

**CHINA HONGXING SPORTS LIMITED**

**Company Registration No. 36746**

**Incorporated in Bermuda**

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**FURTHER INFORMATION ON THE COMPANY'S FINANCIAL STATEMENTS AND RELATED ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017**

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The Board of Directors (**Board**) of China Hongxing Sports Limited (**Company**) refers to the Company's unaudited financial results for the year ended 31 December 2017 released on 1 March 2018 (**Announcement**). The Company has received a request from the Singapore Exchange Securities Trading Limited (**SGX-ST**) on 27 March 2018 to provide the additional information below. The SGX has requested the Company to disclose the questions and corresponding answers by 28 March 2018.

The Board wishes to provide the following information in response to the queries from the SGX-ST as follows:

**SGX Query 1:**

On page 1 of the Full Year FY2017 results, the Company disclosed that "the Company and its external auditors, Ernst & Young LLP (**EY**), encountered certain difficulties in respect of the finalization of the audit of the Company's consolidated financial statements for the financial year ended 31 December 2010 (**FY2010**), particularly with reference to cash and bank balances, accounts receivable, accounts payable and other expenses of the Company's PRC Key Subsidiaries."

Please disclose:

- i. Whether the Company's accounts in the PRC have been audited since FY2010;
- ii. Whether these accounts were subjected to qualifications by the auditors and if so, please disclose the auditors' opinions from FY2010 to FY2017; and
- iii. If these were not audited, please explain why and disclose if this is in breach of PRC laws and provide basis for the board's opinion.

**Company's Response:**

- i) Yes
- ii) Unqualified opinions from FY2010 to FY2016. FY2017 audit report not yet issued.
- iii) Not applicable.

**SGX Query 2:**

On page 2 of the Full Year FY2017 results, the Company disclosed that “The financial results disclosed in this announcement have not been reviewed or audited by the Company’s external auditors.” Please explain why the Board has not audited the Company’s financial results.

**Company’s Response:**

The Auditors had issued a Disclaimer Opinion in the financial statements (**FS**) for FY2010, and management recognizes that the Auditors are likely to issue a Disclaimer Opinion on the subsequent audit of the FS, which may cast doubts on the reliability of the FS. As the subsidiaries did not have sufficient financial resources, the management is of the view that the cost of the audit may not be beneficial to the investors and Company. Furthermore, the Company is an investment holding company that has no financial resources of its own, and depends solely from the PRC subsidiaries funding. The PRC subsidiaries are facing challenging economic conditions and do not have sufficient financial resources to fund the Company activities.

**SGX Query 3:**

On page 3 of the Full Year FY2017 results, the Company disclosed that “Selling and distribution expenses” amounted to RMB341.8 million in FY2017. Please provide:

- i. A breakdown of the “Selling and distribution expenses” compared to FY2016 and explain the material items that had to be incurred; and
- ii. Details on the material costs and identity to whom the material expenses had been paid to, where applicable.

**Company’s Response:**

- i) The major items of selling and distribution expenses incurred in FY2017 were Advertising Expenses of RMB 201.7 million (FY2016: RMB: 210.6 million) and Refurbishment Expenses of RMB 25.7 million (FY2016: RMB 40.8 million).
- ii) Management is of the view there is no need to reveal costs and identities which the Company does not want to make public.

**SGX Query 4:**

The Company also disclosed “Administrative expenses” amounting to RM89.9 million. Please provide a breakdown of the “Administrative expenses” compared to FY2016 and explain the material costs.

**Company’s Response:**

The major items of administrative expenses incurred in FY2017 were Research and Development Costs of RMB 38.1 million (FY2016: 39.4 million), depreciation and amortisation of RMB 9.5 million (FY2016: 9.8 million) and salaries and welfare of RMB 35 million (FY2016: RMB 45

million). The remaining balance include various items such as office expenses, insurance, motor vehicle related expenses, taxes to government etc.

**SGX Query 5:**

On page 10 of the Full Year FY2017 results, the Company disclosed that “The increase was mainly due to increased orders in sports footwear and that the Group closed 930 loss-making stores in FY2017. The size of retail network was 3,728 ERKE Points of Sale (“ERKE POS”) as at 31 December 2017 (31 December 2016: 4,592).” Please disclose:

- i. Where the 3,728 ERKE POS are located and where the 930 loss-making stores were located respectively; and
- ii. The reasons that resulted in the increased orders in sports foot wear.

**Company’s Response:**

- i) These were situated in Guangdong, Shenyang, Guangxi, Hefei, Fujian, Shandong, Chengdu and Hangzhou.
- ii) It was difficult for distributors to sell sports apparels in FY2017. They shifted to order more sports footwear.

**SGX Query 6:**

On page 11 of the Full Year FY2017 results, the Company disclosed that “Advertising expenses include trade fairs, promotion campaigns, sponsorship activities, advertising on television, advertising on internet, advertising on print media such as billboards, sports magazines and newspapers.” Please:

- i. Disclose under which trade fair, what promotion campaigns, which magazines and newspaper were the advertising expenses paid to;
- ii. Disclose how often do the advertisements run and explain why the cost is so significant;
- iii. Quantify the total advertisement costs in FY17 and FY16; and
- iv. Provide a breakdown for each of the major events that resulted in the significant total advertising expenses of RMB201.7 million in FY2017.

**Company’s Response:**

Management is of the view that there is no need to make public the details as the information is commercially sensitive.

By Order of the Board  
Madelyn Kwang Yeit Lam  
Company Secretary  
28 March 2018