borrowers were expected to be able to realize gains from the sale of the Charged Shares upon appreciation of the Share price and repay the Subscription Loans;

(ii) the Board's assessment of the increased uncertainty regarding the recoverability of the Subscription Loans considering that (a) the Subscription Loans will mature within the next two years; (b) the potential challenges that may arise in connection with the repayment of the Subscription Loans by the Borrowers, who may potentially be required to liquidate personal assets or deplete savings, which would create financial challenges for them; and (c) the depressed value of the Charged Shares. As a result of this assessment, the Group recognised an impairment loss of approximately RMB181.7 million on loan receivables during the financial year ended 31 March 2026. Please refer to the annual results announcement dated 24 June 2026 issued by the Company;

(iii) in the event of default under the Subscription Loans, enforcement of the security over the Charged Shares would result in the disposal of a sizeable number of Shares on the market within a limited timeframe, which could exert downward pressure on the Share price and adversely affect shareholder value. Further, pursuing legal actions against defaulting Borrowers would likely entail: (a) adverse consequences, including potentially requiring the Borrowers, who are existing or former employees of the Company, to liquidate personal assets or deplete savings, which would create financial challenges for them. Such an outcome would be contrary to the spirit of the share incentive arrangements, and could materially impair employee morale, trust, and engagement, as well as cause reputational harm to the Company; and (b) significant legal costs and management time;

(iv) the Vendors (a) will be required to incur significant losses as a result of the Settlement, as 10% of the aggregate subscription price and acquisition cost (as applicable) of their respective Charged Shares was paid with the Vendors' own funds and will not be recoverable as a result of the Settlement; and (b) have not received any returns thus far from the Charged Shares as the dividends received in respect thereof have been primarily applied to pay ongoing interest and to partially repay principal under the Subscription Loans;

(v) the Subscription Loans have not resulted in any real cash outflow from the Group, as (a) all loan proceeds were paid directly to the Company for settlement of the subscription prices; (b) all Shares subscribed for or purchased by the Vendors have been charged to, and retained in, security accounts controlled by the Group; and (c) none of the Charged Shares have been disposed of by the Vendors since the date of the Subscriptions; and

(vi) it is expected that the Share Buy-backs will similarly not result in any real cash outflow from the Group, as the consideration payable to each Vendor under the Share Buy-backs will be set off in full against the outstanding balance of the respective Vendor Subscription Loans.

After a comprehensive assessment of the relative merits of (a) maintaining the Subscription Loans for a further period of approximately two years until maturity against (b) proceeding with the Settlement now, and having particular regard to the ZZY Compensation which the Company has successfully negotiated with Mr. Zhang, the Settlement represents the more certain and commercially sensible course of action. Proceeding now enables the Company to crystallise a certain and tangible recovery at the present time, thereby eliminating the credit, recovery and enforcement risks that would otherwise persist over the remaining two-year term, and to immediately deploy the proceeds from the ZZY Compensation for working capital purposes. By contrast, continuing to hold the Subscription Loans to maturity would leave the Company exposed to ongoing uncertainty as to ultimate repayment, with no corresponding benefit sufficient to justify that risk.

In view of the foregoing, the Board (excluding the members of the Independent Board Committee who will express their views after receiving advice from the Independent Financial Adviser and excluding Mr. Lyu, who is considered to have a material interest by virtue of being one of the Vendors) is of the view that the terms of the Settlement Deeds and the Settlement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

REGULATORY REQUIREMENTS

Share Buy-backs Code

The Share Buy-backs constitute off-market share buy-backs by the Company under the Share Buy-backs Code. The Company has made an application to the Executive for approval of the Share Buy-backs pursuant to Rule 2 of the Share Buy-backs Code. The Executive's approval, if granted, will normally be conditional upon, among other things, the approval of the Settlement by at least three-fourths of the votes cast on a poll by the Disinterested Shareholders present in person or by proxy at the EGM.

Completion is subject to the condition precedent that the Share Buy-backs are approved by the Executive. Therefore, the Company will not proceed with the Share Buy-backs unless the Executive approves the Share Buy-backs pursuant to Rule 2 of the Share Buy-backs Code. However, there is no assurance that such approval will be granted or that all other conditions precedent to the Settlement Deeds will be fulfilled.

Listing Rules

As Mr. Lyu is an executive Director, he is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the Share Buy-back from Mr. Lyu constitutes a connected transaction of the Company and is subject to the reporting and announcement requirements, but is exempt from the circular, independent financial advice and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Other arrangements

As at the Latest Practicable Date:

(i) save as disclosed in the section headed "Effects on the Shareholding Structure of the Company" in this letter from the Board and the section headed "Disclosure of Interest" in Appendix II to this circular, neither the Company, the Vendors, the Directors nor the parties acting in concert with them hold, own, control or direct any Shares, convertible securities, warrants, options or derivatives in respect of the Shares;

(ii) there is no irrevocable commitment to vote in favour of or against the Share Buy-backs;

(iii) save for the Settlement Deeds, there is no arrangement (whether by way of option, indemnity or otherwise) or contract under Note 8 to Rule 22 of the Takeovers Code in relation to the Shares and which might be material to the Share Buy-backs;

(iv) save for the conditions set out in the section headed "Conditions Precedent" above, there is no agreement or arrangement to which the Company is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Share Buy-backs;

(v) none of the Company or parties acting in concert with it, nor the Directors or parties acting in concert with them has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company;

(vi) none of the Vendors, nor the Directors or parties acting in concert with them, had acquired or disposed of any voting rights of the Company, or had dealt for value in any shares, convertible securities, warrants, options or derivatives in respect of the securities of the Company during the Relevant Period, save as disclosed in the section headed "Disclosure of Interest" in Appendix II to this circular;

(vii) save as to the consideration for the Share Buy-backs and the Loan Waiver, there is no consideration, compensation or benefit in whatever form paid or to be paid by the Company or parties acting in concert with it to the Vendors or parties acting in concert with them in connection with the Share Buy-backs;

(viii) save as to the Settlement Deeds, there is no understanding, arrangement, agreement or special deal (as defined under Rule 25 of the Takeovers Code) between the Company or parties acting in concert with it on the one hand, and the Vendors or parties acting in concert with them on the other hand; and

(ix) save as to the Settlement Deeds, there is no understanding, arrangement or agreement or special deal (as defined under Rule 25 of the Takeovers Code) between (1) any Shareholders; and (2) the Company, any parties acting in concert with it, and the subsidiaries or associated companies of the Company.

PUBLIC FLOAT

The Company intends to maintain its listing on the Stock Exchange and to continue to meet the public float requirements under Rule 8.08 of the Listing Rules. It is expected that the Company will meet the said public float requirement after completion of the Share Buy-backs.

EGM

A notice convening the EGM to be held at G/F., Lobby Area, Building 21, No. 2 Jingyuanbei Street, Beijing Economic-Technology Development Area, Beijing, People's Republic of China on Wednesday, 30 September 2026 at 10 : 30 a.m. (or immediately following the annual general meeting of the Company to be convened at 10 : 00 a.m. on the same day), is set out on pages EGM-1 to EGM-3 of this circular. The purpose of the EGM is to consider and, if thought fit, approve the resolution approving the Settlement.

A form of proxy for use by the Disinterested 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, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time of the EGM or any adjournment or postponement thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM should you so wish and in such event, the form of proxy shall be deemed to be revoked.

Voting

All votes at the EGM will be taken by poll pursuant to Rule 2 of the Share Buy-backs Code. An announcement on the poll results of the EGM will be made by the Company following the EGM in accordance with the Listing Rules.

As required by the Share Buy-backs Code, the Vendors (holding 256,120,025 Buy-back Shares, representing approximately 4.34% of the total issued share capital of the Company as at the Latest Practicable Date) will be required under the Share Buy-backs Code and the Listing Rules to abstain from voting on the resolution approving the Settlement.

For the purposes of the Share Buy-backs Code, the Chen Family Group will be considered as "disinterested shareholders" under Rule 2 of the Share Buy-backs Code and may vote at the EGM in relation to the Settlement and will be treated as Disinterested Shareholders.

Closure of Register of Members

The register of members of the Company will be closed from Friday, 25 September 2026 to Wednesday, 30 September 2026 (both dates inclusive) during which period no transfer of Shares will be registered. In order to be entitled to attend and vote at the EGM, all completed transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17/F Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4 : 30 p.m. on Thursday, 24 September 2026 for registration.

GENERAL

The Independent Board Committee comprising all of the four independent non-executive Directors, namely Mr. Gao Yu, Ms. Tang Songlian, Mr. Zhou Zhiyi and Mr. Du Zhongbing, has been established to advise the Disinterested Shareholders in relation to, among other things, whether the terms of the Settlement Deeds and the Settlement are fair and reasonable and in the interests of the Company and the Shareholders as a whole and to advise the Disinterested Shareholders on voting, taking into account the recommendation of the Independent Financial Adviser.

Altus Capital Limited has been appointed as the Independent Financial Adviser by the Company with the approval of the Independent Board Committee to advise the Independent Board Committee and the Disinterested Shareholders in this regard.

RECOMMENDATIONS

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that the terms of the Settlement Deeds and the transactions contemplated thereunder 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 Disinterested Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Disinterested Shareholders to vote in favour of the relevant resolution to be proposed at the EGM to approve the Settlement Deeds and the transactions contemplated thereunder.

The Board (excluding Mr. Lyu, who is considered to have a material interest by virtue of being one of the Vendors) accordingly recommends the Disinterested Shareholders to vote in favour of the relevant resolution to be proposed at the EGM to approve the Settlement Deeds and the transactions contemplated thereunder.

Your attention is drawn to the letter from the Independent Board Committee to the Disinterested Shareholders set out on pages 26 to 27 of this circular and the letter from the Independent Financial Adviser to the Independent Board Committee and the Disinterested Shareholders set out on pages 28 to 51 of this circular, which contain their respective recommendation and advice in respect of the Settlement Deeds and the transactions contemplated thereunder. The Disinterested Shareholders are advised to read the aforesaid letters before deciding as to how to vote on the relevant resolution to be proposed at the EGM.

FURTHER INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Shareholders and potential investors should note that the proposed Settlements are subject to the fulfilment or waiver of certain conditions precedent under the Settlement Deeds, and the proposed Settlements 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