CHINA HONGXING SPORTS LIMITED
(Company Registration Number: 36746)
(Incorporated in Bermuda)

PROPOSED DISPOSAL OF THE ENTIRE SHARE CAPITAL OF PROFITSTART GROUP LIMITED

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1. INTRODUCTION

1.1 The Board of Directors (the "**Board**" or the "**Directors**") of China Hongxing Sports Limited (the "**Company**" and together with its subsidiaries, the "**Group**") wishes to announce that the Company has, on 20 September 2017, entered into a conditional sale and purchase agreement (the "**SPA**") with Jiayao Investments Limited (the "**Purchaser**") in relation to the disposal of 10,000 ordinary shares, representing the entire issued and paid-up capital of Profitstart Group Limited (the "**Target Company**"), a wholly-owned subsidiary of the Company, for an aggregate consideration of RMB100,000,000 (the "**Consideration**") (the "**Proposed Disposal**").

1.2 The Proposed Disposal is an interested person transaction under Chapter 9 of the listing manual of the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") (the "**Listing Manual**"), and is also considered a major transaction under Chapter 10 of the Listing Manual, both of which requires approval of the shareholders of the Company (the "**Shareholders**"). Please refer to Paragraph 5 of this Announcement for further details.

2. INFORMATION ON THE TARGET COMPANY

2.1 Information on the Target Company

The Target Company is a company incorporated in the British Virgin Islands with an issued and paid-up capital of US$10,000 comprising 10,000 ordinary shares. The Target Company is an investment holding company, with the following companies being direct or indirect wholly-owned subsidiaries of the Target Company:

Name	**Country of Incorporation**	**Particulars of registered/ paid-up capital**	**Percentage of equity interest attributable to the Target Company**	
			Direct	Indirect
Crowngain Investments Limited	British Virgin Islands	US$2	100%	-
Fujian Hongxing Erke Sports Goods Co. Ltd.	People's Republic of China	US$50,000,000	-	100%
Xiamen Hongxing Erke Apparel Co., Ltd.	People's Republic of China	RMB20,000,000	-	100%

Groupnew Investments Limited	British Virgin Islands	US$3	100%	-
Quanzhou Hongrong Light Industry Co. Ltd.	People's Republic of China	RMB400,000,000	-	100%

(the Target Company and its subsidiaries collectively, the "**Target Group**").

The Target Group is principally engaged in the design, manufacture and sales of sports shoes, sports apparel and sports accessories.

Upon completion of the Proposed Disposal ("**Completion**"), the Company will cease to have any operating businesses and assets. Please refer to Paragraph 8 of this Announcement for further details.

2.2 Asset Value of the Target Group

There is no open market value for the Target Group as the shares of the Target Group are not publicly traded. Based on the latest unaudited consolidated financial statements of the Group for the half-year period ended 30 June 2017 (the "**Group HY2017 Results**"), the book value and the net tangible asset value of the Target Group were approximately RMB470,735,000 and RMB470,735,000 respectively.

The deficit of the Consideration over the book value of the Target Group as at 30 June 2017 is approximately RMB370,735,000.

2.3 Net Loss of the Target Group

The net loss before tax attributable to the Target Group, based on the Group HY2017 Results is approximately RMB56,904,000.

2.4 Loss on the Proposed Disposal

The estimated loss on the Proposed Disposal is approximately RMB370,735,000 based on the Consideration, and the book value of the Target Group as of 30 June 2017.

3. SALIENT TERMS OF THE PROPOSED DISPOSAL

3.1 Details of the Consideration

The Consideration was arrived at after arm's length negotiations between the Company and the Purchaser, on a willing-buyer willing-seller basis.

The Consideration shall be fully satisfied by the Purchaser in the following manner:

(a) S$5,600,000 payable in cash on Completion, equivalent to RMB28,000,000 based on an agreed exchange rate of RMB5:S$1 (the "**Cash Consideration**");

(b) an undertaking from each of Wu Rongguang, Denis Wu Rongzhao, and Wu Hanjie (collectively, the "**Wu Family**") to the Company to renounce their rights to receive any dividends from their approximate 33% shareholding in the Company, which amount is approximately RMB9,240,000, and which may be declared to Shareholders by the Company arising from its receipt of the Cash Consideration; and

(c) a waiver by each member of the Wu Family of all monies owing by the Company to each of them as at Completion (including the Wu Family's recourse against the Company for assuming the aforesaid debts and liabilities), which amount is approximately RMB64,383,000 in aggregate as at the date of the SPA.

3.2 Conditions Precedent

The Proposed Disposal is subject to and conditional upon, *inter alia*, the fulfilment and satisfaction of the following conditions on or before the Longstop Date (as defined below):

(a) the approval of Shareholders being obtained at an extraordinary general meeting of the Company ("**EGM**") for the following resolutions:

(i) the Proposed Disposal;

(ii) the distribution of at least 80% of the Cash Consideration in the form of dividends by the Company to the Shareholders (save for the Wu Family) (the "**Proposed Distribution**"); and

(iii) authorisation for the Board to arrange for the Proposed Distribution to be remitted to the Shareholders directly in such manner and at such time as the Board deems fit;

(b) the obtaining of all necessary corporate and other approvals (including approvals from the SGX-ST, the Singapore courts and other relevant government and regulatory bodies, as the case may be) for the Proposed Disposal and the Proposed Distribution; and

(c) there having been no claims and/or demands initiated or brought against the Company and/or the Target Group which may affect the Proposed Disposal and/or the Proposed Distribution,

(collectively, the "**Conditions Precedent**").

3.3 Completion

In the event that any of the Conditions Precedent is not fulfilled by 20 December 2017, or such other date as may be mutually agreed between the Company and the Purchaser in writing (the "**Longstop Date**"), the SPA shall lapse and cease to have further effect.

Completion will take place on the date falling seven (7) days after the last of the Conditions Precedent is satisfied, or such other date as may be mutually agreed between the Company and Purchaser in writing.

4. RATIONALE FOR THE PROPOSED DISPOSAL

Based on the Group HY2017 Results, the Group's losses before tax amounted to approximately RMB58,414,000. The Proposed Disposal would allow the Group to dispose of all its assets and businesses, and distribute part of the proceeds by way of dividends to the Shareholders.

While this will result in the Company ceasing to have any operating business and becoming a cash company, the Directors are of the view that being a cash company or shell company may facilitate the Company's attempts to acquire potential target business and assets via a reverse takeover to satisfy the SGX-ST's listing requirements and to comply with the SGX-ST's requirements for a cash company. A reverse takeover exercise would typically result in a premium to be paid to the shareholders of the listed company by the incoming private company due to its listing status. Accordingly, the Directors believe that the Proposed Disposal and the prospect of a subsequent reverse takeover represent a potential gain to the Shareholders from the premium over and above the fair value of the Company.

5. COMPLIANCE WITH CHAPTERS 9 AND 10 OF THE LISTING MANUAL

5.1 The Proposed Disposal as a Major Transaction

Based on the Group HY2017 Results, the relative figures of the Proposed Disposal computed on the bases set out in Rule 1006(a) to (e) of the Listing Manual are as follows:

Rule 1006	Bases	Relative Figures (%)
(a)	Net asset value of the assets to be disposed of, compared with the Group's net asset value	116.6[(1)]
(b)	The net profits/(losses) attributable to the assets disposed of, compared with the Group's net profits	97.9[(2)]
(c)	The aggregate value of the Consideration, compared with the market capitalisation of the Company	6.2[(3)]
(d)	The number of equity securities issued by the Company as consideration for an acquisition, compared with the number of equity securities previously in issue (excluding treasury shares)	Not applicable[(4)]
(e)	The aggregate volume or amount of proved and probable reserves to be disposed of, compared with the aggregate of the Group's proved and probable reserves	Not applicable[(5)]

Notes:

(1) The net asset value attributable to the Target Group is based on the Group HY2017 Results. The net asset value of the Group is based on the Group HY2017 Results.

(2) Net profits/losses is defined as profit/loss before tax. The net loss attributable to the Target Group based on the Group HY2017 Results is approximately RMB70,129,000. The Group's net loss based on the Group HY2017 Results is approximately RMB71,639,000.

(3) The market capitalisation of the Company is based upon a total number of 2,800,000,000 shares (excluding treasury shares) of the Company in issue as at 30 June 2017, by the last transacted price per share of the Company on the SGX-ST prior to the Company's trading suspension.

(4) Rule 1006(d) of the Listing Manual is not applicable no equity securities will be issued.

(5) Rule 1006(e) of the Listing Manual is not applicable as the Company is not a mineral, oil and gas company.

Rule 1014 of the Listing Manual states, *inter alia*, that where any of the relative figures as computed on the bases set out in Rule 1006 of the Listing Manual exceeds 20%, the transaction is classified as a "major transaction" and must be made conditional upon approval by the Shareholders in general meeting. As the relative figures for the Proposed Disposal as computed on the bases set out in Rules 1006(a) and 1006(b) of the Listing Manual exceed 20%, the Proposed Disposal is classified as a "major transaction" for the purpose of Chapter 10 of the Listing Manual which requires Shareholders' approval.

5.2 <u>The Proposed Disposal as an Interested Person Transaction</u>

The Purchaser is a company incorporated in the British Virgin Islands and is wholly-owned by Denis Wu Rongzhao, who is an associate (as defined in the Listing Manual) of Wu Rongguang, a controlling shareholder of the Company.

Accordingly, the Proposed Disposal between the Company as the "entity at risk" and the Purchaser as an "interested person" would constitute an "interested person transaction" for the purpose of Chapter 9 of the Listing Manual.

The Consideration represents 24.8% of the Group's latest unaudited consolidated net tangible assets ("**NTA**"). As the value exceeds 5% of the Group's latest unaudited NTA, the Proposed Disposal is subject to the approval of the Shareholders (the Wu Family to abstain from voting on the Proposed Disposal in respect of their respective shareholdings in the Company) at the EGM pursuant to Rule 906 of the Listing Manual.

Save for the Proposed Disposal, there are no other interested person transactions with the Wu Family or any other interested persons of the Company for the current financial year of the Company to date.

6. FINANCIAL EFFECTS OF THE PROPOSED DISPOSAL

The *pro forma* financial effects of the Proposed Disposal as set out below are for illustrative purposes only and do not necessarily reflect the actual results and financial position of the Group and of the Company following Completion.

The *pro forma* financial effects of the Proposed Disposal on the NTA per share and earnings per share ("**EPS**") of the Group are prepared based on the Group HY2017 Results, and are subject to the following assumptions:

(a) the financial effect on the consolidated NTA per share is computed based on the assumption that the Proposed Disposal was completed on 30 June 2017;

(b) the financial effect on the consolidated EPS is computed based on assumption that the Proposed Disposal was completed on 1 January 2017; and

(c) after taking into account the estimated transaction expenses.

6.1 Financial Effects of the Proposed Disposal on the Consolidated NTA per Share

	Before the Proposed Disposal	**After the Proposed Disposal**
NTA[(1)] of the Group (RMB'000)	403,635	32,900
Number of shares[(2)]	2,800,000,000	2,800,000,000
NTA per share (RMB cents)	14.42	1.18

Notes:

(1) NTA refers to total assets less the sum of total liabilities, non-controlling interest and intangible assets.

(2) Based upon a total number of 2,800,000,000 shares (excluding treasury shares) of the Company in issue as at 30 June 2017.

6.2 Financial Effects of the Proposed Disposal on the Consolidated EPS

	Before the Proposed Disposal	**After the Proposed Disposal**
Profits/(Loss) attributable to owners of the Company (RMB'000)	(71,639)	(372,245)
Number of shares[(1)]	2,800,000,000	2,800,000,000
Earnings/(Loss) per share (RMB cents)[(2)]	(2.56)	(13.29)

Notes:

(1) Based upon a total number of 2,800,000,000 shares (excluding treasury shares) of the Company in issue as at 30 June 2017.

(2) The loss per share was calculated based on the unaudited loss attributable to shareholders divided by 2,800,000,000 shares (excluding treasury shares).

7. USE OF PROCEEDS

The estimated net proceeds arising from the Proposed Disposal (after deducting the estimated transaction costs relating to the Proposed Disposal) based on the Consideration, will amount to approximately S$5,500,000 (the "**Net Proceeds**").

It is expected that, subject to approval of the Shareholders, the Net Proceeds will be used for the Proposed Distribution. The remainder of the Net Proceeds may be used to acquire new assets or businesses to satisfy the listing requirements of the SGX-ST, subject to the restrictions under Rule 1018 of the Listing Manual. Please refer to Paragraph 8 of this Announcement for further details.

The Board will announce the specific uses for the proceeds arising from the Proposed Disposal in greater detail as and when appropriate.

8. CASH COMPANY – COMPLIANCE WITH RULE 1018 OF THE LISTING MANUAL

Upon Completion, the Company will cease to have any operating business and will be deemed as a cash company under Rule 1018 of the Listing Manual. As a result, the Company will be required to comply with the restrictions under Rule 1018 of the Listing Manual, and will continue to provide updates on the matter soon.

The Company is currently considering a reverse takeover of other businesses and assets. Shareholders of the Company will be informed in due course after a definitive decision has been reached.

Shareholders are to note that under Rule 1018, in addition to the compliance requirements stated therein, if the assets of an issuer consist wholly or substantially of cash or short-dated securities, its securities will normally be suspended. The suspension will remain in force until the issuer has a business which is able to satisfy the SGX-ST's requirements for a new listing, and all relevant information has been announced. The SGX-ST will proceed to remove an issuer from the Official List if it is unable to meet the requirements for a new listing within 12 months from the time it becomes a cash company, subject to any extension as may be approved by the SGX-ST.

9. INDEPENDENT FINANCIAL ADVISER

The Company will be appointing an independent financial adviser (the "**IFA**") to provide an opinion on whether the terms of the Proposed Disposal are on normal commercial terms, and are not prejudicial to the interests of the Company and its minority shareholders.

The Audit Committee of the Company will obtain an opinion from the IFA before forming its view on the Proposed Disposal. The views of the Audit Committee will be included in the circular to be issued by the Company to the Shareholders in connection with the Proposed Disposal (the "**Circular**").

10. INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS

Save as disclosed in Paragraph 5.2 above, none of the Directors or controlling shareholders of the Company, has any interest, direct or indirect (other than through their shareholdings in the Company, if any), in the Proposed Disposal.

The Wu Family and their respective "associates" (as defined in the Listing Manual) shall abstain from voting on the Proposed Disposal at the EGM, and they will not accept nominations as proxy or otherwise for voting at the EGM in respect of the Proposed Disposal.

11. DIRECTORS' SERVICE CONTRACTS

No person is proposed to be appointed as a Director in connection with the Proposed Disposal. Accordingly, no service contract is proposed to be entered into between the Company and any such person in connection with the Proposed Disposal.

12. CIRCULAR TO SHAREHOLDERS

The Company will convene an EGM to seek the approval of Shareholders for the Proposed Disposal. The Circular containing *inter alia*, further information on the Proposed Disposal, together with the opinion and recommendations of the independent Directors and the letter from the IFA, and enclosing the notice of EGM therewith, will be dispatched to the Shareholders in due course.

13. DOCUMENTS FOR INSPECTION

A copy of the SPA is available for inspection during normal business hours at the registered office of the Company at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda for a period of three (3) months from the date of this Announcement.

By Order of the Board
CHINA HONGXING SPORTS LIMITED

Alfred Cheong
Independent Director
21 September 2017