CIRCULAR DATED 2 MARCH 2018

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. PLEASE READ IT CAREFULLY.

If you are in any doubt as to the action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.

If you have sold or transferred all your shares in the capital of China Hongxing Sports Limited (the "**Company**") (the "**Shares**") held through The Central Depository (Pte) Limited ("**CDP**"), you need not forward this Circular to the purchaser or transferee as arrangements will be made by CDP for a separate Circular to be sent to the purchaser or transferee. If you have sold or transferred all your Shares which are not deposited with CDP, you should immediately forward this Circular, together with the enclosed Notice of Special General Meeting and the accompanying Proxy Forms to the purchaser or transferee, or to the stockbroker, bank or agent through whom the sale or transfer was effected, for onward transmission to the purchaser or transferee.

The Singapore Exchange Securities Trading Limited (the "**SGX-ST**") assumes no responsibility for the contents of this Circular, including the accuracy of any of the statements or opinions made or reports contained in this Circular.

CHINA HONGXING SPORTS LIMITED

(Company Registration Number: 36746)
(Incorporated in Bermuda)

CIRCULAR TO SHAREHOLDERS

in relation to

(1) THE PROPOSED DISPOSAL OF THE ENTIRE SHARE CAPITAL OF PROFITSTART GROUP LIMITED AS A MAJOR TRANSACTION AND AN INTERESTED PERSON TRANSACTION;

(2) THE PROPOSED BYE-LAW AMENDMENT; AND

(3) THE PROPOSED CAPITAL REORGANISATION

Independent Financial Adviser
in relation to the Proposed Disposal

PROVENANCE CAPITAL PTE. LTD.

(Company Registration Number: 200309056E)
(Incorporated in the Republic of Singapore)

IMPORTANT DATES AND TIMES

Last date and time for lodgement of Proxy Forms	:	26 March 2018 at 9.30 a.m.
Date and time of Special General Meeting	:	28 March 2018 at 9.30 a.m.
Place of Special General Meeting	:	RELC International Hotel Auditorium 30 Orange Grove Road Singapore 258352

CONTENTS

		Page
DEFINITIONS		3
LETTER TO SHAREHOLDERS		
1.	Introduction	9
2.	The Proposed Disposal	11
3.	The Proposed Disposal as a Major Transaction	19
4.	The Proposed Disposal as an Interested Person Transaction	19
5.	The Proposed Bye-Law Amendment and the Proposed Capital Reorganisation	20
6.	Financial Effects of the Proposed Disposal	23
7.	Financial Effects of the Proposed Capital Reorganisation	25
8.	Cash Company – Compliance with Rule 1018 of the Listing Manual	28
9.	Interests of Directors and Substantial Shareholders	29
10.	Opinion of the Independent Financial Adviser	30
11.	Statement of the Audit Committee	31
12.	Directors' Recommendation	31
13.	No Service Contracts	31
14.	Special General Meeting	31
15.	Action to be taken by Shareholders	31
16.	Abstention from Voting	32
17.	Directors' Responsibility Statement	32
18.	Consents	32
19.	Documents Available for Inspection	33
APPENDIX A – GROUP STRUCTURE		A-1
APPENDIX B – IFA LETTER		B-1
APPENDIX C – SUMMARY VALUATION REPORT		C-1
NOTICE OF SPECIAL GENERAL MEETING		SGM-1
PROXY FORMS		

In this Circular, the following definitions shall apply throughout unless otherwise stated:

"**1st Supplemental Letter**"	:	The supplemental letter dated 20 December 2017 which is supplemental to the SPA (as amended, modified and supplemented by the Supplemental Deed)
"**2nd Supplemental Letter**"	:	The supplemental letter dated 14 February 2018 which is supplemental to the SPA (as amended, modified and supplemented by the Supplemental Deed and the 1st Supplemental Letter)
"**Agreed Exchange Rate**"	:	The exchange rate of RMB5:S$1, as agreed between the Company and the Purchaser
"**Associate**"	:	(a) in relation to any director, chief executive officer, Substantial Shareholder or Controlling Shareholder (being an individual) means: (i) his immediate family; (ii) the trustees of any trust of which he or his immediate family is a beneficiary or, in the case of a discretionary trust, is a discretionary object; and (iii) any company in which he and his immediate family together (directly or indirectly) have an interest of 30.0% or more; (b) in relation to a Substantial Shareholder or a Controlling Shareholder (being a company) means any other company which is its subsidiary or holding company or is a subsidiary of such holding company or one in the equity of which it and/or such other company or companies taken together (directly or indirectly) have an interest of 30.0% or more
"**Associated Company**"	:	A company in which at least 20.0% but not more than 50.0% of its shares are held by the Company
"**Audit Committee**"	:	The audit committee of the Company, being as at the Latest Practicable Date, all of the Independent Directors
"**Base Case Scenario Valuation**"	:	Has the meaning ascribed to it in Paragraph 2.5 of the Letter to Shareholders
"**Bermuda Companies Act**"	:	The Companies Act 1981 of Bermuda, as amended or modified from time to time
"**Board**"	:	The board of directors of the Company as at the date of this Circular
"**Books Closure Date**"	:	A date to be announced on which the Register of Members and other related transfer documents will be closed in order to determine the entitlements of Shareholders under the Proposed Cash Distribution
"**Bye-laws**"	:	The bye-laws of the Company, as amended or modified from time to time

"**Cash Consideration**"	:	S$5,600,000, equivalent to RMB28,000,000 based on the Agreed Exchange Rate, payable in cash by the Purchaser to the Company on completion of the Proposed Disposal
"**Cash Distribution Sum**"	:	Has the meaning ascribed to it in Paragraph 5.3 of the Letter to Shareholders
"**CDP**"	:	The Central Depository (Pte) Limited
"**Circular**"	:	This circular to Shareholders dated 2 March 2018
"**Companies Act**"	:	Companies Act (Chapter 50) of Singapore
"**Company**"	:	China Hongxing Sports Limited
"**Conditions Precedent**"	:	The conditions which the Proposed Disposal is subject to and conditional upon, which include, *inter alia*, the conditions set out in Paragraph 2.6.1 of the Letter to Shareholders
"**Consideration**"	:	RMB100,000,000, being the aggregate consideration for the Proposed Disposal
"**Controlling Shareholder**"	:	A person who: (a) holds directly or indirectly 15.0% or more of the total number of issued Shares excluding treasury shares and subsidiary holdings in the Company (provided that the SGX-ST may determine that a person who satisfies this definition is not a controlling shareholder); or (b) in fact exercises control over the Company
"**Denis Wu**"	:	Wu Rongzhao, Denis
"**Directors**"	:	The directors of the Company as at the date of this Circular
"**Effective Date**"	:	The date on which the Share Premium Reduction is to have effect
"**Entity at Risk**"	:	(a) the Company; (b) a subsidiary of the Company that is not listed on the SGX-ST or an approved exchange; or (c) an Associated Company of the issuer that is not listed on the SGX-ST or an approved exchange, provided that the listed group, or the listed group and its interested person(s), has control over the Associated Company
"**EPS**"	:	Earnings per Share
"**Expected Payment Date**"	:	Has the meaning ascribed to it in Paragraph 5.7(a) of the Letter to Shareholders
"**Group**"	:	The Company and its subsidiaries
"**Group 3Q2017 Results**"	:	The latest unaudited consolidated financial statements of the Group for the third quarter period ended 30 September 2017

"**IFA**"	:	Provenance Capital Pte. Ltd., the independent financial adviser to the Independent Directors in relation to the Proposed Disposal
"**IFA Letter**"	:	The letter from the IFA dated 2 March 2018, as required under Rule 921(4)(a) of the Listing Manual, a copy of which is set out in Appendix B to this Circular
"**Independent Directors**"	:	The directors who are considered independent in relation to the Proposed Disposal, being as at the Latest Practicable Date, Alfred Cheong Keng Chuan, Tay Ah Kong Bernard and Chan Wai Meng
"**Inter-Conditional Resolutions**"	:	Each of Resolutions 1, 2 and 3 contained within this Circular, all of which are inter-conditional
"**Intercompany Loan**"	:	The intercompany loan amount of RMB3,008,672,000, which mainly comprises proceeds that were raised from: (a) the Company's initial public offering in 2005; (b) the Company's issue of redeemable non-cumulative convertible preference shares in 2006; and (c) the Company's issue of new Shares by way of placement in 2007, the bulk of which were injected into the Target Company for the expansion of the Group's operations
"**Intercompany Loan Waiver**"	:	The waiver of the Intercompany Loan in its entirety, and the waiver of all rights of recourse against the Target Company in respect of the Intercompany Loan
"**interested person**"	:	(a) a director, chief executive officer, or Controlling Shareholder of the Company; or (b) an Associate of any such director, chief executive officer, or Controlling Shareholder
"**interested person transaction**"	:	a transaction between an Entity at Risk and an interested person
"**Latest Practicable Date**"	:	26 February 2018, being the latest practicable date prior to the printing of this Circular
"**Letter to Shareholders**"	:	The letter to Shareholders as set out on Pages 9 to 33 of this Circular
"**Listing Manual**"	:	The listing manual of the SGX-ST, including any amendments made thereto up to the Latest Practicable Date
"**Longstop Date**"	:	20 June 2018, or such other date as may be mutually agreed between the Company and the Purchaser
"**Newspaper Notice**"	:	A notice in an appointed newspaper in Bermuda at a date not more than 30 days and not less than 15 days before the Effective Date, as required under Section 46 of the Bermuda Companies Act, stating the amount of the share capital as last determined by the Company, the amount to which the said share capital is to be reduced, and the Effective Date

"**Notice of SGM**"	:	The notice of SGM as set out on Pages SGM-1 to SGM-3 of this Circular
"**NTA**"	:	Net tangible assets
"**Optimistic Case Scenario**"	:	Has the meaning ascribed to it in Paragraph 2.5.2 of the Letter to Shareholders
"**Optimistic Case Scenario Valuation**"	:	Has the meaning ascribed to it in Paragraph 2.5 of the Letter to Shareholders
"**PRC**"	:	People's Republic of China
"**Proposed Bye-law Amendment**"	:	The amendment of the existing Bye-law 138 of the Bye-laws, details of which are set out in Paragraph 5.1.2 of the Letter to Shareholders
"**Proposed Capital Reorganisation**"	:	Collectively, the Share Premium Reduction and the Proposed Cash Distribution
"**Proposed Cash Distribution**"	:	Subject to the Share Premium Reduction taking effect and the resulting credit of RMB22,400,000 (equivalent to approximately S$4,480,000) being transferred to the contributed surplus account of the Company, the distribution of the Cash Distribution Sum from the balance of the contributed surplus account of the Company to the Shareholders (save for the Wu Family)
"**Proposed Disposal**"	:	The proposed sale of 10,000 ordinary shares, representing the entire issued and paid-up capital of the Target Company, in accordance with the terms and conditions of the SPA Documents
"**Proposed Distribution**"	:	The distribution of at least 80.0% of the Cash Consideration in the form of dividends or return of capital by the Company to the Shareholders (save for the Wu Family)
"**Purchaser**"	:	Jiayao Investments Limited
"**Real Property**"	:	Has the meaning ascribed to it in Paragraph 2.2 of the Letter to Shareholders
"**RICS**"	:	Royal Institution of Chartered Surveyors
"**Register of Members**"	:	The register of members of the Company
"**Securities Accounts**"	:	Securities accounts maintained by a Depositor with CDP, but not including securities sub-accounts maintained with a Depository Agent
"**SFA**"	:	Securities and Futures Act (Chapter 289) of Singapore
"**SGM**"	:	Special general meeting
"**SGX-ST**"	:	Singapore Exchange Securities Trading Limited
"**SGXNET**"	:	Singapore Exchange Network, a system network used by listed companies in sending information and announcements to the SGX-ST or any other system networks prescribed by the SGX-ST

"**Share Premium Reduction**"	:	A reduction of the share premium account of the Company from RMB2,978,708,000 (equivalent to approximately S$595,741,600) to RMB2,956,308,000 (equivalent to approximately S$591,261,600), by cancelling the sum of RMB22,400,000 (equivalent to approximately S$4,480,000) standing to the credit of the Company's share premium account as at 30 September 2017
"**Shareholders**"	:	The registered holder(s) of the Shares
"**Shares**"	:	Ordinary shares with a par value of HK$0.02 each in the issued and paid-up capital of the Company
"**SPA**"	:	The conditional sale and purchase agreement dated 20 September 2017 between the Company and the Purchaser in relation to the proposed sale by the Company of the Target Company for an aggregate consideration of RMB100,000,000
"**SPA Documents**"	:	Collectively, the SPA, Supplemental Deed, the 1st Supplemental Letter and the 2nd Supplemental Letter
"**Special Resolution**"	:	A resolution passed by a majority of not less than three-fourths of the votes cast by Shareholders who are entitled to do so, voting in person or, in the case of Shareholders being corporations, by their respective duly authorised representatives or, where proxies are allowed, by proxy, of which not less than 21 clear days' notice shall be given
"**subsidiary**"	:	Has the meaning ascribed to it in the Companies Act
"**Substantial Shareholder**"	:	A person who has an interest in Shares the nominal amount of which is 5.0% or more of the aggregate voting Shares of the Company
"**Summary Valuation Report**"	:	The summary report dated 2 March 2018 prepared by the Valuer in respect of the Valuation Report, a copy of which is set out in Appendix C to this Circular
"**Supplemental Deed**"	:	The supplemental deed dated 22 November 2017 which is supplemental to the SPA
"**Target Company**"	:	Profitstart Group Limited
"**Target Group**"	:	Profitstart Group Limited and its subsidiaries
"**Valuation Report**"	:	The valuation report dated 2 March 2018 prepared by the Valuer in respect of its valuation of the market value of the Target Group
"**Valuer**"	:	AVA Associates Limited
"**Wu Family**"	:	Denis Wu, Wu Rongguang and Wu Hanjie collectively
"**Wu Renunciation**"	:	Has the meaning ascribed to it in Paragraph 2.4(b) of the Letter to Shareholders
"**Wu Waivers**"	:	Has the meaning ascribed to it in Paragraph 2.4(c) of the Letter to Shareholders

"**%**"	:	Percentage or per centum
"**HK$**"	:	Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region
"**RMB**"	:	Renminbi, the lawful currency of the PRC
"**S$**"	:	Singapore dollars, the lawful currency of the Republic of Singapore
"**US$**"	:	United States dollars, the lawful currency of the United States of America

The terms "**Depositor**", "**Depository Agent**" and "**Depository Register**" shall have the meanings ascribed to them respectively in Section 81SF of the SFA or any statutory modification thereof, as the case may be.

Words importing the singular shall, where applicable, include the plural and *vice versa*, and words importing the masculine gender shall, where applicable, include the feminine and neuter genders and *vice versa*. Words importing persons include corporations.

The headings in this Circular are inserted for convenience only and shall be ignored in construing this Circular.

Any reference in this Circular to any enactment is a reference to that enactment as for the time being amended or re-enacted. Any word defined under the Listing Manual, Companies Act, SFA, Bermuda Companies Act or any statutory or regulatory modification thereof and not otherwise defined in this Circular shall have the meaning ascribed to it under the Listing Manual, Companies Act, SFA, Bermuda Companies Act or any statutory or regulatory modification thereof, unless the context otherwise requires.

Any reference to a time and date in this Circular shall be a reference to Singapore time and date unless otherwise stated.

All discrepancies in the tables included in this Circular between the listed amounts and the totals thereof are due to rounding. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

Cautionary Note on Forward-Looking Statements

All statements other than statements of historical facts included in this Circular are or may be forward-looking statements. Forward-looking statements include but are not limited to those using words such as "**expect**", "**anticipate**", "**believe**", "**estimate**", "**intend**", "**project**", "**plan**", "**strategy**", "**forecast**" and similar expressions or future or conditional verbs such as "**if**", "**will**", "**would**", "**should**", "**could**", "**may**" and "**might**". These statements reflect the Company's current expectations, beliefs, hopes, intentions or strategies regarding the future and assumptions in light of currently available information. Such forward-looking statements are not guarantees of future performance or events and involve known and unknown risks and uncertainties. Accordingly, actual results may differ materially from those described in such forward-looking statements. Shareholders should not place undue reliance on such forward-looking statements, and the Company undertakes any obligation to update publicly or revise any forward-looking statements, subject to compliance with all applicable laws and regulations and/or the rules of the SGX-ST and/or any other regulatory or supervisory body or agency.

CHINA HONGXING SPORTS LIMITED

(Company Registration Number: 36746)
(Incorporated in Bermuda)

Directors:

Alfred Cheong Keng Chuan (Independent Director)
Tay Ah Kong Bernard (Independent Director)
Chan Wai Meng (Independent Director)

Registered Office:

Clarendon House
2 Church Street
Hamilton HM 11 Bermuda

2 March 2018

To: The Shareholders of China Hongxing Sports Limited

Dear Sir/Madam

(1) THE PROPOSED DISPOSAL OF THE ENTIRE SHARE CAPITAL OF PROFITSTART GROUP LIMITED AS A MAJOR TRANSACTION AND AN INTERESTED PERSON TRANSACTION;

(2) THE PROPOSED BYE-LAW AMENDMENT; AND

(3) THE PROPOSED CAPITAL REORGANISATION

1. INTRODUCTION

1.1. On 21 September 2017, the Company announced that it had entered into a conditional sale and purchase agreement dated 20 September 2017 with Jiayao Investments Limited (the "**Purchaser**") in relation to the proposed sale by the Company of Profitstart Group Limited (the "**Target Company**") for an aggregate consideration of RMB100,000,000, on the terms and conditions of the SPA.

1.2. Completion of the Proposed Disposal is subject to the Conditions Precedent which, *inter alia*, include the approval of Shareholders for the matters set out in Paragraph 2.6.1(a). Upon completion of the Proposed Disposal, the Target Company and its subsidiaries will cease to be subsidiaries of the Company, and the Company will cease to have any operating business. Please refer to Appendix A to this Circular for the Group structure as at the Latest Practicable Date and upon completion of the Proposed Disposal.

1.3. The relative figures for the Proposed Disposal calculated under Rule 1006 of the Listing Manual exceed 20.0%, and the Purchaser, being an Associate of Wu Rongguang, a Controlling Shareholder of the Company, is regarded as an "interested person" for the purpose of Chapter 9 of the Listing Manual. As such, the Proposed Disposal constitutes:

(a) a major transaction under Chapter 10 of the Listing Manual; and

(b) an interested person transaction under Chapter 9 of the Listing Manual.

Accordingly, it is subject to the approval of Shareholders.

1.4. On 23 November 2017, the Company announced that it had entered into the Supplemental Deed. The Supplemental Deed sought to, *inter alia*:

(a) amend, modify and supplement the SPA such that:

(i) one of the Conditions Precedent is for Shareholders' approval for the Proposed Distribution, which involves the distribution of at least 80.0% of the Cash Consideration in the form of dividends or return of capital by the Company to the

Shareholders (save for the Wu Family), being obtained at an extraordinary general meeting; and

(ii) the escrow agent may be instructed to advance certain amounts from time to time from the Cash Consideration held in escrow to a bank account controlled by the Directors for the purposes of payment of fees and expenses to professionals and other service providers engaged by the Company in relation to the Proposed Disposal, so as to facilitate the fulfilment of the Conditions Precedent, save that such amounts shall form part of the Consideration, and will not be repaid to the Purchaser under any circumstances in the event that completion of the Proposed Disposal does not take place; and

(b) record the agreement and understanding between the Company and the Purchaser in relation to the Intercompany Loan Waiver, being the waiver of the Intercompany Loan of RMB3,008,672,000 in its entirety, and the waiver of all rights of recourse against the Target Company in respect of the Intercompany Loan.

1.5. On 20 December 2017, the Company announced that it had entered into the 1st Supplemental Letter to, *inter alia*, extend the Longstop Date for a further three (3) months from 20 December 2017 to 20 March 2018.

1.6. On 14 February 2018, the Company announced that it had entered into the 2nd Supplemental Letter to extend the Longstop Date for a further three (3) months from 20 December 2017 to 20 June 2018.

1.7. The Company intends to carry out the Proposed Distribution in the following manner:

(a) by undertaking the Proposed Bye-law Amendment to reflect the simplified solvency test relating to the payment of dividends and other distributions under the current laws of Bermuda, so as to allow the Proposed Distribution to be effected; and

(b) subject to Shareholders' approval of the Proposed Bye-law Amendment, effecting the Proposed Distribution by way of the Proposed Capital Reorganisation, which includes the Share Premium Reduction and the Proposed Cash Distribution.

1.8. Upon completion of the Proposed Disposal, the Company will become a cash company and its Shares will remain suspended unless and until it acquires a business that meets the SGX-ST's listing requirements. The Company is also required to comply with Rule 1018 of the Listing Manual, further details of which are provided in Paragraph 8 of this Letter to Shareholders.

1.9. The Directors are convening a SGM to be held on 28 March 2018 at 9.30 a.m. at RELC International Hotel, Auditorium, 30 Orange Grove Road, Singapore 258352, to seek Shareholders' approval for the Proposed Disposal, the Proposed Bye-law Amendment and the Proposed Capital Reorganisation. The purpose of this Circular is to provide Shareholders with information relating to the Proposed Disposal, the Proposed Bye-law Amendment and the Proposed Capital Reorganisation, and to seek approval for the same at the forthcoming SGM.

1.10. **Shareholders should note that each of Resolutions 1, 2 and 3 contained within this Circular are inter-conditional (the "Inter-Conditional Resolutions") as they are integral parts of the same transaction, namely the Proposed Disposal. This means that if one of the Inter-Conditional Resolutions is not passed, the other Inter-Conditional Resolutions will not be passed**.

1.11. The SGX-ST assumes no responsibility for the contents of this Circular, including the accuracy of any of the statements or opinions made or reports contained in this Circular. If any Shareholder is in any doubt as to the action he should take, he should consult his bank manager, stockbroker, solicitor, accountant or other professional adviser immediately.

2. THE PROPOSED DISPOSAL

2.1. Background on the Proposed Disposal

Subject to the terms and conditions of the SPA Documents, the Company has agreed to sell and the Purchaser has agreed to purchase 10,000 ordinary shares, representing the entire issued and paid-up capital of the Target Company.

Please refer to Paragraph 2.2 and 2.3 of this Letter to Shareholders for further details on the Target Company and the Purchaser respectively.

2.2. Information relating to the Target Group

The Target Company is an investment holding company registered in the British Virgin Islands on 30 November 2004. As at the Latest Practicable Date, the Target Company has an issued and paid-up capital of US$10,000 comprising 10,000 ordinary shares.

The Target Group comprises the Target Company and the following companies, which are direct or indirect wholly-owned subsidiaries of the Target Company:

Name	**Country of Incorporation**	**Principal Activities**	**Particulars of registered/ paid-up capital**	**Percentage of equity interest attributable to the Target Company (%)**	
				Direct	Indirect
Crowngain Investments Limited (冠基投资有限公司)	British Virgin Islands	Investment holding	US$2	100	–
Fujian Hongxing Erke Sports Goods Co. Ltd. (福建鸿星尔克体育用品有限公司)	People's Republic of China	Design, manufacture and sales of sports shoes, sports apparel, and sports accessories	US$50,000,000	–	100
Xiamen Hongxing Erke Apparel Co., Ltd. (厦门时荣服饰有限公司)	People's Republic of China	Manufacture and sales of sports apparel	RMB20,000,000	–	100
Groupnew Investments Limited (联新投资有限公司)	British Virgin Islands	Investment holding	US$3	100	–

Name	Country of Incorporation	Principal Activities	Particulars of registered/ paid-up capital	Percentage of equity interest attributable to the Target Company (%)	
				Direct	Indirect
Fujian Hongrong Shoes & Garments Co. Ltd. (福建鸿荣鞋服有限公司)	People's Republic of China	Has not yet commenced business	RMB200,000,000	–	100
Fujian Hongrong Sports Goods Co., Ltd. (福建鸿荣体育有限公司)	People's Republic of China	Has not yet commenced business	RMB200,000,000	–	100
Quanzhou Hongrong Light Industry Co. Ltd. (泉州鸿荣轻工有限公司)	People's Republic of China	Design, manufacture and sales of sports shoes, sports apparel, and sports accessories	RMB400,000,000	–	100

As at the Latest Practicable Date, the Target Group is principally engaged in the design, manufacture and sales of sports shoes, sports apparel and sports accessories in the PRC. As at 30 September 2017, the Target Group has 3,835 ERKE points of sale, and owns two (2) industrial facilities comprising buildings and structures built on leasehold land, both of which are located in Licheng District, Quanzhou City, Fujian Province of the PRC (the "**Real Property**"). Subject to the assumptions set out in the Summary Valuation Report, the Valuer has provided its opinion that the market value of the Real Property (on the basis that it is free from any encumbrances) in its existing state as at 30 June 2017 is approximately RMB343,301,500.

The Company will cease to hold any interest in the Target Group, and will cease to have any operating businesses and assets following completion of the Proposed Disposal. Please refer to Appendix A to this Circular for the Group structure as at the Latest Practicable Date and upon completion of the Proposed Disposal.

2.3. **Information relating to the Purchaser**

The Purchaser is an investment holding company registered in the British Virgin Islands. The Purchaser has an issued and paid-up capital of US$100.00 comprising 100 ordinary shares with a par value of US$1.00 each. As at the Latest Practicable Date, Denis Wu is the sole shareholder and director of the Purchaser.

Denis Wu, being a sibling of Wu Rongguang, a Controlling Shareholder of the Company, is an Associate of Wu Rongguang. Denis Wu and Wu Hanjie, the father of Denis Wu and Wu Rongguang, are also both Substantial Shareholders 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.

2.4. **Consideration**

The aggregate consideration of RMB100,000,000 for the Proposed Disposal (the "**Consideration**") was an offer presented by Purchaser, after arm's length negotiations between the Company and the Purchaser, on a "willing-buyer willing-seller basis", and taking into account, *inter alia*, the unaudited net asset value of the Target Group of RMB470,735,000 based on the unaudited consolidated financial statements of the Group for the half-year period ended 30 June 2017, the financial performance of the Target Group in recent years, as well as the current circumstances of the Company, its subsidiaries and their businesses. The Company decided to enter into the SPA with the Purchaser as the Consideration represents the best price that the Directors have been able to negotiate. Please refer to Paragraph 2.7 of the Letter to Shareholders for further information on the rationale for the Proposed Disposal.

The SPA Documents provide that the Consideration shall be fully satisfied by the Purchaser in the following manner:

(a) S$5,600,000, equivalent to RMB28,000,000 based on the Agreed Exchange Rate, payable in cash on completion of the Proposed Disposal (the "**Cash Consideration**");

(b) an undertaking from each member of the Wu Family to the Company to renounce their rights to receive any dividends from their approximate 33.0% shareholding in the Company, which amount is approximately RMB9,240,000 (assuming a distribution of 100.0% of the Cash Consideration), and which may be declared to Shareholders by the Company arising from its receipt of the Cash Consideration (the "**Wu Renunciation**"); 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 of the Proposed Disposal (including the Wu Family's recourse against the Company for assuming the aforesaid debts and liabilities), which amount is approximately RMB64,528,000 in aggregate as at the Latest Practicable Date (the "**Wu Waivers**").

Shareholders should note that the Consideration is an approximate figure as the actual aggregate amount is subject to the percentage of the Proposed Distribution, which contemplates a distribution of at least 80.0% of the Cash Consideration in the form of dividends or return of capital by the Company to the Shareholders (save for the Wu Family). As at the Latest Practicable Date, the Consideration ranges from RMB99,920,000 (assuming a distribution of 80.0% of the Cash Consideration), and RMB101,768,000 (assuming a distribution of 100.0% of the Cash Consideration). The Company intends to distribute 80.0% of the Cash Consideration as it has a zero cash balance, and requires cash for the purposes of transaction expenses and working capital. As such, all values in this Letter to Shareholders have been calculated on the basis that the amount under the Wu Waivers will remain constant at completion of the Proposed Disposal, and that Shareholders (save for the Wu Family) will receive 80.0% of the Cash Consideration in the form of dividends or return of capital by the Company pursuant to the Proposed Distribution.

As at the Latest Practicable Date, the Cash Consideration has been received by a Singapore law firm and placed in an escrow account.

2.4.1 <u>The Wu Renunciation</u>

Subject to the Proposed Distribution taking effect, and on the basis that 80.0% of the Cash Consideration will be declared and distributed in the form of dividends or return of capital by the Company to the Shareholders, the Wu Family would have been entitled to approximately RMB7,392,000, being their share of the dividends declared to Shareholders by the Company arising from its receipt of the Cash Consideration.

However, through the Wu Renunciation, which involves the Wu Family's renunciation of rights to such dividends, Shareholders (save for the Wu Family) may receive an additional amount of approximately RMB7,392,000. The renunciation of the Wu Family's rights to the

aforementioned dividends, when treated as partial settlement of the Consideration, eliminates the to and fro of cash flows between the Wu Family and the Company, and is not deemed to be double counting to the aggregate Consideration.

2.4.2 The Wu Waivers

Each of the Wu Family has executed irrevocable and unconditional deeds of undertaking in respect of the Wu Waivers. The Wu Waivers mainly comprise:

(a) employment remuneration owing to Denis Wu and Wu Rongguang;

(b) payments made or borne by Denis Wu and Wu Rongguang, on behalf of the Company to professionals for fees incurred in connection with the independent investigation carried out in 2011 and the Company's trading resumption proposal; and

(c) payments made or borne by Denis Wu and Wu Rongguang on behalf of the Company for other expenses, including but not limited to fees payable to the SGX-ST, CDP, company secretary and the Bermuda Registrar of Companies.

Although there are currently no circumstances which the Company foresees rendering all or any part of the Wu Waivers being deemed ineffective or invalid for any reason whatsoever, however, in the highly unlikely event of such a circumstance, or if the amount of the Wu Waivers is less than the amount stated in Paragraph 2.4(c), the Purchaser shall not be required to top up any such payment and the Consideration shall be reduced to exclude such amount. The Company will also not be required to repay any amounts owing under the Wu Waivers in the highly unlikely event of such a circumstance. This was a commercial term that was agreed by the Company and the Purchaser on an arm's length basis and is a generally accepted commercial arrangement between vendors and purchasers under such circumstances. Shareholders should note that the Wu Waivers and the Intercompany Loan Waiver are commercial terms that are not conditional upon each other.

As at the Latest Practicable Date, the amount of all monies owing to the Wu Family under the Wu Waivers is approximately RMB64,528,000 in aggregate, and the Company does not foresee the amount fluctuating at completion of the Proposed Disposal as the monies owing are interest-free debts and liabilities.

Notwithstanding the terms and conditions of the Proposed Disposal (including but not limited to the Wu Waivers and the Intercompany Loan Waiver), the Consideration represents the best price that the Directors have been able to negotiate.

2.5. **The Valuer's Valuation of the Target Group**

The Audit Committee had commissioned the Valuer to undertake an independent valuation on the market value of the Target Group, which comprises a valuation of the entire equity interest of the Target Company as well as selected assets (including the Real Property, machine and equipment and intellectual property) belonging to the Target Company as at 30 June 2017. The Valuer's representatives are accredited by the RICS, and the Valuer had prepared the Summary Valuation Report and the Valuation Report in accordance with the International Valuation Standards (2013 Edition) issued by the International Valuation Standard Council, and the RICS Valuation – Professional Standards published by the RICS. Please refer to Exhibit 4 of the Summary Valuation Report for further details on the Valuer's credentials.

The Valuer adopted the income approach in determining the valuation of the Target Group. Based on the Summary Valuation Report and the Valuation Report prepared by the Valuer, the reasonable market value of the Target Group as at 30 June 2017, ranges from RMB0 (in the base case scenario on an as-is basis) (the "**Base Case Scenario Valuation**") to RMB235,000,000 (in the optimistic case scenario) (the "**Optimistic Case Scenario Valuation**").

The Valuer also conducted an analysis of the adjusted net asset value of the Target Group, which ranges from approximately RMB614,000,000 to RMB664,000,000, after taking into consideration the value of the trade mark owned by the Target Group. However, the Valuer is of the view that the adjusted net asset value would not be a good measurement of the value of the Target Group as a going concern, given that no rational investor would invest such an amount for similar assets in view of the challenging operating environment, as it would not create sufficient return on the investment. The Valuer opined that the adjusted net asset value would only serve as a good indicator of the amount of investment required to recreate the Target Group. Further, the adjusted net asset value does not represent a realisable value at a point in time as the assets and liabilities under the balance sheet would need to be liquidated (with the consent of the respective legal representatives) in an orderly manner over a period of time for the value to be realised.

2.5.1 The Base Case Scenario

The Valuer arrived at the Base Case Scenario Valuation, being RMB0 (in the base case scenario on an as-is basis), on the assumption that the Target Group will continue operating the existing business, and after taking into account the current situation of the Target Group, where business continues to suffer due to a few key factors, which include:

(a) weak or non-existent revenue growth;

(b) low gross profit margin;

(c) underutilisation of its operating assets;

(d) expected operating losses in the near future; and

(e) inadequate cash to finance the business operations.

Although the Valuer had attributed a value of approximately RMB343,301,500 (as at 30 June 2017) to the Real Property as part of its analysis of the Target Group's assets on a stand-alone basis, the Valuer is of the view that the value of the Real Property is not realisable, given that the Target Group requires the Real Property to conduct its business operations, and the Target Group has no intention of disposing of the Real Property and relocating its manufacturing facilities.

In view of the foregoing, the Valuer expects operating losses and negative cash flows to continue in the near future, thus destroying the value of the Target Group for its shareholders as the Target Group continues to operate. Additionally, given the Target Group's low cash holdings, the Valuer does not expect business operations to be financially viable unless a restructuring exercise is undertaken to enhance the liquidity of the Target Group's business.

2.5.2 The Optimistic Case Scenario

The optimistic case scenario envisages a scenario where the Target Group's business is able to organically and incrementally over a period of five (5) years, improve its gross profit margin to 29.0%, and reduce its operating expenses as a percentage to 21.0% (the "**Optimistic Case Scenario**").

The Valuer arrived at the Optimistic Case Scenario Valuation, RMB235,000,000 (in the Optimistic Case Scenario), based on a cash flow analysis of the future cash that can be realised from operating the business under the Optimistic Case Scenario. The Optimistic Case Scenario, while reasonable, is dependent on the business environment the Target Group faces in the near future, and its ability and/or plans to realise the assumptions.

The Valuer was appointed to ascribe a value to the Target Group in its existing state as a going concern. Athough the Valuer had attributed a value of approximately RMB343,301,500 (as at 30 June 2017) to the Real Property, the Optimistic Case Scenario Valuation is lower than the value of the Real Property for the reason that the value of the Real Property is not

realisable, given that the Target Group requires the Real Property to conduct its business operations, and the Target Group has no intention of disposing of the Real Property and relocating its manufacturing facilities.

The Valuer is of the view that it would be fair to evaluate the market value of the Target Company against the Consideration, as the Proposed Disposal contemplates the disposal of the equity interest in the Target Company as an operating company, and not specifically for its assets and liabilities. As such, the Valuer's position is that it would be more appropriate to adopt the income approach to analyse the cashflows that could be derived from the business in determining the value of the equity interest of the Target Company.

Please refer to the Summary Valuation Report for further information on the valuation of the market value of the Target Group, the Valuer's basis for adopting the income approach in determining the valuation of the Target Group, and the factors the Valuer took into account in arriving at the reasonable market value of the Target Group. A copy of the Summary Valuation Report is reproduced and appended as Appendix C to this Circular.

2.6. **Salient Terms of the Proposed Disposal**

2.6.1 Conditions Precedent

Pursuant to the SPA Documents, 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:

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

(i) the Proposed Disposal;

(ii) 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**").

In the event that any of the Conditions Precedent is not fulfilled by the Longstop Date, the SPA Documents shall lapse and cease to have further effect.

2.6.2 Completion

Completion of the Proposed Disposal shall 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.

2.6.3 Intercompany Loan Waiver

The Company has undertaken to waive in its entirety, the Intercompany Loan upon completion of the Proposed Disposal, and shall further waive all rights of recourse against the Target Company in respect of the Intercompany Loan (the "**Intercompany Loan Waiver**").

The Intercompany Loan mainly comprises proceeds that were raised from:

(a) the Company's initial public offering in 2005;

(b) the Company's issue of redeemable non-cumulative convertible preference shares in 2006; and

(c) the Company's issue of new Shares by way of placement in 2007,

the bulk of which were injected into the Target Company for the expansion of the Group's operations.

The Intercompany Loan Waiver is intended to facilitate the Proposed Disposal, as the Proposed Disposal will not be commercially viable (given that the Target Company will be saddled with a high net liability position) and will not proceed if the Intercompany Loan is not waived and has to be repaid. The Company also viewed the Intercompany Loan as an investment in its subsidiaries and the Intercompany Loan Waiver recognises the losses incurred by its subsidiaries. The Target Group will recognise a significant gain arising from the Intercompany Loan Waiver, and the adjusted net asset value of the Target Group will amount to RMB470,735,000 as at 30 June 2017.

The waiver by the Company of the Intercompany Loan in its entirety was a commercial term stipulated by the Purchaser as a required term of the Proposed Disposal. As the Target Group is wholly-owned by the Company and the entire business operations of the Group are carried out through the Target Group, the injection of the Intercompany Loan into the Target Company for the expansion of the Group's operations, and the waiver of the same by the Company are generally accepted commercial arrangements under such circumstances.

2.7. **Rationale for the Proposed Disposal**

Based on the Group 3Q2017 Results, the Group's losses before tax amounted to approximately RMB160,460,000 for the nine (9) months ended 30 September 2017. Revenue decreased by RMB47.8 million or 18.4% from RMB260.4 million for the quarter ended 30 September 2016 to RMB212.6 million for the third quarter period ended 30 September 2017. The decrease was mainly due to decreased orders for sports footwear. In view of the downturn of the Chinese economy, the Group expects that the Target Group will continue to face challenges as market conditions are expected to remain highly competitive in the next 12 months. The Proposed Disposal would allow the Group to dispose of all its assets and businesses, and distribute a substantial part of the net proceeds by way of the Proposed Capital Reorganisation.

The Shares have been suspended from trading since February 2011, and the Company had been corresponding with the SGX-ST between 27 February 2012 and 29 August 2014 on its proposal to resume trading. Although the SGX-ST had on 22 July 2013 granted a conditional approval of the Company's trading resumption proposal, the Board was subsequently informed by the management of the PRC subsidiaries that due to challenging economic conditions, the PRC subsidiaries did not have, *inter alia*, sufficient financial resources to fulfil the conditions for the resumption of trading. As such, the Company was unable to satisfy all the conditions set out therein and had on 29 August 2014 announced that it was not in a position to, and would not be proceeding with the trading resumption proposal. The Company has thus far been unable to lift the trading suspension based on any proposal stemming from its current business.

On 31 October 2014 and 31 December 2014, the Company announced that a potential offeror was considering making an offer in relation to a possible delisting of the Company from the SGX-ST, and that professional parties had been appointed in respect of the potential offer. However, the Company announced on 3 May 2017 that it was unlikely that the potential offer would materialise. Although the potential offeror was a related party, the potential offeror did not, despite the Directors' request, disclose its reasons for deciding not to proceed with the potential offer. As such, the Directors believe that the Proposed Disposal would provide Shareholders with the opportunity to extract some value from the Company's existing businesses and assets.

Notwithstanding the terms and conditions of the Proposed Disposal (including but not limited to the Wu Waivers and the Intercompany Loan Waiver), the Consideration represents the best price that the Directors have been able to negotiate. In addition, the current laws of the PRC provide that the approval of the legal representative of the PRC subsidiaries, being Denis Wu or his nominee (as the case may be), is required in respect of any sale. It should also be noted that the business of the Target Group is a family business founded by the Wu Family, and the Wu Family continues to manage the business operations of the Target Group in the PRC. As far as the Directors are aware, the Wu Family currently have no intention to relinquish control of the business of the Target Group.

As such and in view of the foregoing inherent limitations as well as the fact that the Purchaser is the only current prospective purchaser, the Directors believe that it is highly unlikely that another person would make an offer for the Company's businesses and assets.

While the Proposed Disposal 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 businesses 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 realise a value 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 would facilitate a resumption of trading proposal.

2.8. **Asset Value, Net Loss, and Estimated Loss of the Proposed Disposal to the Target Group**

2.8.1 Asset Value

There is no open market value for the Target Group as the shares of the Target Group are not publicly traded. Based on the Group 3Q2017 Results, the book value and the net tangible asset value of the Target Group were approximately RMB376,516,000 and RMB376,516,000 respectively.

The deficit of the Consideration over the book value of the Target Group as at 30 September 2017 is approximately RMB276,516,000.

2.8.2 Net Loss

The net loss before tax attributable to the Target Group for the nine (9) months ended 30 September 2017, based on the Group 3Q2017 Results is approximately RMB157,772,000. The losses were mainly attributable to competitive market conditions which led to higher operating expenses and lower profit margins.

2.8.3 Loss on the Proposed Disposal

The estimated loss on the Proposed Disposal is approximately RMB276,516,000 based on the Consideration, and the book value of the Target Group as of 30 September 2017. There is also a loss of RMB3,008,672,000 being the Intercompany Loan Waiver and this has been recognised on the Company level.

3. THE PROPOSED DISPOSAL AS A MAJOR TRANSACTION

Based on the Group 3Q2017 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	122.1[(1)]
(b)	The net profits/(losses) attributable to the assets disposed of, compared with the Group's net profits	98.3[(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 of approximately RMB376,516,000 is based on the Group 3Q2017 Results. The Group's net asset value of approximately RMB308,238,000 is based on the Group 3Q2017 Results.

(2) Net profits/losses is defined as profit/loss before tax. The net loss attributable to the Target Group based on the Group 3Q2017 Results is approximately RMB157,772,000. The Group's net loss before tax based on the Group 3Q2017 Results is approximately RMB160,460,000.

(3) The market capitalisation of the Company of S$322,000,000 is determined by multiplying the total number of 2,800,000,000 Shares (excluding treasury shares) in issue as at 30 September 2017, with the price of S$0.115 per Share last transacted on the SGX-ST on 22 February 2011 prior to the Company's trading suspension.

(4) Rule 1006(d) of the Listing Manual is not applicable as 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 20.0%, the transaction is classified as a "major transaction" and must be made conditional upon approval by 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 20.0%, the Proposed Disposal is classified as a "major transaction" for the purpose of Chapter 10 of the Listing Manual which requires Shareholders' approval.

4. THE PROPOSED DISPOSAL AS AN INTERESTED PERSON TRANSACTION

As stated in Paragraph 2.3 of this Letter to Shareholders, the Purchaser is regarded as an "interested person" for the purpose of Chapter 9 of the Listing Manual. Accordingly, the Proposed Disposal constitutes an "interested person transaction".

The latest unaudited consolidated NTA of the Group as at 30 September 2017 is RMB308,238,000. The Consideration represents 32.4% of the latest unaudited consolidated NTA of the Group. As the value exceeds 5.0% of the Group's latest unaudited NTA, the Proposed Disposal is subject to the approval of Shareholders (the Wu Family to abstain from voting on the Proposed Disposal in respect of their respective shareholdings in the Company) at the SGM pursuant to Rule 906 of the Listing Manual.

Save for the Proposed Disposal, there are no other interested person transactions entered into by the Group, or between the Group and the Wu Family and/or their respective Associates for the current financial year of the Company up to the Latest Practicable Date, which are required to be disclosed under Chapter 9 of the Listing Manual.

5. THE PROPOSED BYE-LAW AMENDMENT AND THE PROPOSED CAPITAL REORGANISATION

5.1. The Proposed Bye-law Amendment

The Company is proposing to undertake the Proposed Bye-law Amendment to reflect the simplified solvency test relating to the payment of dividends and other distributions under the current laws of Bermuda. The Company is required to undertake the Proposed Bye-law Amendment in order to effect the Proposed Distribution, which shall be carried out by way of the Proposed Capital Reorganisation. As such, the Proposed Capital Reorganisation and consequently the Proposed Distribution, are subject to and contingent upon Shareholders' approval of the Proposed Bye-law Amendment by way of a Special Resolution being passed at the SGM.

5.1.1 The Existing Bye-law 138

The existing Bye-law 138 of the Bye-laws states that "*No dividend shall be paid or distribution made if to do so would render the Company unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than the aggregate of its liabilities and its issued share capital and share premium accounts*."

The Company would not be able to carry out the Proposed Capital Reorganisation based on the requirements of the existing Bye-law 138 of the Bye-laws.

5.1.2 The Proposed Amendment to Bye-law 138

The existing Bye-law 138 of the Bye-laws is proposed to be deleted in its entirety and the following is proposed to be substituted therefor: "*No dividend shall be paid or distribution made if to do so would render the Company unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than its liabilities*." (the "**Proposed Bye-law Amendment**").

The Proposed Bye-law Amendment reflects the position under the current laws of Bermuda following amendments made to the Bermuda Companies Act pursuant to the Companies Amendment (No. 2) Act 2011 of Bermuda, which revised the statutory solvency test set out in Section 54 of the Bermuda Companies Act (and which is intended to be reflected in Bye-law 138 of the Bye-laws).

The first branch of the solvency test under Section 54 of the Bermuda Companies Act is the cash flow test and the second branch is the balance sheet test. Previously, the balance sheet test was measured with reference to the difference between the realisable value of a company's assets and the aggregate of its liabilities and its issued share capital and share premium accounts.

Following the introduction of the Companies Amendment (No. 2) Act 2011 of Bermuda, the appropriate measure is now between the realisable value of the company's assets and its liabilities, and there is no longer any reference to the company's issued share capital and share premium accounts.

5.2. **Salient Terms of the Proposed Capital Reorganisation**

The Company intends to carry out the Proposed Distribution through the Proposed Capital Reorganisation, which involves:

(a) a reduction of the share premium account of the Company from RMB2,978,708,000 (equivalent to approximately S$595,741,600) to RMB2,956,308,000 (equivalent to approximately S$591,261,600), by cancelling the sum of RMB22,400,000 (equivalent to approximately S$4,480,000) standing to the credit of the Company's share premium account as at 30 September 2017 (the "**Share Premium Reduction**"); and

(b) subject to the Share Premium Reduction taking effect and the resulting credit of RMB22,400,000 (equivalent to approximately S$4,480,000) being transferred to the contributed surplus account of the Company, the distribution of the Cash Distribution Sum from the balance of the contributed surplus account of the Company to the Shareholders (save for the Wu Family) (the "**Proposed Cash Distribution**").

The Proposed Capital Reorganisation will not result in a cancellation of Shares, or a change in the number of Shares issued by the Company immediately after the Proposed Capital Reorganisation.

5.3. **The Share Premium Reduction and the Proposed Cash Distribution**

As at 30 September 2017, the retained earnings in the balance sheet of the Company were RMB79,770,000. After granting the Intercompany Loan Waiver, the accumulated loss of the Company is expected to be RMB2,928,902,000. As the Company will not have sufficient distributable reserves for the purpose of the Proposed Distribution, the Company is required to reduce its share premium in order to effect the Proposed Distribution.

Section 46(2)(b) of the Bermuda Companies Act in respect of share capital reduction provides that no company shall reduce the amount of its share capital if, on the date the reduction is to be effected, there are reasonable grounds for believing that the company is, or after the reduction would be, unable to pay its liabilities as they become due. Bye-law 6 of the Bye-laws provides that the Company may by Special Resolution, subject to any confirmation or consent required by law, reduce its authorised or issued share capital or any share premium account or other undistributable reserve in any manner permitted by law.

Subject to the approval of Shareholders being obtained for the adoption of the new Bye-law 138 of the Bye-laws, the Company can only pay dividends or make distributions to Shareholders if the Company is able to pay its liabilities as they become due and the realisable value of its assets would not thereby become less than its liabilities.

As such, the Company intends to engage in the Proposed Capital Reorganisation in order to carry out the Proposed Distribution, which will result in a reduction of its share capital by cancelling RMB22,400,000 (equivalent to approximately S$4,480,000) standing to the credit of its share premium account, transferring the credit arising from such reduction to the Company's contributed surplus account, and returning such capital to the Shareholders (save for the Wu Family) by way of a cash distribution out of the Company's contributed surplus account. As at 30 September 2017, the share premium account of the Company amounted to RMB2,978,708,000.

Pursuant to the Proposed Cash Distribution, the Company intends to distribute the sum of approximately S$4,480,000 (the "**Cash Distribution Sum**") to the Shareholders, amounting to a distribution of approximately S$0.0016 per Share. As stated in Paragraph 2.4(b) of this Letter to Shareholders, each member of the Wu Family has given an undertaking to the Company to renounce their rights to receive any dividends from the Cash Distribution Sum, which in aggregate amounts to approximately 33.0% of the Cash Distribution Sum. In accordance with the Proposed Distribution, the Wu Family will not receive any dividends from the Proposed Cash Distribution. The dividends that the Wu Family would have been entitled to receive if not for their renunciation of the same, will be redistributed on a *pro rata* basis to the other Shareholders.

5.4. **Conditions for the Proposed Capital Reorganisation**

The implementation of the Proposed Capital Reorganisation is subject to, *inter alia*, the following:

(a) the approval of Shareholders for the Proposed Capital Reorganisation by way of a Special Resolution being passed at the SGM; and

(b) compliance with relevant legal procedures and requirements under Bermuda law and Singapore law (where applicable) to effect the Proposed Capital Reorganisation, including but not limited to the following:

(i) the publication of the Newspaper Notice;

(ii) the filing of a certified true copy of the Special Resolution approving the Share Premium Reduction, a memorandum of reduction of share capital stating that Section 46 of the Bermuda Companies Act has been duly complied with, and a copy of the Newspaper Notice, with the Bermuda Registrar of Companies within 30 days of the Effective Date; and

(iii) the receipt of all necessary approvals (if any) from the regulatory authorities, as may be required in respect of the Proposed Capital Reorganisation.

5.5. **Effective Date**

After the approval of Shareholders for the Proposed Capital Reorganisation has been obtained by way of a Special Resolution being passed at the SGM, an announcement will be issued by the Company to confirm the Effective Date.

5.6. **Books Closure Date**

Shareholders (save for the Wu Family) who are registered in the Register of Members and Depositors whose Securities Accounts are credited with Shares as at the Books Closure Date will be entitled to the Proposed Cash Distribution, based on the number of Shares held as at the Books Closure Date.

The Company will announce the Books Closure Date as soon as practicable after the SGM.

5.7. **Payment of Cash Distribution Sum**

Payment of the Cash Distribution Sum pursuant to the Proposed Cash Distribution will be made to the Shareholders (save for the Wu Family) in the following manner:

(a) Shareholders holding Scrip Shares

Shareholders whose Shares are registered in the Register of Members as at the Books Closure Date will have the cheques for payment of their entitlements to the Cash Distribution Sum under the Proposed Cash Distribution despatched to them by ordinary post at their own risk addressed to their respective addresses in the Register of Members on the Books Closure Date on a date to be announced as soon as practicable after the SGM (the "**Expected Payment Date**"). The Company shall not be liable for any loss in transmission.

(b) Depositors holding Scripless Shares

Depositors who have Shares standing to the credit of their Securities Accounts as at the Books Closure Date will have the cheques for payment of their respective entitlements to the Cash Distribution Sum under the Proposed Cash Distribution despatched to them by CDP by ordinary post at their own risk, tentatively, on the Expected Payment Date. Neither the Company nor CDP shall be responsible or liable for any loss in transmission. Alternatively, such Depositors will have payment of their respective entitlements to the Cash Distribution

Sum under the Proposed Cash Distribution made in such other manner as they may have agreed with CDP for the payment of dividends or other distributions, tentatively, on the Expected Payment Date.

6. FINANCIAL EFFECTS OF THE PROPOSED DISPOSAL

6.1. Cautionary Note in respect of the Financial Effects of the Proposed Disposal and the Financial Effects of the Proposed Capital Reorganisation

The Company wishes to highlight to Shareholders that the financial information in Paragraphs 6 and 7 of this Letter to Shareholders:

(a) includes financial information provided by the Company's subsidiaries in the PRC, namely, Fujian Hongxing Erke Sports Goods Co. Ltd. (福建鸿星尔克体育用品有限公司), Quanzhou Hongrong Light Industry Co. Ltd. (泉州鸿荣轻工有限公司) and Xiamen Hongxing Erke Apparel Co., Ltd. (厦门时荣服饰有限公司);

(b) is subject to the background and limitations relating to the preparation of:

(i) the Company's consolidated statements of financial position as at 30 September 2017 and as at 31 December 2016; and

(ii) the Company's consolidated statements of comprehensive income for the quarter ended 30 September 2017, the quarter ended 30 September 2016, the nine (9) months ended 30 September 2017 and the nine (9) months ended 30 September 2016,

details of which are set out in the Group 3Q2017 Results released by the Company on SGXNET on 1 November 2017, and a copy of which is available for inspection by Shareholders in accordance with Paragraph 19 of this Letter to Shareholders; and

(c) has not been reviewed or audited by the Company's external auditors.

6.2. Financial Effects of the Proposed Disposal on NTA, EPS and Gearing

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 of the Proposed Disposal.

The *pro forma* financial effects of the Proposed Disposal on the NTA per Share, EPS and gearing of the Group have been prepared based on the Group 3Q2017 Results, and are subject to the following assumptions:

(a) the distribution of 80.0% of the Cash Consideration in the form of dividends or return of capital by the Company to the Shareholders (save for the Wu Family);

(b) the financial effect on the consolidated NTA per Share was computed based on the assumption that the Proposed Disposal had been completed on 30 September 2017;

(c) the financial effect on the consolidated EPS of the Group was computed based on assumption that the Proposed Disposal had been completed on 1 January 2017;

(d) the financial effect on the gearing of the Group was computed based on the assumption that the Proposed Disposal had been completed on 30 September 2017; and

(e) the estimated transaction expenses of approximately S$200,000.

NTA

For illustrative purposes only, the *pro forma* financial effects of the Proposed Disposal on the Group's NTA per Share, assuming that the Proposed Disposal had been completed on 30 September 2017, are set out below:

	Before the Proposed Disposal	After the Proposed Disposal
NTA[(1)] of the Group (RMB'000)	308,238	23,250
Number of Shares[(2)]	2,800,000,000	2,800,000,000
NTA per Share (RMB cents)	11.01	0.83

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) in issue as at 30 September 2017.

EPS

For illustrative purposes only, the *pro forma* financial effects of the Proposed Disposal on the consolidated EPS of the Group, assuming that the Proposed Disposal had been completed on 1 January 2017, are set out below:

	Before the Proposed Disposal	After the Proposed Disposal
Profits/(Loss) attributable to Shareholders (RMB'000)[(1)]	(167,036)	(280,204)
Number of Shares[(2)]	2,800,000,000	2,800,000,000
Earnings/(Loss) per Share (RMB cents)[(3)]	(5.97)	(10.01)

Notes:

(1) The loss attributed to Shareholders is calculated on the basis that the Consideration represents an aggregate value of RMB100,000,000.

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

(3) The loss per Share was calculated based on the unaudited loss attributable to Shareholders divided by 2,800,000,000 Shares (excluding treasury shares).

Gearing

For illustrative purposes only, the *pro forma* financial effects of the Proposed Disposal on the gearing of the Group, assuming that the Proposed Disposal had been completed on 30 September 2017, are set out below:

	Before the Proposed Disposal	After the Proposed Disposal
Total liabilities of the Company (RMB'000) [(1)]	803,571	3,750
Shareholders' funds (RMB'000)	308,238	23,250
Gearing [(2)]	2.61	0.16

Notes:

(1) The remaining liabilities of the Company comprise accrued Directors' fees.

(2) Gearing is computed based on the formula (total liabilities divided by Shareholders' funds).

7. FINANCIAL EFFECTS OF THE PROPOSED CAPITAL REORGANISATION

The *pro forma* financial effects of the Proposed Capital Reorganisation on the share capital, Shareholders' funds and reserves, NTA, EPS and gearing of the Company 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 had the Proposed Capital Reorganisation taken place. **The illustrated financial effects are calculated on the assumption that the Proposed Disposal had been completed.**

7.1. Financial Effects of the Proposed Capital Reorganisation on Share Capital

For illustrative purposes only, assuming completion of the Proposed Disposal, the *pro forma* financial effects of the Proposed Capital Reorganisation on the share capital of the Company as at the Latest Practicable Date are set out below:

	Before the Proposed Capital Reorganisation	**After the Proposed Capital Reorganisation**
Authorised share capital		
Number of Shares ('000)	5,000,000	5,000,000
Par value (HK$)	0.02	0.02
Total (HK$'000)	100,000	100,000
Issued and paid-up share capital		
Number of Shares ('000)	2,800,000	2,800,000
Par value (HK$)	0.02	0.02
Total (HK$)	56,000	56,000

7.2. Financial Effects of the Proposed Capital Reorganisation on Shareholders' Funds and Reserves

For illustrative purposes only, assuming completion of the Proposed Disposal, the *pro forma* financial effects of the Proposed Capital Reorganisation on Shareholders' funds and reserves of the Company before and after the Proposed Capital Reorganisation (based on the Group 3Q2017 Results) are set out below:

	Before the Proposed Capital Reorganisation (RMB'000)	After the Proposed Capital Reorganisation (RMB'000)
Share capital	56,595	56,595
Share premium	2,978,708	2,956,308
Foreign currency translation reserve	43,125	43,125
Other reserve	(7,472)	(7,472)
Contributed surplus	31,494	31,494
Retained earnings / (accumulated losses)	(3,079,200)	(3,079,200)
Shareholders' funds	23,250	850

7.3. **Financial Effects of the Proposed Capital Reorganisation on NTA, EPS and Gearing**

The *pro forma* financial effects of the Proposed Capital Reorganisation 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 of the Proposed Capital Reorganisation.

The *pro forma* financial effects of the Proposed Capital Reorganisation on the NTA per Share, EPS and gearing of the Group have been prepared based on the Group 3Q2017 Results, and are subject to the following assumptions:

(a) the financial effect on the consolidated NTA per Share was computed based on the assumption that the Proposed Capital Reorganisation had been completed on 30 September 2017;

(b) the financial effect on the consolidated EPS of the Group was computed based on assumption that the Proposed Capital Reorganisation had been completed on 1 January 2017;

(c) the financial effect on the gearing of the Group was computed based on the assumption that the Proposed Capital Reorganisation had been completed on 30 September 2017;

(d) the estimated transaction expenses of approximately S$200,000; and

(e) completion of the Proposed Disposal.

NTA

For illustrative purposes only, the *pro forma* financial effects of the Proposed Capital Reorganisation on the Group's NTA per Share, assuming that the Proposed Capital Reorganisation had been completed on 30 September 2017, are set out below:

	Before the Proposed Capital Reorganisation	After the Proposed Capital Reorganisation
NTA of the Group (RMB'000)	23,250	850
Number of Shares[(1)]	2,800,000,000	2,800,000,000
NTA per Share (RMB cents)	0.83	0.03

Note:

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

EPS

For illustrative purposes only, the *pro forma* financial effects of the Proposed Capital Reorganisation on the consolidated EPS of the Group, assuming that the Proposed Capital Reorganisation had been completed on 1 January 2017, are set out below:

	Before the Proposed Capital Reorganisation	After the Proposed Capital Reorganisation
Profits/(Loss) attributable to Shareholders (RMB'000)	(280,204)	(280,204)
Number of Shares[(1)]	2,800,000,000	2,800,000,000
Earnings/(Loss) per Share (RMB cents)[(2)]	(10.01)	(10.01)

Notes:

(1) Based upon a total number of 2,800,000,000 Shares (excluding treasury shares) in issue as at 30 September 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).

Gearing

For illustrative purposes only, the *pro forma* financial effects of the Proposed Capital Reorganisation on the gearing of the Group, assuming that the Proposed Capital Reorganisation had been completed on 30 September 2017, are set out below:

	Before the Proposed Capital Reorganisation	After the Proposed Capital Reorganisation
Total liabilities of the Company (RMB'000) [(1)]	3,750	3,750
Shareholders' funds (RMB'000)	23,250	850
Gearing [(2)]	0.16	4.41

Notes:

(1) The remaining liabilities of the Company comprise accrued Directors' fees.

(2) Gearing is computed based on the formula (total liabilities divided by Shareholders' funds).

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

8.1. Cash Company

Upon completion of the Proposed Disposal, the Company will cease to have any operating business and will be deemed to be a cash company under Rule 1018 of the Listing Manual.

8.2. Rule 1018 of the Listing Manual

Shareholders are to note that under Rule 1018 of the Listing Manual, 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. Upon completion of the disposal of its operations and/or assets, the issuer must:

(a) place 90.0% of its cash and short-dated securities (including existing cash balance and the consideration arising from the disposal(s) undertaken by the issuer) in an account opened with and operated by an escrow agent which is part of any financial institution licensed and approved by the Monetary Authority of Singapore. The amount that is to be placed in the escrow account cannot be drawn down until the completion of the acquisition of a business which is able to satisfy the SGX-ST's requirements for a new listing, except for payment of expenses incurred in a reverse takeover approved by shareholders and *pro rata* distributions to shareholders; and

(b) provide monthly valuation of its assets and utilisation of cash, and quarterly updates of milestones in obtaining a new business to the market via SGXNET.

Taking the above compliance into account, the SGX-ST may allow continued trading in a cash company's securities on a case-by-case basis, subject to:

(c) contractual undertakings from the issuer's directors, Controlling Shareholders, chief executive officer and their Associates to observe a moratorium on the transfer or disposal of all their interests, direct and indirect, in the securities of the issuer; and

(d) the period of the moratorium must commence from the date shareholders approve the disposal of business, up to and including the completion date of the acquisition of a business which is able to satisfy the SGX-ST's requirements for a new listing.

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. The issuer may apply to the SGX-ST for a maximum 6-month extension to the 12-month period if it has already signed a definitive agreement for the acquisition of a new business, of which the acquisition must be completed in the 6-month extension period. The extension is subject to the issuer providing information to investors on its progress in meeting key milestones in the transaction. In the event the issuer is unable to meet its milestones or complete the relevant acquisition despite the time extension granted, no further extension will be granted and the issuer will be removed from the Official List and a cash exit offer in accordance with Rule 1309 of the Listing Manual should be made to the issuers' shareholders within six (6) months.

8.3. The Company's Compliance With Rule 1018 of the Listing Manual

As at the Latest Practicable Date:

(a) the Company has no cash and short-dated securities;

(b) the amount that is to be placed in the escrow account will amount to approximately S$5,040,000, based on the Cash Consideration of S$5,600,000;

(c) the *pro rata* distributions to Shareholders (save for the Wu Family) to be drawn from the escrow account will amount to approximately S$4,480,000, based on the distribution of 80.0% of the Cash Consideration in the form of dividends by the Company to Shareholders (save for the Wu Family);

(d) the amount that will remain in the escrow account after the *pro rata* distributions to Shareholders (save for the Wu Family) have been drawn out, will amount to approximately S$560,000; and

(e) the Company will have approximately S$560,000 to be utilised for the purposes of transaction expenses and working capital.

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 at the appropriate time.

8.4. **Prospects of the Company**

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

9. INTERESTS OF DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

9.1. **Interests of Directors**

As at the Latest Practicable Date, none of the Directors has any interest, direct or indirect, in the share capital of the Company.

9.2. **Interests of Substantial Shareholders**

As at the Latest Practicable Date, the interests of the Substantial Shareholders, based on information in the register of Substantial Shareholders maintained by the Company are as follows:

Substantial Shareholders	Number of Shares			
	Direct Interest	%[1]	Deemed Interest	%[1]
Wu Rongguang[2]	463,050,000	16.54	–	–
Denis Wu[2]	1,000,000	0.04	229,950,000[3]	8.21
Wu Hanjie[2]	50,025,000	1.79	180,025,000[4]	6.43

Notes:

(1) The percentage is calculated based on a total number of 2,800,000,000 Shares (excluding treasury shares) in issue as at the Latest Practicable Date.

(2) Wu Hanjie is the father of Wu Rongguang and Denis Wu.

(3) Denis Wu is deemed to be interested in the Shares held by his nominee, Morgan Stanley Asia (Singapore) Securities Pte Ltd.

(4) Wu Hanjie is deemed to be interested in the Shares held by his nominees, Morgan Stanley Asia (Singapore) Securities Pte Ltd and UOB Kay Hian Pte Ltd.

9.3. **Interests in the Proposed Disposal**

Each of Wu Rongguang, Denis Wu and Wu Hanjie, by virtue of their respective shareholding interests in the Company, and the Wu Waivers as part of the Consideration, have an interest in the Proposed Disposal.

Additionally, the Purchaser is wholly-owned by Denis Wu. Denis Wu and Wu Hanjie, being immediate family members of Wu Rongguang, a Controlling Shareholder of the Company, are Associates of Wu Rongguang and are regarded as "interested persons" for the purpose of Chapter 9 of the Listing Manual.

Save as disclosed 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.

10. OPINION OF INDEPENDENT FINANCIAL ADVISER

Provenance Capital Pte. Ltd. has been appointed as the independent financial adviser to the Independent Directors to opine on whether the terms of the Proposed Disposal are on normal commercial terms, and are not prejudicial to the interests of the Company and the independent Shareholders.

Taking into consideration the factors set out in the IFA Letter, and subject to the assumptions and qualifications contained therein, including the assumption that the Proposed Distribution is on the basis of 80.0% of the Cash Consideration, the IFA arrived at its opinion, an extract of which is as reproduced below:

> "*In arriving at our opinion in respect of the Proposed Disposal as an Interested Person Transaction, we have reviewed and examined all factors which we consider to be pertinent in our assessment, including the following key considerations:*
>
> *(a) Company's rationale for the Proposed Disposal;*
>
> *(b) Assessment of the financial terms for the Proposed Disposal; and*
>
> *(c) Other relevant considerations which may have a significant bearing on our assessment of the Proposed Disposal.*
>
> *In the above assessment, we have also evaluated extensively in Section 6.2 of this Letter that the Proposed Disposal is on normal commercial terms despite being transacted at a significant loss as compared to the NAV of the Target Group. It is pertinent to note that the Consideration for the Proposed Disposal is not done at below the market valuation as the Valuer had ascribed a market valuation of zero for the Target Group on an "as is" basis, being the Base Case, as detailed in Sections 6.2.2 and 6.2.4 of this Letter.*
>
> ***Hence, overall, based on our analysis and after having considered carefully the information available to us as at the Latest Practicable Date, we are of the view that given the unique circumstances of the Group and the rationale for the Proposed Disposal which have been elaborated in this Letter including Sections 5.3, 5.4, 6.1, 6.2 and 6.3, the Proposed Disposal, as an Interested Person Transaction, is on normal commercial terms and is not prejudicial to the interests of the Company and the Independent Shareholders.***"

A copy of the IFA Letter, containing in full the advice and opinion of the IFA, is reproduced and appended as Appendix B to this Circular. Shareholders are advised to read the IFA Letter carefully before proceeding to vote on the resolution for the Proposed Disposal at the SGM.

11. STATEMENT OF THE AUDIT COMMITTEE

Having reviewed and considered, *inter alia*, the terms, rationale and financial effects of the Proposed Disposal, as well as the advice and opinion of the IFA, the Audit Committee concurs with the opinion of the IFA and is of the view that given the unique circumstances of the Group and the rationale for the Proposed Disposal, the Proposed Disposal, as an interested person transaction, is on normal commercial terms and is not prejudicial to the interests of the Company and the independent Shareholders.

The Audit Committee further recommends any individual Shareholder who may require specific advice to consult his stockbroker, bank manager, solicitor, accountant or other professional adviser and strongly advises Shareholders to read this Circular in its entirety carefully.

12. DIRECTORS' RECOMMENDATION

Having reviewed and considered, *inter alia*, the terms, rationale and financial effects of the Proposed Disposal, the Proposed Bye-law Amendment and the Proposed Capital Reorganisation, as well as the advice and opinion of the IFA, the Independent Directors are of the view that the Proposed Disposal, the Proposed Bye-law Amendment and the Proposed Capital Reorganisation are in the interests of the Company. Accordingly, they recommend that Shareholders vote in favour of the resolutions relating to the Proposed Disposal, the Proposed Bye-law Amendment and the Proposed Capital Reorganisation as set out in the Notice of SGM.

13. NO SERVICE CONTRACTS

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

14. SPECIAL GENERAL MEETING

The SGM will be held on 28 March 2018 at 9.30 a.m. at RELC International Hotel, Auditorium, 30 Orange Grove Road, Singapore 258352, for the purpose of considering and, if thought fit, passing the resolutions set out in the Notice of SGM.

15. ACTION TO BE TAKEN BY SHAREHOLDERS

15.1. The Company is incorporated in Bermuda and operates subject to Bermuda law. Under the Bermuda Companies Act, only those persons whose names are entered on the register of members of a company would have the rights to attend and vote, or to appoint proxies to do so, at general meetings of such company. Accordingly, arrangements have been made whereby CDP appoints Depositors as its proxies to attend and vote at the SGM.

15.2. Shareholders (who are registered holders of Shares other than CDP) and who are unable to attend the SGM and wish to appoint a proxy to attend and vote at the SGM on their behalf will find enclosed with this Circular a Shareholder Proxy Form which they are requested to complete, sign and return in accordance with the instructions printed thereon as soon as possible and in any event so as to arrive at the offices of the Company's Singapore share transfer agent, Boardroom Corporate & Advisory Services Pte. Ltd. at 50 Raffles Place, Singapore Land Tower #32-01, Singapore 048623 not less than 48 hours before the time appointed for the SGM. The completion and return of a Shareholder Proxy Form by such Shareholder does not preclude him from attending and voting in person at the SGM in place of his proxy if he finds that he is able to do so, and in such event, the instrument appointing a proxy shall be deemed to be revoked.

15.3. Depositors whose names are shown in the records of CDP as at a time not earlier than 48 hours before the time appointed for the SGM supplied by CDP to the Company, may attend and vote at the SGM as CDP's proxies. Such Depositors who are individuals and who wish to attend the SGM in person need not take any further action and can attend and vote at the SGM without the lodgement of any proxy form. Such Depositors who are not individuals, and such Depositors who

are individuals and who are unable to attend personally but wish to appoint a nominee to attend and vote on his behalf as CDP's proxy, will find enclosed with this Circular a Depositor Proxy Form which they are requested to complete, sign and return in accordance with the instructions printed thereon as soon as possible and in any event, so as to arrive at the offices of the Company's Singapore share transfer agent, Boardroom Corporate & Advisory Services Pte. Ltd. at 50 Raffles Place, Singapore Land Tower #32-01, Singapore 048623 not less than 48 hours before the time appointed for the SGM. The completion and return of a Depositor Proxy Form by a Depositor who is an individual does not preclude him from attending and voting in person as CDP's proxy at the SGM in place of his nominee if he finds that he is able to do so, and in such event, his appointment of his nominee shall be deemed to be revoked.

16. ABSTENTION FROM VOTING

Each of Wu Rongguang, Denis Wu and Wu Hanjie, whose interests have been set out in Paragraph 9.2, being interested persons of the Company in respect of the Proposed Disposal, have undertaken to abstain and ensure that their respective Associates will abstain, from voting in respect of their shareholdings in the Company and will not accept nominations as proxy or otherwise for voting at the SGM in relation to the Proposed Disposal.

As at the Latest Practicable Date, the Wu Family has an aggregate direct and indirect interest in 924,050,000 Shares, amounting to approximately 33.01% of Shares in issue, and none of the Wu Family has any Associates who hold shareholdings in the Company.

17. DIRECTORS' RESPONSIBILITY STATEMENT

The Directors collectively and individually accept full responsibility for the accuracy of the information given in this Circular and confirm after making all reasonable enquiries that, to the best of their knowledge and belief, this Circular constitutes full and true disclosure of all material facts about the Proposed Disposal, the Proposed Bye-law Amendment, the Proposed Capital Reorganisation, the Company and its subsidiaries, and the Directors are not aware of any facts the omission of which would make any statement in this circular misleading.

Where information in this Circular has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the Directors has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in this Circular in its proper form and context.

18. CONSENTS

The IFA has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its name and the IFA Letter set out in Appendix B to this Circular and all references thereto, in the form and context in which they appear in this Circular.

The Valuer has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its name and the Summary Valuation Report set out in Appendix C to this Circular and all references thereto, in the form and context in which they are included in this Circular.

19. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection by Shareholders at Fortis Law Corporation, 80 Raffles Place, #35-02 UOB Plaza 1, Singapore 048624, during normal business hours for a period of three (3) months from the date of this Circular:

(a) the memorandum of association and the Bye-laws of the Company;

(b) the Group 3Q2017 Results;

(c) the SPA;

(d) the Supplemental Deed;

(e) the 1st Supplemental Letter;

(f) the 2nd Supplemental Letter;

(g) the Summary Valuation Report;

(h) the Valuation Report;

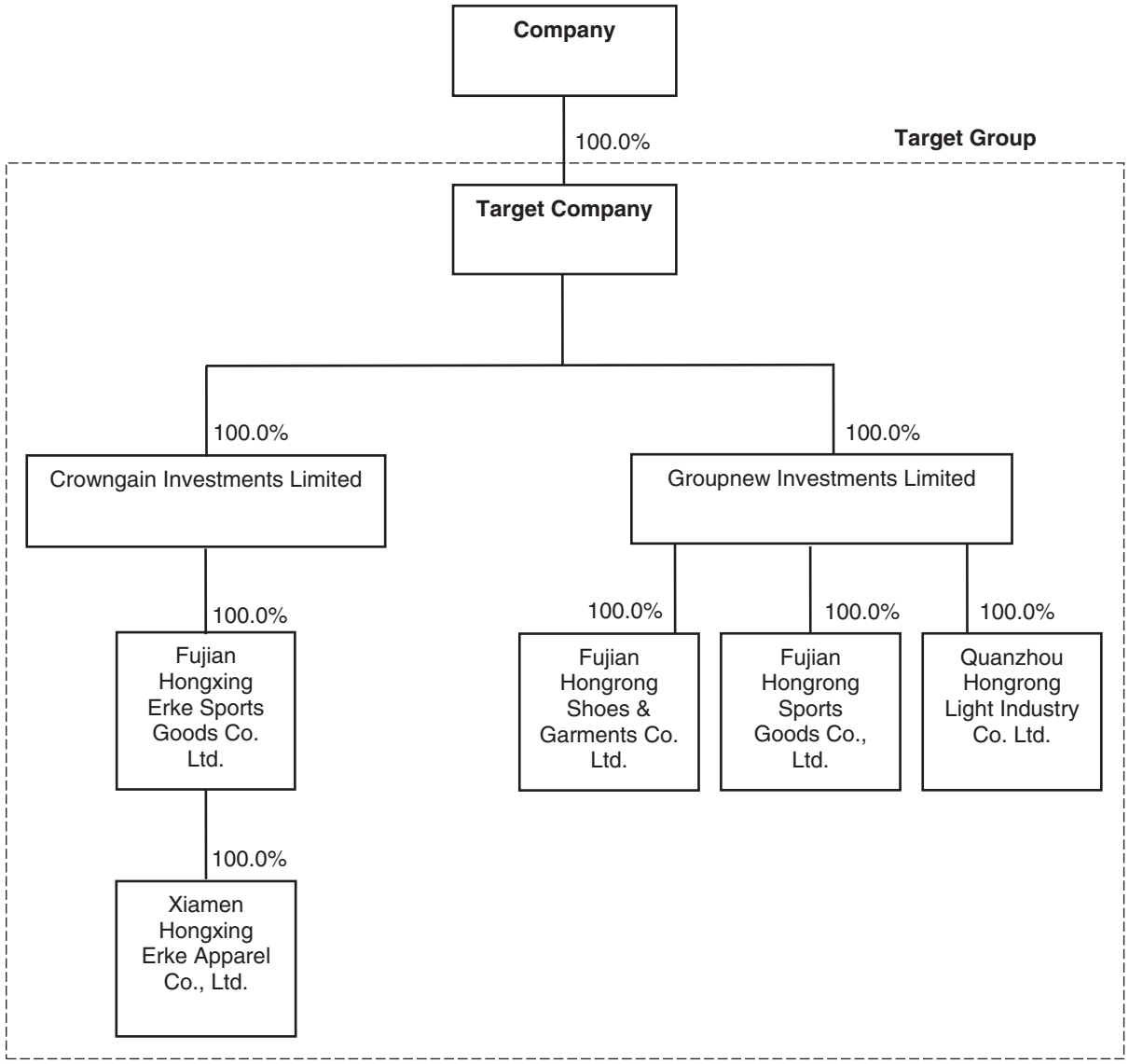
(i) the IFA Letter; and

(j) the letters of consent referred to in Paragraph 18 of this Letter to Shareholders.

Yours faithfully
For and on behalf of the Board
CHINA HONGXING SPORTS LIMITED

Alfred Cheong Keng Chuan
Independent Director

The Group structure as at the Latest Practicable Date is as follows:



The Group structure upon completion of the Proposed Disposal is as follows:



PROVENANCE CAPITAL PTE. LTD.
(Company Registration Number: 200309056E)
(Incorporated in the Republic of Singapore)
96 Robinson Road #13-01 SIF Building
Singapore 068899

2 March 2018

To: The Board of Directors of China Hongxing Sports Limited
(who are all deemed to be independent in respect of the Proposed Disposal as an Interested Person Transaction)

Mr Chan Wai Meng	(Independent Director)
Mr Bernard Tay Ah Kong	(Independent Director)
Mr Alfred Cheong Keng Chuang	(Independent Director)

Dear Sirs,

PROPOSED DISPOSAL OF THE ENTIRE SHARE CAPITAL OF PROFITSTART GROUP LIMITED AS A MAJOR TRANSACTION AND AN INTERESTED PERSON TRANSACTION

*Unless otherwise defined or the context otherwise requires, all terms used herein have the same meanings as defined in the circular to the shareholders of the Company ("**Shareholders**") dated 2 March 2018 ("**Circular**"). For the purpose of our IFA Letter, unless otherwise stated, we have used the foreign exchange rates of S$1 : RMB5, being the Agreed Exchange Rate as defined in the SPA.*

1. INTRODUCTION

1.1 On 21 September 2017 ("**Announcement Date**"), the board of directors ("**Board**" or "**Directors**") of China Hongxing Sports Limited ("**Company**", and together with its subsidiaries, the "**Group**") announced that the Company had, on 20 September 2017, entered into a conditional sale and purchase agreement ("**SPA**") with Jiayao Investments Limited ("**Purchaser**") in relation to the disposal ("**Proposed Disposal**") of 10,000 ordinary shares, representing the entire issued and paid-up capital of Profitstart Group Limited ("**Target Company**", and together with its subsidiaries, the "**Target Group**"), a wholly-owned subsidiary of the Company, for an aggregate consideration of RMB100,000,000 ("**Consideration**") ("**Announcement**").

The Target Group is principally engaged in the design, manufacture and sales of sports shoes, sports apparel and sports accessories in the People's Republic of China ("**PRC**"). Upon completion of the Proposed Disposal ("**Completion**"), the Company will cease to have any operating business and assets, and will be deemed as a cash company under Rule 1018 of the listing manual ("**Listing Manual**") of the Singapore Exchange Securities Trading Limited ("**SGX-ST**").

The Purchaser is wholly-owned by Mr Denis Wu Rongzhao, who is an associate of Mr Wu Rongguang, a controlling Shareholder holding approximately 16.54% shareholding interest in the Company as at 26 February 2018, being the Latest Practicable Date referred to in the Circular.

The Proposed Disposal is therefore considered as an interested person transaction ("**Interested Person Transaction**") and a major transaction under Chapter 9 and Chapter 10 of the Listing Manual respectively.

Mr Denis Wu Rongzhao and Mr Wu Rongguang are brothers, and Mr Wu Hanjie is the father of Mr Wu Rongguang and Mr Denis Wu Rongzhao ("**Wu Family**"). As at the Latest Practicable Date, Mr Wu Rongguang, Mr Denis Wu Rongzhao and Mr Wu Hanjie own 16.54%, 8.25% and 8.22% shareholding interests in the Company respectively, representing the Wu Family's aggregate shareholding interest of 33.01% in the Company.

1.2 The Company is listed on the Mainboard of the SGX-ST but its Shares have been suspended from trading since February 2011 due to certain difficulties encountered by its then external auditors, Ernst & Young LLP, in finalising the audit of the Group's 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 key subsidiaries in the PRC.

Eventually, the financial statements for FY2010 were audited by another firm of auditors, Mazars LLP, who had issued a disclaimer of opinion in August 2013 on the financial statements for FY2010. The audited financial statements for FY2010 were received and adopted by Shareholders at the annual general meeting ("**AGM**") held in September 2013.

The above financial statements were the last published audited financial statements of the Group. In the ensuing years following FY2010, the Company has not published any audited financial statements of the Group. However, the Company has released unaudited results announcement in compliance with the requirements of the Listing Manual.

Rule 906 of the Listing Manual requires the approval of shareholders for any Interested Person Transaction of a value which exceeds 5% of the group's latest audited net tangible assets ("**NTA**") ("**5% Threshold**") and Rule 921(4)(a) of the Listing Manual requires the opinion of an independent financial adviser ("**IFA**") on whether the Interested Person Transaction is on normal commercial terms and is not prejudicial to the interests of the company and its minority shareholders.

As the Company's last audited financial statements of the Group was for FY2010, which is quite dated, for the purpose of the Announcement, the Company has instead used its latest unaudited NTA of the Group as at 30 June 2017 (based on the unaudited results for the half year ended 30 June 2017 ("**HY2017**")) to compute the 5% Threshold. The Consideration represents 24.8% of the unaudited NTA of the Group as at 30 June 2017.

As at the Latest Practicable Date, the Company's latest results announcement was for the nine months ended 30 September 2017 ("**9M2017**"). The Consideration represents 32.4% of the unaudited NTA of the Group as at 30 September 2017. Shareholders should note that the Company will be releasing its unaudited full year results for the financial year ended 31 December 2017 in due course.

Accordingly, the Proposed Disposal as an Interested Person Transaction is subject to Shareholders' approval at the special general meeting of the Company ("**SGM**") and the opinion of the IFA. The Board has therefore appointed Provenance Capital Pte. Ltd. ("**Provenance Capital**") as the IFA as required by Rule 921(4)(a) of the Listing Manual as well as to advise the independent directors who are deemed independent of the Proposed Disposal ("**Independent Directors**") on whether the Proposed Disposal, as an Interested Person Transaction, is on normal commercial terms and is not prejudicial to the interests of the Company and its minority Shareholders ("**Independent Shareholders**").

1.3 All the Directors of the Company, who are also members of the Audit Committee of the Company, are deemed to be independent for the purpose of the Proposed Disposal. This Letter is required by Rule 921(4)(a) of the Listing Manual and is also addressed to the Directors and sets out, *inter alia*, our evaluation and advice on the Proposed Disposal as an Interested Person Transaction, as well as our recommendations thereon. This Letter forms part of the Circular to Shareholders which provides, *inter alia*, details of the Proposed Disposal as an Interested Person Transaction and the recommendations of the Directors.

2. TERMS OF REFERENCE

Provenance Capital has been appointed as the IFA as required by Rule 921(4)(a) of the Listing Manual as well as to advise the Directors in respect of the Proposed Disposal as an Interested Person Transaction. We are not and were not involved or responsible, in any aspect, of the negotiations in relation to the Proposed Disposal nor were we involved in the deliberations

leading up to the decision on the part of the Directors to propose the Proposed Disposal or to obtain the approval of the Independent Shareholders for the Proposed Disposal, and we do not, by this Letter, warrant the merits of the Proposed Disposal, other than to express an opinion on whether the Proposed Disposal as an Interested Person Transaction is on normal commercial terms and is not prejudicial to the interests of the Company and its Independent Shareholders.

It is not within our terms of reference to evaluate or comment on the legal, strategic, commercial and financial merits and/or risks of the Proposed Disposal or to compare its relative merits *vis-à-vis* alternative transactions previously considered by the Company (if any) or that may otherwise be available to the Company currently or in the future, and we have not made such evaluation or comment. Such evaluation or comment, if any, remains the responsibility of the Directors and/or the management of the Company ("**Management**") although we may draw upon the views of the Directors and/or the Management or make such comments in respect thereof (to the extent deemed necessary or appropriate by us) in arriving at our opinion as set out in this Letter.

In the course of our evaluation, we have held discussions with the Directors and Management and/or their professional advisers (where applicable) and have examined and relied on publicly available information collated by us as well as information provided and representations made to us, both written and verbal, by the Directors, the Management and the professional advisers (where applicable) of the Company, including information contained in the Circular. We have not independently verified such information or representations, whether written or verbal, and accordingly cannot and do not make any representation or warranty, expressed or implied, in respect of, and do not accept any responsibility for the accuracy, completeness or adequacy of such information or representations. We have nevertheless made such reasonable enquiries and judgment on the reasonable use of such information, as were deemed necessary, and have found no reason to doubt the accuracy or reliability of the information and representations.

The Directors (including those who may have delegated detailed supervision of the Circular) have confirmed that, having made all reasonable enquiries and to the best of their respective knowledge and belief, information and representations as provided by the Directors and Management are accurate. They have also confirmed to us that, upon making all reasonable enquiries and to their best knowledge and belief, all material information available to them in connection with the Proposed Disposal as an Interested Person Transaction, the Company and/or the Group have been disclosed to us, that such information is true, complete and accurate in all material respects and that there is no other information or fact, the omission of which would cause any information disclosed to us in relation to the Proposed Disposal as an Interested Person Transaction, the Company and/or the Group stated in the Circular to be inaccurate, incomplete or misleading in any material respect. The Directors have jointly and severally accepted full responsibility for such information described herein.

We have not independently verified and have assumed that all statements of fact, belief, opinion and intention made by the Directors in the Circular have been reasonably made after due and careful enquiry. Whilst care has been exercised in reviewing the information which we have relied on, we have not independently verified the information but nevertheless have made such reasonable enquiries and judgment on the reasonable use of such information, as were deemed necessary, and have found no reason to doubt the accuracy or reliability of the information and representations.

Save as disclosed, we would like to highlight that all information relating to the Proposed Disposal, the Company and/or the Group that we have relied upon in arriving at our recommendation or advice, has been obtained from publicly available information and/or from the Directors and the Management and the Valuation Report (as referred to below). We have not independently assessed and do not warrant or accept any responsibility as to whether the aforesaid information adequately represents a true and fair position of the financial, operational and business affairs of the Company and/or the Group at any time or as at the Latest Practicable Date. In particular, we would like to highlight that given the circumstance that the Company is in, there may be potential limitations on the extent of information and reliability of the information that can be made available to us, including the lack of an auditors' unqualified

opinion on the audited financial statements of the Group for the latest full financial year ended 31 December 2016.

The scope of our appointment does not require us to conduct a comprehensive independent review of the business, operations or financial condition of the Company and/or the Group, or to express, and we do not express, a view on the future growth prospects, value and earnings potential of the Company and/or the Group after the Proposed Disposal. Such review or comment, if any, remains the responsibility of the Directors and the Management, although we may draw upon their views or make such comments in respect thereof (to the extent required by the Listing Manual, and/or deemed necessary or appropriate by us) in arriving at our advice as set out in this Letter. We have not obtained from the Company and/or the Group any projection of the future performance including financial performance of the Company and/or the Group and, we did not conduct discussions with the Directors and the Management on, and did not have access to, any business plan and financial projections of the Company and/or the Group. In addition, we are not expressing any view herein as to the prices at which the shares of the Company ("**Shares**") may trade (upon the resumption of trading of the Shares, if applicable) or the future value, financial performance or condition of the Company and/or the Group, upon or after the completion of the Proposed Disposal.

We have not made an independent evaluation or appraisal of the assets and liabilities of the Company and/or the Group (including without limitation, property, plant and equipment). However, in connection with the Proposed Disposal, the Company had commissioned AVA Associates Limited ("**Valuer**" or "**AVA**"), as the independent valuer, to carry out an independent market valuation of the Target Group as at 30 June 2017 in respect of the following:

(a) 100% equity interest of the Target Group;

(b) property, plant and equipment of the Target Group;

(c) land use rights attached to the properties owned by the Target Group; and

(d) "Erke" trademark owned by the Target Group.

Details on the above independent valuation are set out in the valuation report dated 6 November 2017 ("**Valuation Report**"), which is available as a document for inspection. A summary of the Valuation Report ("**Summary Valuation Report**") is attached as Appendix C to the Circular.

We are not experts in the evaluation or appraisal of the assets concerned and have placed sole reliance on the independent valuation by the Valuer for such appraisal and have not made any independent verification of the contents thereof. In particular, we do not assume any responsibility to enquire about the basis of the valuation as contained in the Valuation Report or if the contents thereof have been prepared and/or included in the Circular in accordance with all applicable regulatory requirements.

Our view as set out in this Letter is based upon the market, economic, industry, monetary and other conditions (if applicable) prevailing as at the Latest Practicable Date and the information provided and representations provided to us as at the Latest Practicable Date. In arriving at our view, with the consent of the Directors or the Company, we have taken into account certain other factors and have been required to make certain assumptions as set out in this Letter. We assume no responsibility to update, revise or reaffirm our opinion in light of any subsequent development after the Latest Practicable Date that may affect our opinion contained herein. Shareholders should further take note of any announcements relevant to the Proposed Disposal which may be released by the Company after the Latest Practicable Date.

In rendering our advice and giving our recommendations, we did not have regard to the specific investment objectives, financial situation, tax position, risk profiles or unique needs and constraints of any Independent Shareholder or any specific group of the Independent Shareholders. As each Independent Shareholder may have different investment objectives and profiles, we recommend that any individual Independent Shareholder or group of Independent

Shareholders who may require specific advice in relation to his or their investment portfolio(s) or objective(s) consult his or their stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser immediately.

The Company has been separately advised by its own professional advisers in the preparation of the Circular (other than this Letter). We have had no role or involvement and have not and will not provide any advice (financial or otherwise) in the preparation, review and verification of the Circular (other than this Letter). Accordingly, we take no responsibility for and express no views, whether expressed or implied, on the contents of the Circular (other than this Letter).

Whilst a copy of this Letter may be reproduced in the Circular, neither the Company, the Directors nor any other persons may reproduce, disseminate or quote this Letter (or any part thereof) for any purposes, other than at the forthcoming SGM and for the purpose of the Proposed Disposal as an Interested Person Transaction, at any time and in any manner without the prior written consent of Provenance Capital in each specific case.

We have prepared this Letter in compliance with Rule 921(4)(a) of the Listing Manual as well as for the use of the Directors in their consideration of the Proposed Disposal as an Interested Person Transaction and their recommendation to the Independent Shareholders. The recommendation made to the Independent Shareholders in relation to the Proposed Disposal as an Interested Person Transaction remain the responsibility of the Directors.

Our opinion in relation to the Proposed Disposal as an Interested Person Transaction should be considered in the context of the entirety of this Letter and the Circular.

3. SALIENT TERMS OF THE PROPOSED DISPOSAL

Pursuant to the SPA, the Company has agreed to sell, and the Purchaser has agreed to purchase, the entire issued and paid-up capital of the Target Company comprising 10,000 ordinary shares ("**Sale Shares**") on the terms and subject to the conditions in the SPA.

Details on the terms of the Proposed Disposal are set out in Section 2 of the Circular. The salient terms of the Proposed Disposal are set out below.

3.1 Consideration

The Consideration of RMB100,000,000 was an offer presented by the Purchaser, after arm's length negotiations between the Company and the Purchaser, on a willing-buyer and willing-seller basis. The Consideration for the Sale Shares shall be fully satisfied in the following manner:

(a) RMB28,000,000 in cash (equivalent to S$5,600,000 based on the Agreed Exchange Rate of S$1:RMB5) on Completion and payable in Singapore dollars ("**Cash Consideration**");

(b) respective irrevocable and unconditional undertakings dated 20 September 2017 ("**Deeds of Undertaking**") from each of the Wu Family members to the Company to renounce their rights to receive any dividends from their approximate 33% shareholding interest in the Company and which may be declared to Shareholders by the Company arising from their receipt of the Cash Consideration; and

(c) pursuant to the Deeds of Undertaking, waivers by the Wu Family ("**Wu Undertakings**") of all monies owing by the Company to each of them as at Completion (including their recourse against the Company in respect of the monies owing to them) ("**Owings to the Wu Family**"), which amounted to RMB64,383,000 in aggregate as at the date of the SPA.

It is the intention of the Company to distribute at least 80% of the Cash Consideration to its Shareholders ("**Proposed Distribution**"). In view of the losses to be recognised upon the completion of the Proposed Disposal, the Company is proposing for the Proposed Distribution to be carried out by way of a capital reduction ("**Proposed Capital Reorganisation**") as the

Company will not have sufficient distributable reserves after the Proposed Disposal for the Proposed Distribution.

The Company has confirmed that pursuant to the respective Deeds of Undertaking from each of the Wu Family members, the Wu Family will renounce their rights to receive the Proposed Distribution to all remaining Shareholders and their entitlements can be treated as partial settlement of the Consideration ("**Waiver of Distribution**"). Based on the proposed distribution of 80% and up to 100% of the Cash Consideration, the Wu Family's aggregate share of the Proposed Distribution is approximately RMB7.39 million (S$1.48 million) and up to RMB9.24 million (S$1.85 million). Such amount will be re-distributed to all remaining Shareholders in proportion to their respective shareholding interests in the Company. As at 30 September 2017, the Company's cash balance is zero. The Directors therefore estimate that the Proposed Distribution will be less than 100% of the Cash Consideration but at least 80% of the Cash Consideration as some cash will be set aside to provide for estimated expenses incurred in relation to the Proposed Disposal and Proposed Capital Reorganisation. **For the purpose of this Letter, we have evaluated the Proposed Disposal on the basis of 80% of the Cash Consideration for the Proposed Distribution.**

As at the date of the SPA, the Company owes the Wu Family approximately RMB64.4 million (S$12.9 million) based on the outstanding amount of the Owings to the Wu Family as at 30 June 2017 as set out in the HY2017 results announcement. While the Wu Family has each given their respective undertakings to waive the repayment of the monies owed to them, the Company had clarified that such amount can also be treated as a partial settlement of the Consideration ("**Waiver of Debt to Shareholders**").

Hence, overall, the sum of the Cash Consideration (RMB28 million), the Waiver of Distribution (RMB7.39 million) and the Waiver of Debt to Shareholders (RMB64.4 million) as at 30 June 2017 will amount to approximately RMB100 million as at the date of the SPA.

As an update, based on the latest 9M2017 results announcement, the Owings to the Wu Family have increased slightly to RMB64.5 million as at 30 September 2017 as the Wu Family continued to fund the expenses of the Company. As at the Latest Practicable Date, the Owings to the Wu Family remains unchanged at RMB64.5 million. The Company does not foresee the amount to fluctuate at Completion.

It should, however, be noted that pursuant to the terms of the SPA, in the event that all or any part of the Wu Undertakings (i.e. the Waiver of Debt to Shareholders) is deemed ineffective or invalid for any reason whatsoever (including the Owings to the Wu Family no longer being owed to them), the Purchaser shall not be required to top-up any such payment and the Consideration shall be reduced to exclude such amount.

Hence, there will not be any top-up of the Consideration by the Purchaser if the Waiver of Debt to Shareholders is less than the above indicated amounts at Completion as the Consideration will be reduced to the lower amount.

The Directors have explained that the basis of the Proposed Disposal is that the Purchaser is prepared to pay S$5.6 million in cash to facilitate the Company to move forward following the impasse for the last 6 years and as part of the terms of the Proposed Disposal, the Purchaser will waive their entitlements to any of the Proposed Distribution and the repayment of the Owings to the Wu Family. Further details on the rationale for the Proposed Disposal are set out in Section 6.1 of this Letter.

3.2 Cash Company after the Proposed Disposal

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. Pursuant to this Rule 1018, the securities of the listed issuer will be suspended and 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.

We note that the Company has announced that it is presently considering a reverse takeover ("**RTO**") of other businesses and assets and will make the relevant announcements in due course after a definitive decision has been reached.

The Proposed Disposal is deemed as a major transaction under Chapter 10 of the Listing Manual as the Company is disposing of its entire existing assets and businesses of the Target Group that is engaged in the design, manufacture and sales of sports shoes, sports apparel and sports accessories. After the Proposed Disposal, Proposed Distribution and Waiver of Debt to Shareholders, the Company will become a cash company (with no operating business) with minimal net asset value ("**NAV**") of RMB0.85 million (S$0.17 million) consisting of:

(a) cash balance of approximately RMB4.6 million (S$0.9 million) after deducting estimated expenses of RMB1.0 million (S$0.2 million); and

(b) accrued payables of RMB3.75 million (S$0.75 million). These accrued payables are in relation to directors' fees payable to the Independent Directors which have been accrued for the last 4 financial years from FY2012 to FY2016 but have not been put forth for Shareholders' approval at the Company's general meeting.

The Company and the Group had NAV of RMB3,190.9 million and RMB403.6 million as at 30 June 2017 respectively. The significant difference in NAV between the Company and the Group is due mainly to the amount due from a subsidiary (that is, the Target Company), recorded as a current asset in the books of the Company. Such inter-company loan from the Company to the Target Group ("**Interco-Loan**") is eliminated upon the consolidation of the accounts at the Group level.

Pursuant to the Announcement, the Company had disclosed that the NAV of the Target Group as at 30 June 2017 was RMB470,735,000.

On 2 November 2017, the Company clarified in its results announcement for 9M2017 that, as part of the terms of the Proposed Disposal, the Company and the Purchaser have agreed to waive the Interco-Loan owed by the Target Group to the Company ("**Waiver of Interco-Loan**"), which amounted to RMB3,008.7 million as at 30 June 2017. As a consequence of the Waiver of Interco-Loan, the NAV of the Target Group would then be RMB470,735,000 as at 30 June 2017.

The Waiver of Interco-Loan is to facilitate the Proposed Disposal as, otherwise, the Target Group will be saddled with a huge net liability position which makes it untenable for the potential buyer. The Company also viewed the Interco-Loan as investments in its subsidiaries and the Waiver of Interco-Loan is to recognise the losses incurred by its subsidiaries. Further details are set out in Section 6.2.4 of this Letter.

Accordingly, in view of the Waiver of Interco-Loan, the Target Group will recognise a significant gain arising from the forgivance of loan and the adjusted NAV of the Target Group would amount to RMB470.7 million as at 30 June 2017 ("**Adjusted NAV**").

At the Group level, the above Interco-Loan is eliminated upon consolidation of the financial statements of the Group. Consequently, upon the Waiver of Interco-Loan, the Company will recognise (at the Company level) an impairment loss arising from the forgivance of loan due from a subsidiary of the same amount of RMB3,008.7 million (S$601.7 million).

As an update, based on the latest unaudited results of the Group for 9M2017, the Group's NAV had decreased to RMB308.2 million as at 30 September 2017 from RMB403.6 million as at 30 June 2017. The Company has estimated that the Adjusted NAV of the Target Group would amount to RMB376.5 million as at 30 September 2017 instead of RMB470.7 million as at 30 June 2017.

The Waiver of Interco-Loan has subsequently been documented in the Supplemental Deed dated 22 November 2017 and announced on 23 November 2017. Further details on the Supplemental Deed are summarised in Section 3.5 of this Letter.

3.3 Proposed Disposal as an Interested Person Transaction

As the Target Group is to be sold to the Wu Family, who is considered as an Interested Person under Rule 904(4)(a) of the Listing Manual, the Proposed Disposal constitutes an Interested Person Transaction under Chapter 9 of the Listing Manual. In addition, the Proposed Disposal is subject to Shareholders' approval at the SGM and the opinion of the IFA as the value of the Proposed Disposal exceeds the 5% Threshold under Rule 906 of the Listing Manual.

The Company's last audited financial statements of the Group was for FY2010, which is quite dated. In place of this, for the purpose of the Announcement, the Company has instead used its HY2017 results to compute the 5% Threshold. The Consideration of RMB100 million represents 24.8% of the unaudited NTA of the Group of RMB403.6 million as at 30 June 2017.

Based on the latest 9M2017 results announcement, the Consideration represents 32.4% of the unaudited NTA of the Group of RMB308.2 million as at 30 September 2017.

The Purchaser, Jiayao Investments Limited, is wholly-owned by Mr Denis Wu Rongzhao, who is an associate of Mr Wu Rongguang, a controlling shareholder of the Company. Mr Denis Wu Rongzhao and Mr Wu Rongguang are brothers, and Mr Wu Hanjie is the father of Mr Wu Rongguang and Mr Denis Wu Rongzhao. As at the Latest Practicable Date, Mr Wu Rongguang, Mr Denis Wu Rongzhao and Mr Wu Hanjie own 16.54%, 8.25% and 8.22% shareholding interests in the Company respectively, representing the Wu Family's aggregate shareholding interest of 33.01%. In view of the familial relationship, the Wu Family is deemed as an Interested Person.

Pursuant to Chapter 9 of the Listing Manual, the Wu Family and their associates are required to abstain from voting on the resolution pertaining to the Proposed Disposal at the SGM. The Proposed Disposal will therefore be voted on by the Independent Shareholders.

3.4 Conditions Precedent

The Proposed Disposal is conditional upon the fulfilment and the satisfaction of certain conditions precedent ("**Conditions Precedent**") on or before the long-stop date of 20 December 2017 (being 3 months from the date of the SPA, or such other dates to be agreed between the parties), including, *inter alia,* the following:

(a) Shareholders' approval at the SGM for the Proposed Disposal including, *inter alia*, the Waiver of Interco-Loan;

(b) Shareholders' approval for the Proposed Distribution of at least 80% of the Cash Consideration to Shareholders (save for the Wu Family who will renounce their entitlements to the remaining Shareholders);

(c) all necessary corporate and other approvals (including the SGX-ST) for the Proposed Disposal and the Proposed Distribution; and

(d) 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.

On 20 December 2017, the Board announced that the Company and the Purchaser have entered into a supplemental letter to the SPA on the same day to, *inter alia*, extend the long-stop date for a further 3 months from 20 December 2017 to 20 March 2018. On 14 February 2018, the Company announced that the long-stop date has been further extended from 20 March 2018 to 20 June 2018.

The Company proposes for the Proposed Distribution to be carried out by way of the Proposed Capital Reorganisation which involves the reduction and cancellation of the relevant amount from the share premium account of the Company. To effect the Proposed Distribution, the Company is proposing to undertake the proposed bye-law amendment ("**Proposed Bye-Law Amendment**") to reflect the simplified solvency test relating to the payment of dividends and other distributions under the current laws of Bermuda. Such Proposed Bye-Law Amendment and Proposed Capital Reorganisation are subject to Shareholders' approval by way of special resolutions which require not less than three-fourths (3/4) of the votes cast by Shareholders who are present and voting at the SGM. The Proposed Capital Reorganisation will not result in a cancellation of Shares or a change in the number of Shares issued by the Company immediately after the Proposed Capital Reorganisation.

The Company has therefore put forth three resolutions for Shareholders to approve at the forthcoming SGM, that is, (a) Proposed Disposal; (b) Proposed Bye-Law Amendment; and (c) Proposed Distribution. These three resolutions are inter-conditional upon each other. If any of the resolutions is not approved, the other resolutions will not be passed.

Details on the Proposed Distribution are set out in Section 5 of the Circular.

3.5 Supplemental Deed

On 22 November 2017, the Company had entered into the supplemental deed ("**Supplemental Deed**") with the Purchaser to provide for and to clarify the following matters:

(a) the Company will, on Completion, forgive and waive the entire Interco-Loan of RMB3,008,672,000 which had been advanced by the Company to the Target Company;

(b) the Proposed Distribution will be at least 80% of the Cash Consideration in the form of dividends or return of capital by the Company to its Shareholders (save for the Wu Family);

(c) the Target Group to include two additional wholly-owned subsidiaries, namely Fujian Hongrong Sports Goods Co., Ltd and Fujian Hongrong Shoes & Garments Co., Ltd.; and

(d) the Company and the Purchaser agree that the Escrow Agent may be instructed to advance certain amounts from time to time ("**Advance**") from the Cash Consideration held in escrow to a bank account controlled by the 3 Independent Directors of the Company for the purposes of payment of fees and expenses of professionals and other service providers engaged by the Company in relation to the Proposed Disposal. Such Advance will not be repaid to the Purchaser under any circumstances in the event that Completion does not take place, but such Advance forms part of the Consideration.

4. SALIENT INFORMATION ON THE PURCHASER

The Purchaser is a company incorporated for the purpose of the Proposed Disposal. It is a company incorporated in the British Virgin Islands ("**BVI**") and is wholly-owned by Mr Denis Wu Rongzhao, a member of the Wu Family who is the controlling shareholder of the Company. The Purchaser has an issued share capital of US$100.00 consisting of 100 shares of US$1.00 par value. The sole director of the Purchaser is Mr Denis Wu Rongzhao. The principal activity of the Purchaser is investment holding.

5. SALIENT INFORMATION ON THE COMPANY AND THE TARGET GROUP

Details of the Company and the Target Group are set out in Section 2 of the Circular.

5.1 Overview

The Company, China Hongxing Sports Limited, is incorporated in Bermuda on 21 April 2005 under the Bermuda Companies Act as an exempted company with limited liability and was listed on the Mainboard of the SGX-ST on 14 November 2005. While the Company continues to be listed on the SGX-ST, its Shares have been suspended from trading since February 2011.

As at the Latest Practicable Date, the Wu Family is the controlling Shareholder, holding in aggregate, 924,050,000 Shares, representing 33.01% of the total number of Shares. The Wu Family comprises Mr Wu Rongguang, Mr Denis Wu Rongzhao and Mr Wu Hanjie who own 16.54%, 8.25% and 8.22% shareholding interests in the Company respectively. Mr Wu Rongguang and Mr Denis Wu Rongzhao are brothers, and Mr Wu Hanjie is the father of Mr Wu Rongguang and Mr Denis Wu Rongzhao. The remaining 1,875,950,000 Shares are held by more than 12,000 public Shareholders.

None of the Wu Family members are on the board of directors of the Company. The Board consists of all non-executive independent Directors, namely Mr Chan Wai Meng, Mr Bernard Tay Ah Kong and Mr Alfred Cheong Keng Chuang.

As at the Latest Practicable Date, the Company has in issue 2,800,000,000 Shares. There is no change in the total number of issued Shares since the trading suspension of the Shares. The Company does not hold any treasury shares or have any outstanding instruments convertible into, rights to subscribe for, and options in respect of, Shares or securities which carry voting rights in the Company.

Based on the last transacted Share price prior to the trading suspension of the Shares of S$0.115 on 22 February 2011, and the then number of issued Shares (which has not changed thereafter), the market capitalisation of the Company was S$322.0 million. There is no updated benchmark market valuation of the Company since then, as trading on the Shares has been suspended and there are no public evidence of transactions on the Shares. As trading on the Shares has been suspended, pursuant to Rule 729 of the Listing Manual, there must not be any transfers of the Shares unless approved by the SGX-ST.

As described in Section 3.1 of this Letter, although the Target Group (which represents the entire underlying business of the Group) is to be sold at the Consideration of approximately RMB100 million (S$20 million), in effect, the Company receives only the Cash Consideration in Singapore dollars of S$5.6 million, as the balance of the Consideration is settled via the Waiver of Distribution and Waiver of Debt to Shareholders. In the event that the amounts of the Waiver of Distribution and Waiver of Debt to Shareholders are lower than the envisaged amounts, the Consideration will be adjusted downwards accordingly pursuant to the terms of the SPA.

It is also the intention of the Company to distribute bulk (at least 80%) of the Cash Consideration to Shareholders following the Proposed Disposal pursuant to the Proposed Distribution. The Company will thereafter be left with minimal NAV of RMB0.85 million (S$170,000) with no operating businesses.

Hence, after the completion of the Proposed Disposal, the Company will become a clean listed shell, which will be available for any RTO opportunities in the future.

5.2 Group structure

The Company is an investment holding company and through the Group's wholly-owned subsidiaries, the Group is engaged in the design, manufacture and sales of sports shoes, sports apparel and sports accessories in the PRC under the "Erke" trademark. These operating subsidiaries are held ultimately by the Target Company, as the intermediate wholly-owned subsidiary of the Company.

The Target Group comprises the Target Company and its direct and indirect subsidiaries.

The Target Company is a company incorporated in the BVI with an issued and paid up capital of US$10,000 consisting of 10,000 ordinary shares, which are entirely owned by the Company. Pursuant to the SPA, the Company will be disposing of the Target Group by disposing the entire issued shares of the Target Company to the Purchaser.

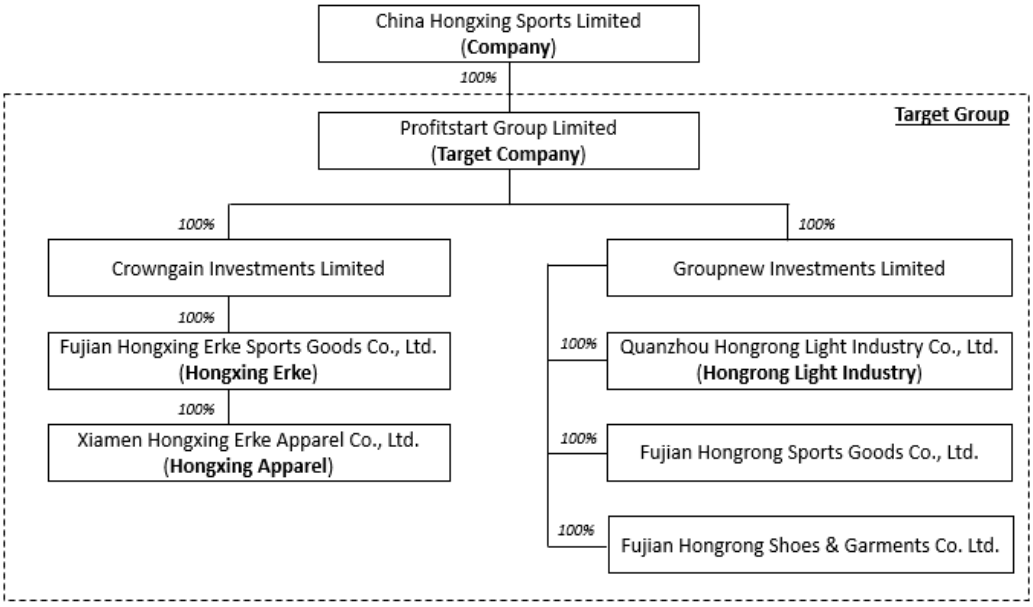
As at the Latest Practicable Date, the Target Group comprises the following wholly-owned subsidiaries:

No.	Name	Date and Country of Incorporation	Particulars of registered and fully paid-up capital	Principal activities
1.	Crowngain Investments Limited	30 Nov 2004 BVI	US$2	Investment holding
2.	Groupnew Investments Limited	30 Nov 2004 BVI	US$3	Investment holding
3.	Fujian Hongxing Erke Sports Goods Co. Ltd. ("**Hongxing Erke**")	8 Jun 2000 PRC	US$50,000,000	Design, manufacture and sales of sports shoes, sports apparel and sports accessories
4.	Xiamen Hongxing Erke Apparel Co., Ltd. ("**Hongxing Apparel**")	22 Jun 2011 PRC	RMB20,000,000	Manufacture and sales of sports apparel
5.	Quanzhou Hongrong Light Industry Co. Ltd. ("**Hongrong Light Industry**")	21 Apr 2003 PRC	RMB400,000,000	Design, manufacture and sales of sports shoes, sports apparel and sports accessories
6.	Fujian Hongrong Sports Goods Co., Ltd.	16 Jun 2006 PRC	RMB200,000,000	Has not yet commenced business
7.	Fujian Hongrong Shoes & Garments Co., Ltd	16 Jun 2006 PRC	RMB200,000,000	Has not yet commenced business

Hongxing Erke, Hongxing Apparel and Hongrong Light Industry are the key operating subsidiaries of the Group and the Target Group.

The group structure of the Group is set out below. Upon the disposal of the Target Group, the Company will have no other entities or subsidiaries.

Group Structure



5.3 Summary of the Company's efforts to lift the trading suspension of the Shares

The Shares have been suspended from trading on the Mainboard of the SGX-ST since 22 February 2011 due to certain difficulties encountered by its then external auditors in finalising the audit of the Group's financial statements for FY2010, particularly with reference to cash and bank balances, accounts receivable, accounts payable and other expenses of the Company's key subsidiaries in the PRC.

Pursuant to Rule 1304(1) of the Listing Manual, if an issuer is suspended under Rule 1303(3) of the Listing Manual, it must submit a resumption proposal to the SGX-ST within 12 months of the date of suspension. If no resumption proposal(s) are received to enable trading to resume within 12 months of the date of suspension, the SGX-ST may remove the issuer from the Official List.

The Company had since 2012 been corresponding with the SGX-ST on its trading resumption proposal. On 22 July 2013, the SGX-ST had granted a conditional approval for the trading resumption proposal. However, the Company was unable to satisfy all the conditions set out therein and had on 29 August 2014, announced that it was not in a position to and would not be proceeding with the trading resumption proposal.

On 31 December 2014, the Company announced that a potential offer in relation to a possible delisting of the Company from the SGX-ST was being considered by a potential offeror and that professional parties have been appointed to carry out work in relation to the potential offer.

On 3 May 2017, the Company announced that it is unlikely the potential offer will materialise, and that the Board understands that a substantial Shareholder is considering making an offer to acquire the PRC assets and businesses of the Company, and a Singapore law firm has been appointed to deal with the matter.

On 21 September 2017, the Company announced the Proposed Disposal. Upon Completion, the Company will become a cash company.

Pursuant to Rule 1018 of the Listing Manual, the Shares will continue to be suspended from trading on the SGX-ST until the Company has a business which is able to satisfy the SGX-ST's requirements for a new listing. In this regard, we understand that the Company is considering

a RTO of other businesses and assets and will make the relevant announcements after a definitive decision has been reached.

5.4 Financial information of the Group and the Target Group

As disclosed in Section 1.2 of this Letter, the last audited financial statements of the Group was for FY2010 and such audited financial statements were received and adopted by Shareholders at the last AGM held in September 2013. It is also relevant to note that the auditors of the Company had issued a disclaimer of opinion on the FY2010 audited financial statements. Since then, the Company has not issued any audited financial statements of the Group nor held any AGMs. However, the Company has been announcing its unaudited financial statements of the Group for each financial quarter since then.

We understand from the Company that it does not prepare consolidated financial statements of the Target Group and that there is no requirement to do so as the Target Company is an intermediate holding company incorporated in BVI and wholly-owned by the Company.

As set out in Section 5.2 of this Letter, the Group's principal business activities are conducted through the Target Group. Hence, the financial statements of the Group are almost reflective of the Target Group except for inter-company transactions and balances which are eliminated upon consolidation of the accounts of the Group.

In view of the above, for the purpose of our evaluation of the Proposed Disposal, we have analysed the financial information of the Group based on the unaudited results of the Group for the last three financial years and up to the latest interim period as at the Latest Practicable Date.

5.4.1 Financial performance of the Group

Set out below is a summary of the unaudited financial results of the Group for the last three financial years ended 31 December 2016, that is FY2014, FY2015 and FY2016, and the latest interim financial results of the Group for 9M2017:

	← Unaudited →				
RMB'000	**FY2014**	**FY2015**	**FY2016**	**9M2016**	**9M2017**
Revenue	2,204,633	1,283,737	1,228,951	893,978	983,971
Cost of goods sold	(1,872,132)	(1,027,351)	(930,328)	(699,717)	(768,716)
Gross profit	332,501	256,386	298,623	194,261	215,255
Other income	4,086	5,841	4,918	3,009	2,250
Selling and distribution expenses	(615,016)	(526,649)	(368,964)	(240,156)	(272,804)
Administrative expenses	(163,223)	(147,828)	(106,236)	(90,316)	(83,037)
Other loss	-	-	(37,000)	(37,000)	(22,000)
Loss from operations	(441,652)	(412,250)	(208,659)	(170,202)	(160,336)
Finance costs	(119)	(136)	(183)	(130)	(124)
Loss before tax	**(441,771)**	**(412,386)**	**(208,842)**	**(170,332)**	**(160,460)**
Income tax expense	(15,964)	(6,054)	(15,508)	(10,929)	(6,576)
Loss attributable to Shareholders	(457,735)	(418,440)	(224,350)	(181,261)	(167,036)

Source: *The Company's unaudited results announcements for FY2015, FY2016 and 9M2017*

Review of Operating Results

FY2015 vs FY2014

Revenue decreased by RMB920.9 million or 41.8% from RMB2,204.6 million in FY2014 to RMB1,283.7 million in FY2015 due mainly to the slowdown in the PRC economy resulting in

the distributors closing the low contribution outlets, thus reducing sales order to the Group. In addition, the fire in June 2015 at the Hongrong Light Industry's plant caused damage to the plant and about 35% of the Group's production capacity was affected.

The size of the Group's retail network, ERKE Points of Sale ("**ERKE POS**"), was reduced from 6,526 as at 31 December 2014 to 5,248 as at 31 December 2015.

Cost of goods sold decreased by RMB844.8 million or 45.1% from RMB1,872.1 million in FY2014 to RMB1,027.3 million in FY2015, in line with the decrease in revenue.

Gross profit decreased by RMB76.1 million or 22.9% from RMB332.5 million in FY2014 to RMB256.4 million in FY2015 due to lower revenue. Gross profit margin, however, increased from 15.1% in FY2014 to 20.0% in FY2015.

Operating expenses (selling and distribution expenses, and administrative expenses) decreased by RMB103.8 million or 13.3% from RMB778.2 million in FY2014 to RMB674.4 million in FY2015 due mainly to decrease in advertising expenses, refurbishment expenses and tighter control over administrative expenses. However, as a percentage of revenue, operating expenses had increased from 35.3% in FY2014 to 52.5% in FY2015.

Overall, loss after tax attributable to Shareholders decreased by RMB39.3 million or 8.6% from RMB457.7 million in FY2014 to RMB418.4 million in FY2015.

FY2016 vs FY2015

Revenue decreased by RMB54.8 million or 4.3% from RMB1,283.7 million in FY2015 to RMB1,228.9 million in FY2016. The Company attributed the decline in revenue to the same reasons as stated above for FY2015 vs FY2014.

The size of the Group's retail network, ERKE POS, was reduced further from 5,248 as at 31 December 2015 to 4,592 as at 31 December 2016.

Cost of goods sold decreased by RMB97.0 million or 9.4% from RMB1,027.3 million in FY2015 to RMB930.3 million in FY2016, in line with the decrease in revenue.

Gross profit increased by RMB42.2 million or 16.5% from RMB256.4 million in FY2015 to RMB298.6 million in FY2016 due to more apparel sales with higher margins. Gross profit margin increased from 20.0% in FY2015 to 24.3% in FY2016.

Operating expenses decreased by RMB199.2 million or 29.5% from RMB674.4 million in FY2015 to RMB475.2 million in FY2016 due mainly to decrease in advertising expenses, refurbishment expenses and tighter control over administrative expenses. As a percentage of revenue, operating expenses had decreased from 52.5% in FY2015 to 38.7% in FY2016.

In FY2016, the Group incurred other loss of RMB37.0 million due to trade receivables written off in relation to uncollectible amounts aged over 6 months. There was no such other loss in FY2014 and FY2015.

Overall, loss after tax attributable to Shareholders decreased by RMB194.1 million or 46.4% from RMB418.4 million in FY2015 to RMB224.3 million in FY2016.

9M2017 vs 9M2016

Revenue increased by RMB90.0 million or 10.1% from RMB894.0 million in 9M2016 to RMB984.0 million in 9M2017 due mainly to increased orders in sports footwear.

The size of the Group's retail network, ERKE POS, was reduced further from 4,730 as at 30 September 2016 to 4,592 as at 31 December 2016 and to 3,835 as at 30 September 2017.

Cost of goods sold increased by RMB69.0 million or 9.9% from RMB699.7 million in 9M2016 to RMB768.7 million in 9M2017, in line with the increase in revenue.

Gross profit increased by RMB21.0 million or 10.8% from RMB194.3 million in 9M2016 to RMB215.3 million in 9M2017. Gross profit margin increased marginally from 21.7% in 9M2016 to 21.9% in 9M2017.

Operating expenses increased by RMB25.4 million or 7.7% from RMB330.5 million in 9M2016 to RMB355.8 million in 9M2017 due mainly to increase in advertising expenses and refurbishment expenses. As a percentage of revenue, operating expenses had decreased from 37.0% in 9M2017 to 36.2% in 9M2016.

Other loss was lower by RMB15.0 million from RMB37.0 million in 9M2016 to RMB22.0 million in 9M2017 due to lower trade receivables written off in relation to uncollectible amounts aged over 6 months.

Overall, loss after tax attributable to Shareholders decreased by RMB14.2 million or 7.8% from RMB181.3 million in 9M2016 to RMB167.0 million in 9M2017.

Upon Completion

Upon completion of the Proposed Disposal, the Group will cease to have any operating business and the Company will not be saddled with the losses of its operating subsidiaries going forward. The Company will become a "clean" company with minimal NAV of RMB0.85 million (S$170,000) comprising cash of approximately RMB4.6 million (S$0.9 million) and accrued payables in relation to directors' fees of RMB3.75 million (S$0.75 million).

However, pursuant to the Proposed Disposal, the Company will recognise significant losses upon the disposal of the Target Group as set out in Section 2 of the Circular, including the loss on disposal of subsidiaries and the Waiver of Interco-Loan.

We note that the above losses pursuant to the Proposed Disposal are one-off in nature. After the Proposed Disposal, the Company will become a listed "shell" which will be available for potential RTO opportunities in the future.

5.4.2 Financial position of the Group and the Company

Based on the latest financial results of the Group for 9M2017, set out below is a summary of the unaudited statement of financial position of the Group and the Company as at 30 September 2017. The analysis of the balance sheet of the Group reflects the financial position of the Target Group while the Proposed Disposal will have an impact on the financial position of the Company. These are explained below:

RMB$'000	Group as at 30 September 2017	Company As at 30 September 2017
Non-current assets		
Property, plant and equipment ("**PPE**")	442,935	-
Land use rights	23,245	-
Deferred tax assets	15,952	-
Investments in subsidiaries	-	249,298
	482,132	249,298
Current assets		
Inventories, at cost	353,730	-
Trade receivables	263,880	-
Land use rights – current portion	878	-
Prepayments, deposits and other receivables	6,128	-
Bank and cash balances	5,061	-
Due from a subsidiary	-	3,008,672
	629,677	3,008,672

RMB$'000	Group as at 30 September 2017	Company As at 30 September 2017
Total assets	**1,111,809**	**3,257,970**
Current liabilities		
Trade payables	517,569	-
Accruals and other payables	179,358	3,750
Amounts due to shareholders	64,528	64,528
Current tax liabilities	41,205	-
	802,660	68,278
Non-current liabilities		
Deferred tax liabilities	911	-
Total liabilities	**803,571**	**68,278**
Equity	**308,238**	**3,189,692**
Total equity and liabilities	**1,111,809**	**3,257,970**
NAV (RMB)	**308,238,000**	
Number of issued Shares as at the Latest Practicable Date	**2,800,000,000**	
NAV per Share (RMB)	**0.1100**	

Source: *The Company's unaudited results announcement for 9M2017*

Assets

The main assets of the Group totalling RMB1,111.8 million comprise PPE of RMB442.9 million (39.8% of total assets), land use rights of RMB24.1 million (2.2% of total assets), inventories of RMB353.7 million (31.8% of total assets) and trade receivables of RMB263.9 million (23.7% of total assets).

Not accounted for in the financial statements of the Group is the value of the brand name, trademark and logo of Erke (ERKE) which is owned and developed by the Group.

In connection with the Proposed Disposal, the Company had commissioned AVA, the independent Valuer, to carry out an independent market valuation of the Target Group as at 30 June 2017 in respect of the following:

(a) 100% equity interest of the Target Group;

(b) the PPE;

(c) the land use rights attached to the properties owned by the Target Group; and

(d) the "Erke" trademark owned by the Target Group.

Further details are set out in Section 6.2.2 of this Letter.

Liabilities

Total liabilities of the Group of RMB803.6 million comprise trade payables of RMB517.6 million (64.4% of total liabilities), accruals and other payables of RMB179.4 million (22.3% of total liabilities) and amounts due to shareholders of RMB64.5 million (8.0% of total liabilities). The amounts due to shareholders is referred to as Owings to the Wu Family in this Letter.

Given the current situation of the Group with operating losses, the Group's cash balances have also been depleting over time. As at 30 September 2017, bank and cash balances amounted to RMB5.1 million compared to RMB89.7 million as at 31 December 2016. The Group does not have any bank borrowings. We note that in the 9M2017 results announcement, the Company

had commented that it can continue to operate on a going concern basis so long as the controlling Shareholders continue to support the Company's operations.

At the Company level, bank and cash balances were zero. The Company is also dependent on funding from the Wu Family to fund its expenses. As at 30 September 2017, Owings to the Wu Family amounted to RMB64.5 million (8.0% of total liabilities). The Wu Family has waived the repayment of these amounts by the Company pursuant to the terms of the SPA and as further clarified in the Supplemental Deed.

Equity / NAV / NTA

Total equity of the Group was RMB308.2 million as at 30 September 2017. This also represents the NAV and NTA of the Group as the Group does not have any intangible assets. Accordingly, the NAV and NTA per Share was RMB0.1100 (or S$0.0220) based on 2,800,000,000 outstanding Shares as at 30 September 2017.

In view of the consecutive years of losses, the Group had accumulated significant losses which had pared down the total equity of the Group as at 30 September 2017.

In particular, we note that the equity funds raised by the Company in the past had been injected into its subsidiaries by way of Interco-Loan to fund the operations of the subsidiaries. As at 30 September 2017, such amount of Interco-Loan amounted to RMB3,008.7 million. In connection with the Proposed Disposal, such Interco-Loan is to be waived.

With the Waiver of Interco-Loan, the Company estimates that the Adjusted NTA of the Target Group would be RMB376.5 million as at 30 September 2017. Without the Waiver of Interco-Loan, the Target Group would have a huge net liabilities position of RMB2.6 billion and the Purchaser would not have agreed to acquire the Target Group for any valuable consideration. The Company had also recognised that such Interco-Loan is in fact investments in its subsidiaries and would not have been different if they had injected the funds into these subsidiaries as paid-up capital and the losses arising from the Waiver of Interco-Loan could be viewed as accumulated losses in the equity of the subsidiaries.

The Waiver of Interco-Loan would result in a recognition by the Target Group of a significant gain arising from the forgivance of the Interco-Loan which would result in a positive Adjusted NAV of the Target Group amounting to RMB376.5 million as at 30 September 2017. Likewise, the Waiver of Interco-Loan would result in the same amount of significant loss to the Company and the NAV of the Company will be reduced from RMB3,189.7 million as at 30 September 2017 to RMB1.85 million (S$370,000) after taking into consideration the Proposed Distribution (based on 80% of the Cash Consideration), the Waiver of Distribution and the Waiver of Debt to Shareholders. The Company will be left with minimal but positive NAV/NTA, mainly cash of RMB5.6 million and accrued payables in relation to directors' fees of RMB3.75 million, after the above restructuring. The accrued payables are in relation to directors' fee for FY2012 to FY2016 which have yet to be put forth for Shareholders' approval at the Company's general meeting. The Company estimates the expenses in relation to the Proposed Disposal and Proposed Distribution to be approximately RMB1 million (S$200,000). Accordingly, the NAV of the Company will be reduced further to RMB0.85 million (S$170,000).

With a clean-up listed shell company, the Company has more flexibility to explore opportunities to seek resumption of trading on the SGX-ST.

In our evaluation of the terms of the Proposed Disposal, we have also considered whether there is any other asset which should be valued at an amount that is materially different from that which was recorded in the unaudited statement of financial position of the Group and the Target Group as at 30 September 2017, and whether there are any factors which have not been otherwise disclosed in the financial statements of the Group and the Target Group that are likely to impact the NAV of the Group and the Target Group as at 30 September 2017.

In respect of the above, we have sought the following confirmation from the Directors and the Management, and they have confirmed to us that as at the Latest Practicable Date, to the best

of their knowledge and belief, and save as disclosed above and the announcements made by the Company since 30 September 2017 to the Latest Practicable Date:

(a) there are no material differences between the realisable values of the Group's assets and their respective book values as at 30 September 2017 which would have a material impact on the NAV of the Group and the Target Group;

(b) there are no other contingent liabilities, bad or doubtful debts or material events which are likely to have a material impact on the NAV of the Group and the Target Group as at the Latest Practicable Date;

(c) there is no litigation, claim or proceeding pending or threatened against the Company or any of its subsidiaries or of any fact likely to give rise to any proceedings which might materially and adversely affect the financial position of the Company, the Group and the Target Group taken as a whole;

(d) there are no other intangible assets which ought to be disclosed in the statement of financial position of the Group and the Target Group in accordance with the International Financial Reporting Standards and which have not been so disclosed and where such intangible assets would have had a material impact on the overall financial position of the Group and the Target Group; and

(e) save for the Proposed Disposal and related matters as disclosed above and in the Circular, there are no material acquisitions or disposals of assets by the Group between 30 September 2017 and the Latest Practicable Date, and the Group does not have any plans for any such impending material acquisition or disposal of assets, conversion of the use of its material assets or material change in the nature of the Group's businesses.

6. EVALUATION OF THE PROPOSED DISPOSAL AS AN INTERESTED PERSON TRANSACTION

In our evaluation of the Proposed Disposal as an Interested Person Transaction, we have given due consideration to, *inter alia*, the following key factors:

(a) Company's rationale for the Proposed Disposal;

(b) Assessment of the financial terms of the Proposed Disposal; and

(c) Other relevant considerations which may have a significant bearing on our assessment of the Proposed Disposal.

6.1 Company's rationale for the Proposed Disposal

It is not within our terms of reference to comment or express an opinion on the merits of the Proposed Disposal or the future prospects of the Group after the Proposed Disposal. Nevertheless, we have reviewed the rationale as set out in Section 2.7 of the Circular and reproduced in *italics* below for your reference:

> *"Based on the Group 3Q2017 Results, the Group's losses before tax amounted to approximately RMB160,460,000 for the nine (9) months ended 30 September 2017. Revenue decreased by RMB47.8 million or 18.4% from RMB260.4 million for the quarter ended 30 September 2016 to RMB212.6 million for the third quarter period ended 30 September 2017. The decrease was mainly due to decreased orders for sports footwear. In view of the downturn of the Chinese economy, the Group expects that the Target Group will continue to face challenges as market conditions are expected to remain highly competitive in the next 12 months. The Proposed Disposal would allow the Group to dispose of all its assets and businesses, and distribute a substantial part of the net proceeds by way of the Proposed Capital Reorganisation.*

The Shares have been suspended from trading since February 2011, and the Company had been corresponding with the SGX-ST between 27 February 2012 and 29 August 2014 on its proposal to resume trading. Although the SGX-ST had on 22 July 2013 granted a conditional approval of the Company's trading resumption proposal, the Board was subsequently informed by the management of the PRC subsidiaries that due to challenging economic conditions, the PRC subsidiaries did not have, inter alia, sufficient financial resources to fulfil the conditions for the resumption of trading. As such, the Company was unable to satisfy all the conditions set out therein and had on 29 August 2014 announced that it was not in a position to, and would not be proceeding with the trading resumption proposal. The Company has thus far been unable to lift the trading suspension based on any proposal stemming from its current business.

On 31 October 2014 and 31 December 2014, the Company announced that a potential offeror was considering making an offer in relation to a possible delisting of the Company from SGX-ST, and that professional parties had been appointed in respect of the potential offer. However, the Company announced on 3 May 2017 that it was unlikely that the potential offer would materialise. As such, the Directors believe that the Proposed Disposal would provide Shareholders with the opportunity to extract some value from the Company's existing businesses and assets.

Notwithstanding the terms and conditions of the Proposed Disposal (including but not limited to the Wu Waivers and the Intercompany Loan Waiver), the Consideration represents the best price that the Directors have been able to negotiate. In addition, the current laws of the PRC provide that the approval of the legal representative of the PRC subsidiaries, being Denis Wu or his nominee (as the case may be), is required in respect of any sale. It should also be noted that the business of the Target Group is a family business founded by the Wu Family, and the Wu Family continues to manage the business operations of the Target Group in the PRC. As far as the Directors are aware, the Wu Family currently have no intention to relinquish control of the business of the Target Group.

As such and in view of the foregoing inherent limitations as well as the fact that the Purchaser is the only current prospective purchaser, the Directors believe that it is highly unlikely that another person would make an offer for the Company's businesses and assets.

While the Proposed Disposal 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 businesses 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 realise a value 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 would facilitate a resumption of trading proposal."

We also wish to point out the following salient points based on our understanding with the Company:

(a) The key operating subsidiaries of the Group, being entities incorporated in the PRC, are controlled by the legal representative, being Mr Denis Wu Rongzhao or his nominee (as the case may be). Accordingly, the sale of such PRC entities cannot be completed without the approval of the legal representative. There is therefore inherent limitations on the part of the Company to find potential buyers for the PRC entities without the consent of the legal representative. The Purchaser is the only buyer presented to the Company;

(b) The key operating subsidiaries were founded by the Wu Family some 20 years ago. The Purchaser, being owned by the Wu Family, is therefore logical and is the only plausible option if the Wu Family does not wish to relinquish control of the Target Group;

(c) The Directors acknowledged that the Consideration for the Proposed Disposal is low compared to the Adjusted NAV of the Target Group. The Directors had tried to request for a higher offer but without success. The present proposal is the only proposal on the table;

(d) The Company and the Independent Shareholders have been held in limbo for more than 6 years while the Shares are suspended from trading. Shareholders are locked-in as they cannot trade their Shares on the SGX-ST. In addition, the Company could not resume preparation of audited financial statements of the Group as the Company recognises that auditors are likely to issue a disclaimer of opinion on the financial statements, which may cast doubt on the reliability of the financial statements. As such, the Company has also not held any AGM since September 2013 which was then held for the adoption of the audited accounts of the Group for FY2010. It should also be noted that the auditors had issued a disclaimer of opinion on the audited financial statements for FY2010;

(e) The Company had made various attempts as set out in Section 5.3 of this Letter for the resumption of trading of the Shares but to no avail for the last 6 years. The Proposed Disposal is therefore the Directors' hope for a new lease of life for the Company as a listed company should the Company succeeds in a RTO; and

(f) The last resort that could be considered by the Directors is to put the Company into liquidation. However, based on the Directors' assessment and the assessment of the Valuer as set out in Section 6.2.2 of this Letter, the liquidation process may take several years, the liquidator may have limited access to the assets of the PRC entities under the PRC laws, and eventually there may be minimal value, if any, left for Independent Shareholders after the completion of the liquidation process as ordinary Shareholders rank last after all secured and unsecured creditors in the event of a liquidation.

6.2 Assessment of the financial terms of the Proposed Disposal

As disclosed in Section 3 of this Letter, in summary, the Proposed Disposal is to be sold for the Consideration of RMB100 million which comprises the following:

(a) RMB28 million, payable in S$5.6 million in cash;

(b) Waiver of Distribution; and

(c) Waiver of Debt to Shareholders,

together with the Waiver of Interco-Loan.

As at the date of the Announcement, the aggregate amount of cash, Waiver of Distribution and Waiver of Debt to Shareholders as at 30 June 2017 approximates the Consideration of RMB100 million. The cash of S$5.6 million has already been paid into an escrow account for the purpose of the Proposed Distribution as at the Latest Practicable Date.

However, if the final amount of the Waiver of Debt to Shareholders at Completion is less than the estimated amount as at 30 June 2017, the Consideration will be adjusted downwards to the lower amount, and there will not be any top-up of the Consideration by the Purchaser.

Following from the above, we have assessed the financial terms of the Proposed Disposal by taking into account the following:

(i) whether the Consideration of RMB100 million is fair and reasonable when compared to the financial information of the Group which effectively reflects the financial information of the Target Group (as set out in Section 6.2.1 below);

(ii) whether the Consideration of RMB100 million is fair and reasonable after taking into consideration the Valuer's assessment in its Valuation Report (as set out in Section 6.2.2 below);

(iii) how the statistics on the Target Group implied by the Consideration of RMB100 million compare with the Comparable Companies (as set out in Section 6.2.3 below); and

(iv) whether or not the Waiver of Distribution, Waiver of Debt to Shareholders, adjustment downwards, if any, on the Consideration and the Waiver of Interco-Loan are prejudicial to the interests of the Company and the Independent Shareholders (as set out in Section 6.2.4 below).

6.2.1 Consideration compared to the financial information of the Group and the Target Group

In assessing the reasonableness of the Consideration, we have considered using the earnings approach which is commonly used for the valuation of a profitable company as a going concern. Such an earnings approach is not applicable to the Target Group as the Group has been making losses for many years since FY2010. Section 5.4.1 of this Letter shows the losses incurred by the Group over the last three years, FY2014 to FY2016, and up to the latest interim results for 9M2017.

Another valuation approach is the NAV approach. The NAV based valuation provides an estimate of the value of a company assuming the hypothetical sale of all its assets over a reasonable period of time and would be more relevant for asset-based companies or where the subject company intends to realise or convert the uses of all or most of its assets. Such a valuation approach would be particularly appropriate when applied in circumstances where the business is to cease operations or where the profitability of the business being valued is not sufficient to sustain an earnings based valuation.

At the time of the Announcement, the latest available interim financial information was for HY2017. The Adjusted NAV of the Target Group was RMB470,735,000 as at 30 June 2017, after the Waiver of Interco-Loan.

The Consideration of RMB100 million represents a price-to-Adjusted NAV ("**P/Adjusted NAV**") ratio implied by the Consideration of **0.21 times,** or a significant discount of 78.7% to the Adjusted NAV of the Target Group as at 30 June 2017.

As an update based on the 9M2017 results, the NAV of the Group was RMB308.2 million as at 30 September 2017 and the Adjusted NAV of the Target Group was RMB376.5 million after the Waiver of Interco-Loan. The Consideration of RMB100 million represents a P/Adjusted NAV ratio implied by the Consideration of **0.27 times**, which is still a significant discount of 73.4% to the Adjusted NAV of the Target Group as at 30 September 2017.

The Consideration when compared to the Adjusted NAV of the Target Group is therefore neither fair nor reasonable given that it is at a substantial discount to the Adjusted NAV of the Target Group.

It should, however, be noted that the Group had not published any audited financial statements for the last 6 years, the last audited financial statements were for FY2010 and the auditors had then issued a disclaimer of opinion on the financial statements for FY2010. The above analysis should therefore be read in that context.

6.2.2 Consideration compared to the Valuer's assessment in its Valuation Report

In connection with the Proposed Disposal, the Company had commissioned the Valuer to carry out an independent valuation exercise on the Target Group as at 30 June 2017.

Details of the independent valuation of the Target Group are set out in the Valuation Report which is a document available for inspection. The Summary Valuation Report is attached as Appendix C to the Circular.

The Valuer had carried out the valuation exercise on the premise of market value which is defined to mean "the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper

marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

Set out below are the salient points of the Valuation Report:

A. Market valuation of a 100% equity interest in the Target Group

The Valuer had selected the Income Approach to estimate the value of the equity interest of the Target Group by using the discounted cash flow ("**DCF**") methodology. The Valuer had also considered the "Erke" brand in the competitive sportswear industry in the PRC. While "Erke" is one of the top 10 brands in the PRC, "Erke" only has 2.9% of the sportswear market in the PRC in 2015 (*Source: www.statista.com*). Its price points and gross profit margins are also one of the lowest in the PRC sportswear market. The "Erke" brand has suffered market share loss since its peak in the late 2000s as the industry becomes more crowded and competitive. In addition, the Group's lack of investment in the "Erke" brand has left it trailing behind the other local brands.

Following from the above, the Valuer then derived the range of market value of the 100% equity interest in the Target Group based on the assumptions of the Base Case and Optimistic Case:

(a) on the Base Case, the market value of the 100% equity interest of the Target Group is zero.

The Valuer's basis for attaching zero value to the 100% equity interest of the Target Group is due to a few key factors: (i) weak or non-existent revenue growth, (ii) low gross profit margin, (iii) under-utilization of operating assets, (iv) expected operating losses in the near future and (v) inadequate cash to finance the operations. On this basis, the Target Group on an "as-is" basis, losses are expected to continue in the near future and the operation will not be financially viable unless a restructuring is undertaken immediately to enhance the liquidity of the business; and

(b) on the Optimistic Case, the market value of the 100% equity interest of the Target Group is RMB235 million and is on the assumption that the Target Group will emerge from its current troubles organically to achieve marginal profits eventually, albeit remaining as a small player in the sportswear industry in the PRC.

The Valuer had also, for illustrative and reference purposes, estimated the market value of a 100% equity interest in the Target Group using the market approach based on comparable companies listed on the Stock Exchange of Hong Kong, namely Li Ning Company Limited, 361 Degrees International Limited and Xtep International Holdings Limited. Using this approach, the Valuer had derived a range of market value for the Target Group of between RMB414 million and RMB1,599 million.

However, the Valuer had concluded that the above valuation using the market approach is inappropriate as it is based on simplified analysis and does not consider any adjustments such as control or size premia, the lacklustre financial performance and market position of the Company which require substantial downward adjustment to the above range of valuation.

B. Valuation of Balance Sheet – Cost approach

The cost approach measures the value of a business or asset by the cost to reconstruct or replace it with another of like utility. The cost approach recognises that a prudent investor would not ordinarily pay more for property or an asset than the cost to replace them new.

The Valuer analysed the balance sheet of the Group as at 30 June 2017 (which substantially reflects the balance sheet of the Target Group) and made adjustments for the market valuation of the PPE, land use rights and the intangible value of the "Erke" trademark.

(a) Properties (land use rights and buildings)

The Target Group has three manufacturing facilities in Fujian Province, PRC, of which two are owned facilities located in the town of Quanzhou for the manufacture of sports shoes, and the other facility is located in the city of Xiamen, which is leased and is used to manufacture sports apparels and accessories. The owned facilities were subject to valuation by the Valuer.

The two owned-industrial facilities, being the Hongxing plant and the Hongrong plant as referred to in the Valuation Summary Report are both located at Licheng District, Quanzhou City, Fujian Province of the PRC. The Hongxing plant is on a site land area of 11,195.5 square metres on a 50-year lease term expiring on 26 February 2056 and the Hongrong plant is on a site area of 38,169 square metres on a 50-year lease term expiring on 22 July 2055.

Adopting the direct comparison approach for the valuation of the sites and cost approach for the buildings and structures, the Valuer had derived an aggregate market valuation of RMB343.3 million for the properties compared to their aggregate book value of RMB272.2 million as at 30 June 2017.

This gives rise to a revaluation surplus of RMB71.1 million on the properties.

(b) Machinery and equipment

The machinery and equipment that were valued by the Valuer are located in the plant in Quanzhou City and the leased plant in Xiamen. They comprise molding line, infrared drying line, sewing machinery, die set, production tool, air-conditioning system, transformer, power generation, transformer and distribution equipment, products packaging and transport equipment, office equipment and vehicles.

The Valuer had used the "current cost new" basis to value the machinery and equipment as the amount required to reproduce or replace in like kind and new condition the asset, taking into account current costs of materials and labour, and costs associated with its acquisition, less depreciation from physical deterioration, and functional and economic/external obsolescence.

The Valuer's estimated market value of the machinery and equipment is RMB186.2 million compared to the book value of RMB195.5 million, resulting in a revaluation deficit of RMB9.3 million.

(c) "Erke" trademark

The "Erke" trademark belongs to the Group and has been used to market the Group's products for a long time.

The Valuer had used the Income Approach, utilizing the Relief-from-Royalty method ("**RfR**") to value the "Erke" trademark. The RfR is a form of DCF analysis where royalties, which the business is exempted from by virtue of the fact that it owns the intangible asset, are estimated by multiplying a benchmark royalty rate with the net revenues expected to be generated by the subject intangible asset. The product is an estimate of the royalty income that could be generated hypothetically by licensing the subject intangible asset.

The Valuer estimates the range of market value for the "Erke" trademark to be between RMB149 million and RMB198 million, based on the Valuer's simplified valuation analysis.

Based on the Valuer's cost approach in valuing the key assets and RfR method in valuing the intangible asset of the Group, the Valuer had estimated the adjusted NAV of the Group as follows:

	RMB'million
NAV of the Group as at 30 June 2017	403.6
Add: revaluation surplus on the properties	71.1
Less: revaluation deficit on the machinery and equipment	(9.3)
Add: valuation of the "Erke" trademark	149 – 198
Valuer's estimate of adjusted NAV of the Group as at 30 June 2017	**614 – 664**

However, the Valuer is of the opinion that the above adjusted NAV does not best represent the market value of the Target Group as an investor is unlikely to invest that amount to recreate a company with like utility that performs like the Target Group.

C. Cost approach – realizable NAV

The Valuer has also prepared a desktop range of estimates of the realizable NAV of the Target Group in the event of an orderly disposal of its assets and liabilities. The Valuer had also included the value of the "Erke" trademark to complete the assessment of the balance sheet as it forms part of the makeup of the Target Group.

The realizable NAV is based on the Valuer's estimate of the recovery percentages of the assets of the Group ranging between 0% and 100% of the book values while liabilities are fully recognised as 100% payable. In view of the liabilities of the Group totalling RMB762.6 million, the Valuer had highlighted that the recovery percentages of the assets will have to be relatively high in order to see a positive realizable NAV.

Based on the above, the Valuer had arrived at a range of realizable NAV of the Target Group of between zero and RMB264 million, in the event the assets and liabilities of the Group are disposed of in an orderly manner. This is close to the valuation of the Target Group based on the Income Approach of between zero and RMB235 million. However, the Valuer also stressed that the valuation on this approach is subject to the recovery rate on each class of assets and liabilities and such rates, in the context of the PRC, are generally subjective and dependent on various market conditions and time available for disposal. As such, the Valuer has not relied on the realizable NAV to form an opinion on the value of the Target Group.

Valuer's conclusion

Following the assessment of the various approaches adopted by the Valuer, the Valuer concluded that in its opinion the market value of the 100% equity interest of the Target Group is reasonably represented through the Income Approach. Under the Income Approach, the Valuer had prepared 2 scenarios to arrive at their opinion of value (a) the Base Case scenario which is based on a "as is" basis, points to NIL value and (b) the Optimistic Case scenario which assumes the Target Group emerging from its current troubles organically to achieve marginal profits over a 5-year period, sees the market value as RMB235 million.

Reasonableness of the Consideration compared to the Valuer's independent valuation

Hence, based on the above, the Consideration of RMB100 million appears to be reasonable as the Consideration is (i) higher than the Base Case which represents the Target Group on an "as is" basis, and (ii) slightly below the mid-point of the range of market valuation for the Target Group.

In view of the assessment and comments by the Valuer above under the captions "**B. Valuation of the Balance Sheet – Cost Approach**" and "**C. Cost Approach – Net Realizable Value**", it will not be meaningful to compute the revalued NAV ("**RNAV**") of the Target Group based on the Valuer's valuation of the PPE and "Erke" trademark, as the resultant RNAV will distort the computation of the P/NAV ratio. This is so as the NAV or RNAV approach of evaluating the

Consideration, that is, P/NAV ratio, is based on the premise that the assets can be realised at their stated values, which does not appear to be the case based on the findings by the Valuer. In addition, we note that the financial information of the Group has not been independently reviewed and audited by a recognised firm of auditors since FY2010 (the last set of auditors had issued a disclaimer of opinion on the financial statements of FY2010) which may further cast doubt on the reliability of the book values of the balance sheet of the Group as at 30 June 2017 and as at 30 September 2017.

For the avoidance of doubt, we have not made an independent evaluation or appraisal of the assets and liabilities (including without limitation, real properties) of the Target Group. We are not experts in the evaluation or appraisal of the assets concerned and we have placed sole reliance on the Valuation Report for such asset appraisals and have not made any independent verification of the contents thereof.

The stated values of the 100% equity interest and the material assets of the Target Group are based on the valuations performed by the Valuer. We do not assume any responsibility to inquire about the basis of such valuations or if the contents thereof have been prepared and/or included in the Circular in accordance with all applicable regulatory requirements.

6.2.3 Comparison of valuation ratios of selected listed companies whose businesses are broadly comparable with the Target Group

The Target Group is principally engaged in the design, manufacture and sales of sports shoes, sports apparels and sports accessories in the PRC. The Target Group is unlisted but represents the entire underlying business of the Group which is listed on the SGX-ST, except that the Shares have been suspended since February 2011.

For the purpose of assessing the Consideration, we have identified listed companies that are principally engaged in the design, manufacture and sales of sports shoes, sports apparels and sports accessories that can be considered as broad proxies to the Target Group ("**Comparable Companies**"). We had held discussions with the Directors about the suitability and reasonableness of the selected Comparable Companies as a basis for comparison with the Target Group.

We note that there are no direct Comparable Companies currently listed on the SGX-ST. While there are Comparable Companies listed on the Stock Exchange of Hong Kong with significant operations in the PRC, these Comparable Companies are larger in size compared to the Target Group, in terms of revenue, asset size and market capitalisation. Nonetheless, we have selected five such Comparable Companies for the purpose of comparison as an illustrative guide.

Relevant information has been extracted from Bloomberg L.P., publicly available annual reports and/or public announcements of the selected Comparable Companies. We make no representations or warranties, expressed or implied, as to the accuracy or completeness of such information. The accounting policies of the selected Comparable Companies with respect to the values for which the assets, revenue or cost are recorded may differ from that of the Target Group.

We wish to highlight that the selected Comparable Companies may not be exhaustive and it should be noted that there may not be any listed company that is directly comparable with the Group in terms of location, business activities, customer base, size of operations, asset base, geographical spread of activities, geographical markets, track record, financial performance, operating and financial leverage, future prospects, liquidity, quality of earnings, accounting policies, risk profile and other relevant criteria. As such, any comparison made herein is necessarily limited and it may be difficult to place reliance on the comparison of valuation statistics for these selected Comparable Companies. Therefore, any comparison made serves only as an illustrative guide.

A brief description of the Comparable Companies, as extracted from Bloomberg L.P., is set out below:

Name	Principal business
361 Degrees International Ltd ("**361 Degrees**")	361 Degrees designs, develops, manufactures, markets and distributes sportswear products, including athletic footwear, apparel and accessories.
ANTA Sports Products Ltd ("**ANTA Sports**")	ANTA Sports designs, develops, manufactures, and markets sportswear, including sports footwear and apparel for professionals and the general public.
China Dongxiang Group Co Ltd ("**China Dongxiang**")	China Dongxiang Group Co Ltd retails sportswear apparel products.
Li Ning Co Ltd ("**Li Ning**")	Li Ning researches, designs, manufactures, distributes, and retails sports footwear, apparel and accessories for sport and leisure use.
Xtep International Holdings Ltd ("**Xtep International**")	Xtep International designs, manufactures, and markets sportwear. The Company produces footwear, apparel, and accessories.

For the purpose of our evaluation and for illustration, we have made a comparison between the Target Group and the selected Comparable Companies on a historical basis using the following metrics:

(i) the PER which is commonly used for the purpose of illustrating the profitability and hence the valuation of a company as a going concern; and

(ii) the P/NAV ratio or NAV approach is used to show the extent the value of each share is backed by net assets. The NAV approach of valuing a group of companies is based on the aggregate value of all the assets of the group in their existing condition, after deducting the sum of all liabilities of the group.

Comparable Companies	Last financial year-end	Market capitalisation as at the Announcement Date (S$'million)[1]	Historical PER[2] (times)	Historical P/NTA ratio[3] (times)
ANTA Sports	31 Dec 2016	15,227.75	27.45	5.81
Li Ning	31 Dec 2016	2,643.46	31.82[4]	2.87
361 Degrees	31 Dec 2016	1,441.02	15.71	1.24
China Dongxiang	31 Dec 2016	1,330.89	7.00	0.64
Xtep International	31 Dec 2016	1,021.34	10.88	0.96
High			**31.82**	**5.81**
Low			**7.00**	**0.64**
Mean			**16.36**	**2.31**
Median			**15.71**	**1.24**
Target Group (implied by the Consideration)	**31 Dec 2016**	**20.00[5]**	**n.m.[6]**	**0.27 (based on Adjusted NAV as at 30 September 2017)**

***Source**: Bloomberg L.P., annual report and financial information of the Comparable Companies*

Notes:

(1) Based on the exchange rate of S$1.00:HKD5.7823 on 21 September 2017, being the Announcement Date, as extracted from Bloomberg L.P.;

(2) The historical PERs of the Comparable Companies are computed based on (a) their respective latest published trailing 12-month earnings, as set out in their latest available published financial statements as at the Announcement Date; (b) the exchange rate of S$1.00:RMB4.8817 on 21 September 2017 as extracted from Bloomberg L.P.; and (c) their market capitalisation as at the Announcement Date;

(3) The historical price-to-NTA ("**P/NTA**") ratios of the Comparable Companies were computed based on (a) their respective NTA values as set out in their latest available published financial statements as at the Announcement Date; (b) the exchange rate of S$1.00:RMB4.8817 on 21 September 2017 as extracted from Bloomberg L.P.; and (c) their market capitalisation as at the Announcement Date;

(4) The trailing 12-month earnings of Li Ning has been adjusted to exclude one-off gains from the disposal of 10% equity interest in discontinued operations for the financial year ended 31 December 2016;

(5) Based on the Agreed Exchange Rate of S$1:RMB5; and

(6) n.m. means not meaningful due to losses incurred by the Target Group.

Based on the above, we note that:

(i) while all the Comparable Companies are profitable and hence have positive PERs ranging from 7.0 times to 31.8 times, the Target Group is loss-making. The PER comparison is therefore not a meaningful metric; and

(ii) the historical P/Adjusted NAV ratio of the Target Group of 0.27 times implied by the Consideration is significantly below the lower end of the range and hence lower than the mean and median of the historical P/NTA ratios of the Comparable Companies.

As mentioned above, the Comparable Companies are established companies with strong brand names and hence they are not direct comparison with the Target Group especially given the past events and circumstances of the Group over the last 6 years. The above comparison therefore serves only as an illustrative guide.

6.2.4 Waiver of Distribution, Waiver of Debt to Shareholders, Adjustment of Consideration (if any) and the Waiver of Interco-Loan

Waiver of Distribution

The Company intends to carry out the Proposed Distribution of at least 80% of the Cash Consideration of S$5.6 million to all its Shareholders. The Wu Family as Shareholders are also entitled to their proportionate share of 33.01% of the Proposed Distribution, which is at least RMB7.39 million (S$1.48 million).

Pursuant to the SPA, the Wu Family has agreed to the Waiver of Distribution and instead renounce their entitlements to the Proposed Distribution to the remaining Shareholders. Hence, instead of the Wu Family receiving the RMB7.39 million as their entitlement to the Proposed Distribution and then paying the same amount of RMB7.39 million to the Company as a partial settlement of the Consideration, the Waiver of Distribution eliminates the to and fro of cash flows between the Wu Family and the Company.

As the value of the Wu Family entitlement is equivalent to the proportionate share of the Proposed Distribution, such value of their entitlement therefore forms part of the settlement of the Consideration. Hence, the Waiver of Distribution is not a double counting to the aggregate Consideration.

The remaining Shareholders will benefit from the Waiver of Distribution by the Wu Family.

It is therefore reasonable for the value of the Wu Family entitlement to be accounted for as part of the settlement of the Consideration.

Waiver of Debt to Shareholders

The Wu Family has been funding the expenses of the Company and such Owings to the Wu Family amounted to RMB64.5 million as at 30 September 2017. As at the Latest Practicable Date, the Owings to the Wu Family remains unchanged at RMB64.5 million. The Company

does not foresee the amount to fluctuate at Completion. These Owings to the Wu Family are unsecured, non-interest bearing and repayable on demand.

As these are amounts owed by the Company to the Wu Family, the Waiver of Debt to Shareholders to be treated as part of the settlement for the Consideration is a normal commercial arrangement between buyers and sellers for the settlement of purchase consideration, to minimize the flow of funds between the Company and the Purchaser.

Adjustment to the Consideration (if any)

The SPA has set out as a term of the Proposed Disposal that in the event that all or any part of the Wu Undertakings (i.e. the Waiver of Debt to Shareholders) is ineffective or invalid for any reason whatsoever (including the Owings to the Wu Family no longer being owed to them), the Purchaser shall not be required to top-up any such payment and the Consideration shall be reduced to exclude such amount.

Following from the above, there will not be any top-up of the Consideration by the Purchaser if the amount of the Waiver of Debt to Shareholders is less than the above indicated amounts at Completion as the Consideration will be reduced to the lower amounts.

As mentioned in Section 3.1 of this Letter, the basis of the Proposed Disposal is that the Purchaser is prepared to pay S$5.6 million in cash and will waive their entitlements to the Proposed Distribution and repayment on the Owings to the Wu Family.

Pursuant to the terms of the SPA, it is also a condition precedent that there are no claims and/or demands that may be brought against the Company and/or the Target Group which may affect the Proposed Disposal and/or the Proposed Distribution.

Given the current circumstance of the Group where the Company and the Independent Shareholders are held in limbo for more than 6 years, the above condition precedent is to prevent any untoward claims and/or demands against the Group that may frustrate the proposed transactions. The Owings to the Wu Family includes some invoices amounting to RMB21.6 million that were billed to the Company but which the Company had not acknowledged but on prudence had accounted for in its books in the past. The Wu Family had agreed to deal with these invoices on the basis of the Waiver of Debt to Shareholders. Hence, the Company will not need to deal with these invoices. However, in the event that the amount of such invoices is lower than the stated amount, the Purchaser will also not top-up the Consideration and the Consideration for the Proposed Disposal is deemed to be at the lower amount.

In a hypothetical scenario where the Waiver of Debt to Shareholders is reduced by RMB21.6 million, the Consideration for the Proposed Disposal will accordingly be reduced to RMB78.4 million.

On the basis that the independent market value being ascribed to the Target Group on an “as is” basis is zero, the above adjustment downwards on the Consideration, if any, will not be prejudicial to the interests of the Company and the Independent Shareholders. It is also the basis of the Proposed Disposal agreed by the Company and Purchaser.

Waiver of Interco-Loan

As set out in Section 3.2 of this Letter, the amount of the Waiver of Interco-Loan is significant. Such Interco-Loan is the amount due from the Target Company to the Company. It is non-trade in nature, unsecured, interest free, repayable on demand and denominated in Singapore dollars. As at 30 June 2017 based on HY2017 results, the Interco-Loan was RMB3,008.7 million. As at 30 September 2017 based on 9M2017 results, the Interco-Loan amount remains the same.

We understand from the Company that in the past, equity funds raised by the Company had been extended to the Target Company by way of Interco-Loan and such Interco-Loan is in-turn invested in the Group’s subsidiaries in the PRC by way of paid-up or registered capital.

As the Target Company and its subsidiaries are all wholly-owned by the Company, and the entire business operations of the Group are carried out through the Target Group, in the ordinary course of business, the Company could have funded the operations of the Target Group either by way of paid-up capital or inter-company loans.

If funding is done by way of inter-company loans, these inter-company loans are also typically interest-free. At the subsidiary entity level receiving the loans, they will be shown as amount due to the holding company and at the holding company level, it will be recorded as amount due from subsidiary, as is the case with the Group. Upon consolidation of the results of the group, these inter-company loans and interest, if any, will be eliminated at the group level.

However, upon the sale of the Target Company or the Target Group, such inter-company amount due from/to will have to be addressed. Hence, in relation to the Proposed Disposal where the Interco-Loan is waived, the Company will recognise a loss from the forgivance of the Interco-Loan and the Target Group will recognise a gain arising from the forgivance of the Interco-Loan.

We note that the Interco-Loan amount is significant. If there is no Waiver of Interco-Loan, the Target Group would be saddled with a huge net liability position of RMB2.6 billion which will make it untenable for the Purchaser. However, with the Waiver of Interco-Loan, the Target Group would have an Adjusted NAV of RMB376.5 million as at 30 September 2017.

We also note that the Group had made substantial losses over the last 6 years and its shareholders' equity had been pared down significantly from RMB4.2 billion as at 31 December 2009 to RMB308.2 million as at 30 September 2017. The losses incurred by the Group were funded ultimately by, *inter alia*, shareholders' equity. Within the Group, the management or the Directors have the discretion on how the entities of the Group are to be funded, for example, *via* inter-company loans and/or direct investment in the paid-up capital of the entities. Hence, the Interco-Loan could be viewed as a normal funding option by the Company in the ordinary course of operation of the Group.

As the Interco-Loan is essentially a result of the business operations being treated as a single business under the umbrella of the Group, the Waiver of Interco-Loan is reasonable.

6.3 Other relevant considerations which may have a significant bearing on our assessment on the Proposed Disposal

6.3.1 Trading suspension on the Shares

Trading of the Shares on the SGX-ST has been suspended for more than 6 years since February 2011 even though the Company continued to be officially listed on the SGX-ST.

Pursuant to Rule 1304(1) of the Listing Manual, if an issuer is suspended under Rule 1303(3) of the Listing Manual, it must submit a resumption proposal to the SGX-ST within 12 months of the date of suspension. If no resumption proposal(s) are received to enable trading to resume within 12 months of the date of suspension, the SGX-ST may remove the issuer from the Official List.

It should be noted that the Company is at risk of being removed from the SGX-ST as it has been more than 6 years since its trading suspension. While the Company had made several attempts to lift the trading suspension between February 2012 and May 2013, so far it had not been successful. In the worst case scenario, the Company could be liquidated and the Company will be removed from the Official List of the SGX-ST.

Hence, the Proposed Disposal is presently the only option on the table which the Directors are hopeful would enable the Company to maintain its listing status and resume trading of the Shares on the SGX-ST should it succeed in a RTO exercise. As at the Latest Practicable Date, the Company is considering potential RTO prospects and will make the relevant announcements after a definitive decision has been reached by the Company.

6.3.2 Losses incurred by the Group

The losses incurred by the Group over the last 6 years since FY2010 had pared down considerably the shareholders' equity of the Group.

The Proposed Disposal will immediately upon Completion alleviate the losses of the Group as the Company will be left with no subsidiaries, no operating business and minimal NAV of RMB0.85 million (S$0.17 million), mainly cash of approximately RMB4.6 million (S$0.9 million) and accrued payables of RMB3.75 million (S$0.75 million) after the Proposed Distribution. The accrued payables are in relation to directors' fees payable to the Independent Directors accrued for the last 4 years from FY2012 to FY2016 but which have not been put forth for Shareholders' approval at the Company's general meeting.

6.3.3 The Wu Family is the most logical purchaser for the Target Group

Mr Denis Wu Rongzhao, a member of the Wu Family, is the legal representative of the PRC subsidiaries in the Target Group (save for Hongxing Apparel, where the legal representative is a nominee of Mr Denis Wu Rongzhao). Under the laws of the PRC, the legal representative holds significant powers, including approval for the sale of any interest of the PRC entities.

We note that the Wu Family continues to manage and operate the Target Group in the PRC. They are the founders of the Group and have no intentions to relinquish control of the Target Group.

Given the above circumstances, the Wu Family is therefore the most logical purchaser for the Target Group.

6.3.4 Proposed Distribution & Independent Directors' fees

Independent Shareholders will benefit from the Proposed Distribution and the renunciation of the Wu Family's entitlement of the Proposed Distribution. The Proposed Distribution is at least 80% of the Cash Consideration of S$5.6 million. This represents, in aggregate, approximately S$0.00239 to S$0.00299 per Share for the Independent Shareholders.

The Company intends to retain some cash proceeds for working capital purposes and to fund expenses for any potential RTO exercises. The Company estimates to have a cash balance of S$0.9 million after the Proposed Disposal and Proposed Distribution assuming the accrued payables to the directors' fees remain outstanding.

With regard to the outstanding Directors' fees, the Directors intend to table the matter for Shareholders' approval at a later date when the RTO exercise becomes more imminent and may, if appropriate, also consider the payment via the issue of new Shares of the Company. The Directors will decide on this matter at a later date.

6.3.5 Cash company status

Upon the Completion of the Proposed Disposal, the Company will be deemed as a cash company without any operating business under Rule 1018 of the Listing Manual.

Pursuant to Rule 1018 of the Listing Manual, the Shares of the Company will remain suspended until the Company has a business which is able to satisfy the SGX-ST's requirements for a new listing, and all relevant information has been announced. Otherwise, the SGX-ST will proceed to remove the Company from the Official List of the SGX-ST if the Company 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.

Accordingly, the Shares will continue to be suspended from trading and the Company continues to face the risk of being delisted if it is unable to meet the SGX-ST listing requirement.

The Company had faced the risk of potential delisting under Rule 1304(1) Listing Manual and will continue to face the risk of potential delisting after the Proposed Disposal under Rule 1018 of the Listing Manual. In the overall scheme of things, Shareholders are not worst off from the present situation. Hence, the Directors are of the view that the Company, as a clean shell, is in a better position to explore RTO opportunities, and Shareholders can hope to realise some potential upside if the Shares resumes trading after a successful RTO exercise. At the present state of affairs, the salvageable value of the Shares is likely to be close to zero if the Company is put into liquidation.

6.3.6 Financial effects of the Proposed Disposal

Details on the financial effects of the above are set out in Section 6 of the Circular and are based on the Group's financial information for 9M2017, and certain assumptions. The financial effects are for illustrative purposes only and do not purport to be an indication or a projection of the results and financial position of the Group after the Completion of the Proposed Disposal.

In summary, based on the Company's unaudited 9M2017 results, we note the following:

(a) *NAV of the Group*

At the Group level, the Proposed Disposal will result in a significant decrease in the NAV of the Group as the Target Group is to be sold at a significant discount to the NAV of the Group. In addition, the Proposed Distribution via dividends or capital reduction will further decrease the NAV of the Group. The Company intends for the Proposed Distribution to be carried by way of the Proposed Capital Reorganisation as the Company does not have sufficient distributable reserves.

At the Company level, as a result of the Waiver of Interco-Loan, the Company will recognise a one-off impairment on the Interco-Loan.

Overall, after the Proposed Disposal (including the Waiver of Distribution, Waiver of Debt to Shareholders and Waiver of Interco-Loan) and the Proposed Distribution, the Company's NAV will become quite minimal consisting of mainly cash balances and accrued payables.

(b) *Loss per Share*

The Group will recognise a loss on the Proposed Disposal of RMB276.5 million (S$55.3 million). In addition, upon the Waiver of Interco-Loan, the Company will recognise (at the Company level) an impairment loss arising from the forgivance of loan due from a subsidiary of RMB3,008.7 million (S$601.7 million).

Going forward, it will not bear the losses of the operating subsidiaries of the Target Group.

(c) *Gearing*

The Group does not have any bank borrowings. The expenses of the Group, in particular the Company, are funded mainly by loans from the Wu Family. Such Owings to the Wu Family will be waived as partial settlement of the Consideration.

Following the Completion, the Company will have no subsidiaries and no outstanding loans or debt from Interested Persons.

6.3.7 Wu Family remains as the controlling Shareholder and Independent Directors to continue as directors of the Company

It should be noted that the Wu Family will remain as the controlling Shareholder after the Proposed Disposal as the Proposed Disposal does not involve any disposal or dilution of their shareholdings in the Company.

The Shares will continue to be suspended from trading until the completion of a successful RTO exercise pursuant to Rule 1018 of the Listing Manual.

We understand that the Independent directors intend to continue their services as directors of the Company until such time when the Company obtains approval from the SGX-ST for the resumption of trading of the Shares on the SGX-ST, which will be after the completion of a RTO exercise.

6.3.8 Commentary by the Company in the unaudited results announcement for 9M2017

The Company had made the following comments in relation to its business outlook in its unaudited results announcement for 9M2017:

> *"In view of the downturn of the China economy, the Group expects that it will continue to face challenges as market conditions are expected to remain highly competitive in the next 12 months. As a result, the Group has concerns over the reduced spending on discretionary purchases.*
>
> *The Group will continue to exercise stringent cash control. The Company's cash position was RMB5.1 million as at 30 September 2017. The Company can continue to operate on a going concern basis so long as the controlling shareholders continue to support the Company's operations."*

6.3.9 Inter-conditionality of the Proposed Disposal, Proposed Bye-Law Amendment and Proposed Distribution

The resolutions for the Proposed Disposal, Proposed Bye-Law Amendment and Proposed Distribution are inter-conditional upon each other as they are integral parts of the same transaction, namely the Proposed Disposal.

Hence, if any of the resolutions is not approved, the other resolutions will not be passed.

It should also be noted that the Proposed Disposal is tabled as an ordinary resolution whereas the Proposed Bye-Law Amendment and Proposed Distribution are tabled as special resolutions which require at least three-fourths (3/4) of the votes by Shareholders who are present and voting at the SGM.

7. OUR OPINION

In arriving at our opinion in respect of the Proposed Disposal as an Interested Person Transaction, we have reviewed and examined all factors which we consider to be pertinent in our assessment, including the following key considerations:

(a) Company's rationale for the Proposed Disposal;

(b) Assessment of the financial terms for the Proposed Disposal; and

(c) Other relevant considerations which may have a significant bearing on our assessment of the Proposed Disposal.

In the above assessment, we have also evaluated extensively in Section 6.2 of this Letter that the Proposed Disposal is on normal commercial terms despite being transacted at a significant loss as compared to the NAV of the Target Group. It is pertinent to note that the Consideration for the Proposed Disposal is not done at below the market valuation as the Valuer had ascribed a market valuation of zero for the Target Group on an "as is" basis, being the Base Case, as detailed in Sections 6.2.2 and 6.2.4 of this Letter.

Hence, overall, based on our analysis and after having considered carefully the information available to us as at the Latest Practicable Date, we are of the view that given the unique circumstances of the Group and the rationale for the Proposed Disposal which have been elaborated in this Letter including Sections 5.3, 5.4, 6.1, 6.2 and 6.3, the Proposed Disposal, as an Interested Person Transaction, is on normal commercial terms and is not prejudicial to the interests of the Company and the Independent Shareholders.

Our opinion, as disclosed in this Letter, is based solely on publicly available information and information provided by the Directors and the Management and does not reflect any projections of future financial performance of the Company and/or the Group after the completion of the Proposed Disposal. In addition, our opinion is based on the economic and market conditions prevailing as at the Latest Practicable Date and is solely confined to our views on the Proposed Disposal.

This Letter is prepared in compliance with Rule 921(4)(a) of the Listing Manual and is addressed to the Directors for their benefit and for the purpose of their consideration of the Proposed Disposal as an Interested Person Transaction. The recommendation to be made by them to the Independent Shareholders shall remain their responsibility. Whilst a copy of this Letter may be reproduced in the Circular, neither the Company, the Directors nor any other person may reproduce, disseminate or quote this Letter (or any part thereof) for any other purpose other than for the purpose of the SGM and for the purpose of the Proposed Disposal, at any time and in any manner without the prior written consent of Provenance Capital in each specific case.

Our opinion is governed by, and construed in accordance with, the laws of Singapore, and is strictly limited to the matters stated herein and does not apply by implication to any other matter.

Yours faithfully
For and on behalf of
PROVENANCE CAPITAL PTE. LTD.

Wong Bee Eng
Chief Executive Officer

AVA Associates Limited
806 Empress Plaza
17-19 Chatham Road South
Tsim Sha Tsui, Hong Kong

2 March 2018

To
Board of Directors
CHINA HONGXING SPORTS LIMITED
50 Raffles Place
#32-01 Singapore Land Tower
Singapore 048623

Dear Sirs,

Pursuant to your instructions, AVA Associates Limited ("AVA") has performed **a valuation of the 100% equity interest in Profitstart Group Limited ("Profitstart Group") and selected assets belonging to Profitstart Group as at 30 June 2017 ("Valuation Date"), in relation a proposed disposal as announced by China Hongxing Sports Limited ("China Hongxing" or the "Company") on 21 September 2017**. The purpose of this engagement is to assist the Board of Directors of the Company (the "Board") in their assessment of the values of Profitstart Group, and inclusion in a circular to the shareholders on the proposed disposal. No other use of our valuation report is intended or should be inferred.

Definition of Value

In estimating the value of the assets, our efforts were based on the following premise of value:

Market Value – *"The estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."* Such value represents an estimate based on the economic theory of equilibrium price for an asset in a perfect market.

Scope of Work

On 21 September 2017, China Hongxing, listed on the Stock Exchange of Singapore ("SGX"), announced that the Company has entered into a conditional sale and purchase agreement with Jiayao Investments Limited to dispose of its 100% equity interest in Profitstart Group for a consideration of RMB100 million.

Following our discussions with the Board, AVA has been engaged to assist the Company in its preparation of a set of values pertaining to the business and selected assets of Profitstart Group, in order to facilitate the Board's assessment of the proposed disposal. **Our work consisted of**

determining the Market Value of (a) 100% interest in the business of Profitstart Group, (b) property, plant and equipment, (c) land use rights and (d) the Trademark belonging to the Hongxing Business Group.

Profitstart Group, a wholly-owned subsidiary of the Company, is an investment holding company incorporated in the British Virgin Islands ("BVI") with 100% direct and indirect interests in the following companies.

- Crowngain Investments Limited (BVI)
- Fujian Hongxing Erke Sports Goods Co., Ltd. (China) ("Fujian Hongxing")
- Xiamen Hongxing Erke Apparel Co., Ltd (China) ("Xiamen Hongxing")
- Groupnew Investments Limited (BVI)
- Quanzhou Hongrong Light Industry Co., Ltd. (China) ("Quanzhou Hongrong")
- Fujian Hongrong Shoes & Garments Co., Ltd. (China) ("Fujian Hongrong Shoes & Garments")
- Fujian Hongrong Sports Goods Co., Ltd. (China) (Fujian Hongrong Sports Goods")

Fujian Hongxing, Xiamen Hongxing and Quanzhou Hongrong, (together, the "Hongxing Business Group") are the operating companies in China engaged in the design, manufacture and sales of sports shoes, sports apparel and sports accessories under the "Erke" trademark (the "Trademark"). Fujian Hongrong Shoes & Garments and Fujian Hongrong Sports Goods are dormant companies.

Our valuation and report is prepared in accordance with the International Valuation Standards (2013 edition) as published by the International Valuation Standard Committee and relevant standards adopted by the Royal Institution of Chartered Surveyors. The procedures used in our analysis included such substantive steps, as we considered necessary, including, but not necessarily limited to, the following:

- Preparation of an information checklist for information gathering;
- Site visit, including inspection of the assets belonging to Profitstart Group;
- Discussion with the appropriate parties regarding the identified assets, adopted/proposed valuation methodologies, current/proposed operations and historical/forecast financials of Profitstart Group, as well as its prospects, etc;
- Development of appropriate valuation models pertinent to the exercise;
- Preparation of draft reports for discussion with the Company; and
- Submission of the final report for the purpose of this exercise.

Sources of Information

As part of our due diligence, we relied upon documents supplied by the Company and Profitstart Group, including, but not limited to, the following:

- Unaudited annual financial statements of the Company, from 2012 to 2016, as announced on SGX's portal;
- Unaudited financial statements of the Company, for the first 6 months of 2017, as announced on SGX's portal;
- Various announcements, in relation to the unaudited financial statements of the Company, from 2012 to 2017, as announced on SGX's portal;
- Breakdown of the trade payables as at 30 June 2017;
- Breakdown of the trade receivables from 2012 to June 2017;
- Breakdown of the cost of goods sold from 2014 to June 2017;
- Details of the plant and equipment as at 30 June 2017;
- Details of the properties and land use rights as at 30 June 2017; and
- Other relevant documentations.

We planned and performed our review and valuation so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to express our opinion on the subject asset. In the course of our work, we held discussions with the management concerning the history and current conditions of Profitstart Group, financial and general outlook of the business. We assumed that the data we obtained in the course of the valuation, along with the opinions and representations provided to us are true and accurate. We also used financial and other information obtained from private and public sources we considered reliable. Our conclusions are dependent on such information being complete and accurate in all material respects. We believe the review and valuation procedures we employed provide a reasonable basis for our opinion.

Valuation Theory

Our approach in valuing the identified asset relies on using the appropriate techniques to arrive at our conclusion of value. We considered the three generally recognized approaches to value: the income, market and cost approaches.

An overview of the three approaches considered is as follows:

- The *Income Approach* focuses on the income-producing capability of a business or asset. The income approach measures the current value of a business or asset by calculating the present value of its future economic benefits such as cash earnings, cost savings, tax deductions, and proceeds from disposition. Value indications are developed by discounting expected cash flows to their present value at a rate of return that incorporates the risk-free rate for the use of funds, the expected rate of inflation, and risks associated with the particular investment. The discount rate selected is generally based on rates of return available from alternative investments of similar type and quality as of the valuation date.
- The Market Approach measures the value of a business or asset through an analysis of recent sales or offerings of comparable businesses or assets. In estimating the value of a business under the market approach there are two methodologies: the publicly-traded guideline company methodology and the recent transaction methodology. The publicly traded guideline company methodology develops an indication of value for the subject company by calculating market pricing multiples for selected publicly-traded guideline companies and applying these multiples to the appropriate financial measures of the subject company. The recent transaction methodology develops an indication of value for the subject company by calculating market pricing multiples based on actual acquisitions of similar businesses and applying these multiples to the appropriate financial measures of the subject company. After deriving a value, adjustments are then made to account for differences between the subject business or asset being valued and the comparable businesses or assets used in the analysis.
- The Cost Approach measures the value of a business or asset by the cost to reconstruct or replace it with another of like utility. To the extent that the assets being valued provide less utility than new assets, the reproduction or replacement cost new would be adjusted to reflect appropriate physical deterioration, functional obsolescence, and economic obsolescence. The cost approach recognizes that a prudent investor would not ordinarily pay more for property or an asset than the cost to replace them new.

Selected Valuation Approach

Valuation of the Equity Interest in Profitstart Group

We selected the Income Approach to estimate the value of the interest in Profitstart Group. Our basis for selecting this approach was due to the availability of relevant data, specifically the historical financial and operating records provided by the Company. Based on this information, we utilized a discounted cash flow ("DCF") methodology to estimate the cash that is available, either to invest in new or existing businesses or to distribute, to both equity and debt holders of Profitstart Group. We believe this approach best reflect the current status of the Hongxing Business Group.

The value of the Equity Interest is derived based on the following formula:

Market Value of the Equity Interest
=
Enterprise Value – Debt + Cash + Non-Operating Assets/(Liabilities)

For illustrative and reference purposes, we also estimated the value of the Equity Interest using the Market Approach as information on comparable companies were publicly available. These comparable companies were selected allowing us to prepare a relative valuation of Profitstart Group using the financial valuation ratios of these comparable companies. The main purpose of the calculation is to provide the Board with additional information on the potential valuation of Profitstart Group on the assumption that Profitstart Group has performed and is expected to perform similarly to the comparable companies selected.

Valuation of the Real Property

The group owns real properties, being the land use rights, buildings and structures at 2 locations in Licheng District, Quanzhou City, Fujian Province, the People's Republic of China.

We have relied on the income and market approaches to arrive at the value conclusion for each of the properties. The Direct Comparison Approach was adopted for the valuation of the subject site; and Cost Approach for the improvements (including buildings and structures).

Depreciated Replacement Cost is based on an estimate of the Market Value for the existing use of the land, plus the current gross replacement (reproduction) costs of the improvements, less allowances for physical deterioration and all relevant forms of obsolescence and optimization.

Direct Comparison Approach is universally considered the most accepted valuation approach for valuing most forms of real estate. This involves the analysis of recent market sales evidence of similar properties to compare with the premises under valuation. Each comparable is analyzed on the basis of its unit rate; each attribute of the comparable is then compared with the subject and where there is a difference, the unit rate is adjusted in order to arrive at the appropriate unit rate for the subject. This is done by making percentage adjustments to the unit rate for various factors, such as location within the city, size, configuration, access, and so on.

Valuation of the Machinery and Equipment

The valuation of these assets relied on both the market and cost approaches. However, due to limited information of second hand market for these assets, we have mainly relied on cost approach.

The cost approach establishes value based on the cost of reproducing or replacing the equipment, less depreciation from physical deterioration, and functional and economic/external obsolescence.

Cost of Reproduction New is defined as the estimated amount required to reproduce the equipment at one time in like kind and materials in accordance with current market prices for materials, labor, and manufactured equipment, contractors' overhead and profit, and fees, but without provision for overtime, bonuses for labor, or premiums for materials or equipment.

Physical Deterioration is the loss in value resulting from wear and tear in operation and exposure to the elements.

Functional Obsolescence is the loss in value caused by conditions within the equipment such as changes in design, materials, or process that result in inadequacy, overcapacity, lack of utility, or excess operating costs.

Economic/External Obsolescence is an incurable loss in value caused by unfavorable conditions external to the equipment such as the local economy, economics of the industry, availability of financing, encroachment of objectionable enterprises, loss of material and labor sources, lack of efficient transportation, shifting of business centers, passage of new legislation, and changes in ordinances

Valuation of the Trademark

In estimating the value of the Trademark, the income approach, utilizing a Relief-from-Royalty Method ("RfR"), was applied. The RfR is a form of DCF analysis where royalties, which the business is exempted from by virtue of the fact that it owns the intangible asset, are estimated by multiplying a benchmark royalty rate with the net revenues expected to be generated by the subject intangible asset. The product is an estimate of the royalty income that could be generated hypothetically by licensing the subject intangible asset.

Overview of "Erke" in the Sportswear Industry

Continued Decline in Market Share

Profitstart Group's "Erke" brand has continued to suffer market share loss since its peak in the late 2000s, as the industry becomes more crowded and competitive. The lack of investments in the "Erke" brand has left it trailing the other local brands as well. Various reports have the "Erke" brand ranked eighth or ninth, in terms of its 2015 share of the market in China, well behind foreign brands like Nike and Adidas, as well as local brands like Li Ning, Xtep and Anta.

Summary of Visit by AVA on 16 October 2017

During our visit to the Hongxing Business Group's office in China on 16 October 2017, we interviewed Mr. Denis Wu Rongzhao, legal representative of Profitstart Group's subsidiaries in China. Key takeaways from the meeting are as follows.

- The group is still plagued with huge inventory at the wholesale and retail levels. While the amounts have decreased gradually over the last few years, the group continues to cautiously managing its inventory levels;
- Continuous aggressive discounting is still required to move the inventory amid similar discounting practices among the other local brands; and

- Costs of raw materials and labor need to be managed actively to ensure profit margins continue to improve.

Such factors have resulted in Profitstart Group's depressed reported gross profit margin ("GPM") over the years. There is light at the end of the tunnel with gross margins improving over the last 3 years, as the Hongxing Business Group tries to control the discounts offered to distributors. This has come at the expense of revenue growth, as its customers reduced purchases.

Albeit Erke's retail prices being marginally lower as compared to its direct competitors, its gross profit margins have always been below its competitors' reported gross profit margins of at least 40%. This suggests the Hongxing Business Group have been giving at least 20% more price discount than its competitors.

Given the current situation at Hongxing Business Group, it does not appear that they will able to command similar margins as its close competitors in the near future without a comprehensive plan to rebuild the "Erke" brand.

Equity Interest in Profitstart Group – Income Approach

We calculated the Market Value of the Equity Interest of Profitstart by estimating the value of Profitstart through the income approach, employing a discounted cash flow ("DCF") methodology.

Our basis for selecting the income approach was due to the availability of relevant data, specifically the development plans and financial projections provided by the company. We chose the DCF methodology as it enables us to view the entire portfolio of assets as an operating entity, with the principal focus of the analysis on the operating entity's ability to generate free cash flow in the future, based on assumptions provided by the company. Free cash flow to enterprise ("FCFE") is defined as cash that is available either to invest in new or existing businesses or to distribute to investors (equity holders and debt holders). Reasonable projections of revenues, expenses, and reinvestment requirements (i.e. working capital and capital expenditures) form the basis for estimating the future free cash flows that a company will likely generate from its existing business.

The FCFE for each year of the projection period was calculated by adding interest expenses and non-cash expenses, such as depreciation and amortization, deferred rent, and stock option expense, to and deducting incremental investments in working capital, and capital expenditures from the net profit. The projected free cash flows in each period were discounted to present value at an appropriate rate of return, or "discount rate". The sum of the discounted stream of future free cash flow, together with the value of non-operating assets, if any, reflects the value of the subject enterprise or portfolio of assets.

The above approach allowed us to estimate the Market Value of the Equity Interest in Profitstart under a set of reasonable and robust assumptions.

Key Valuation Assumptions

We have assumed the following for the purpose of the valuation exercise:

- The business of operating the Hongxing Business Group will compose of all necessary assets, both tangible and intangible, to continue operating as it has under its current owners;
- The historical financial statements, while unaudited by external auditors, have been properly prepared to reflect true financial performance and standing; and

- There is no hidden or unexpected conditions associated with the assets valued that might adversely affect the reported value.

The Management has provided us with guidance on historical revenue, expenses, and working capital requirements. Based on our professional judgement, we have put forth a set of parameters deemed to be reasonable to arrive at a 5-year projection and adopted it for the purpose of this valuation. We discussed the risks of achieving these projections and the overall reasonableness of the parameters used. We considered the impact of each valuation-related parameter individually, and the related impact on our overall valuation conclusions.

Although the information and assumptions used in the cash flow projections are a reasonable basis for valuation purposes, our analysis and use of them do not constitute an examination or compilation of prospective financial information in accordance with established standards.

Assumptions – Base Case

Based on our analysis of the financial statements and understanding of the current business model, we prepared a base case scenario modelled on the following assumptions.

Parameters	Assumptions
Revenue	• It is imperative that Hongxing Business Group seeks fresh funds to finance any revenue growth, given the insufficient capital in the group. • It is also a challenge to maintain revenue at the current level without improving the profitability of the business as capital is being depleted with every dollar of sales. • It is reasonable to assume that any revenue growth will come at the expense of profitability, given the competition in the market and the existing weaknesses of the "Erke" brand.
Gross profit margin	• It is reasonable to assume that gross profit margin can be improved in the near future as the Hongxing Business Group manages its raw material purchases and deploys its labor assets more efficiently. • The current structure of the Hongxing Business Group has a larger than required investment in its Fixed Assets, largely a result of underutilization of its 2 facilities in Quanzhou. Without a realignment of these assets, the current depreciation charges will limit the reported profit margins.
Operating expenses	• It is reasonable to assume that operating expenses as a percentage of revenue will continue to be above the industry's norm as the Hongxing Business Group does not enjoy the economies of scale like its competitors.
Working capital requirements	• It is reasonable to assume that the Hongxing Business Group is able to maintain its working capital ratios.

Conclusion – Base Case

The operation currently suffers from a few key factors (1) weak or non-existent revenue growth (2) low gross profit margin (3) underutilization of its operating assets (4) expected operating losses in the near future and (3) inadequate cash to finance the operations. On this basis, losses can be expected to continue in the near future and the operation will not be financially viable unless a restructuring is undertaken immediately to enhance the liquidity of the business. **We thus conclude that under the above mentioned scenario, the Market Value of the Equity Interest in Profitstart Group is NIL.**

Assumptions – Optimistic Case

The following table shows the key assumptions that AVA has adopted to derive the cash flows attributable to the enterprise in a scenario where Profitstart Group is able to navigate the challenges ahead and improve its business profitability.

Parameters	Assumptions
Forecast period	• 5-year period from Valuation Date with the terminal year beginning in 1 January 2023. • We assume the business can reach a stable and marginally viable and profitable position in 5 years.
Revenue	• We assume revenue will remain constant at RMB1.3 billion throughout the forecast period.
Gross profit margin	• We assume this margin will improve gradually over a 5-year period from 22.0% to 29.0%.
Operating expenses	• We assume the percentage of revenue, based on 2017 figures, will gradually improve from 24.7% to 20.7% at the end of the forecast period.
Working capital requirements	• We assume the following turnover days: o Account receivables – 80 days; o Inventory – 120 days in FY2017F and 100 days till the end of the forecast period; and o Trade payables – 170 days in FY2017F and 180 days till the end of the forecast period
Capital expenditure requirements	• We assume the Hongxing Business Group reinvests about 1.0% of revenue as capital expenditures, in line with the amount incurred in 2017.
Income tax rate	• Marginal income tax rate of 25.0% is assumed.
Terminal growth rate	• No growth is forecasted for the period after 2021.
Weighted average cost of capital ("WACC")	• 17.0%

Conclusion – Optimistic Case

Based on the assumptions mentioned above, the DCF calculation points to a value of RMB235 million as the value of the Equity Interest in Profitstart Group, under an optimistic scenario.

Valuation Conclusion – Income Approach

The base case scenario provided a value of Profitstart Group on an as-is basis. As seen from the reported financials, the business has been unprofitable for numerous years, with its capital depleted to a point where the financial viability of the operation is in question. The optimistic scenario gave a value that signifies the possibility of Profitstart Group emerging from its current troubles organically to achieve marginal profits eventually, albeit remaining a small player in China's sportswear industry.

Item	Market Value - Base Case (RMB)	Market Value - Optimistic (RMB)
100% Equity Interest in Profitstart Group Limited	Nil	235,000,000

We are thus of the opinion that the Market Value of the Equity Interest in Profitstart can be reasonably stated as ranging from NIL to RMB235 million.

Equity Interest in Profitstart Group – Market Approach

The Income Approach we adopted in the earlier section allowed us to view and model Profitstart Group and its operations using the DCF method to study the cashflows that it is able to generate for its owners. For reference purposes, we proceeded to use the Market Approach by analyzing recent sales or offerings of comparable businesses or assets.

We were not able to apply the recent transaction methodology due to the lack of directly comparable transaction. Hence, we employed the publicly-traded guideline company methodology. This methodology develops an indication of value for the subject company by calculating market pricing multiples for selected publicly-traded guideline companies and applying these multiples to the appropriate financial measures of the subject company.

The comparable companies we selected are listed on the Stock Exchange of Hong Kong. Below is a brief description as taken from Reuters.

Li Ning Company Limited (Bloomberg Stock Code: 2331.HK)
Li Ning Company Limited is principally engaged in brand development, design, manufacture and sale of sport-related footwear, apparel, equipment and accessories in the People's Republic of China (the PRC). The Company is also engaged in the manufacture, development, marketing, distribution and sales of sports products under several other brands, including Double Happiness (table tennis), AIGLE (outdoor sports) and Lotto (sports fashion).

361 Degrees International Limited (Bloomberg Stock Code: 1361.HK)
361 Degrees International Limited is a China-based investment holding company principally engaged in the manufacturing and trading of sporting goods, including footwear, apparel and accessories. The Company operates through two business segments. The 361 Degrees Products- Adults segment is engaged in the manufacturing and trading of adults sporting goods. The 361 Degrees Products-Kids segment is engaged in the trading of kids sporting goods.

Xtep International Holdings Limited (Bloomberg Stock Code: 1368.HK)
Xtep International Holdings Limited is principally engaged in the design, development, manufacturing, sales, marketing and brand management of sportswear, including footwear, apparel and accessories. Its products are mainly sold under the self-owned brand of Xtep.

Analysis – Market Approach

The table below summarizes the information we obtained from Bloomberg on 19 October 2017 on the selected comparable companies.

Stock Code	Market Cap (RMB) (millions)	Gross Margin	EBITDA Margin	Profit Margin	EBIT Margin	Price-to-Book	Price-to-Earning	Price-to-EBITDA	EV/book	Price-to-Sales	Forward Price-to-Sales 2017
2331.HK Li Ning	12,932	47.65	9.27	4.73	5.17	2.35	35.77	16.27	1.92	1.51	1.42
1361.HK 361	5,934	42.32	21.48	11.37	19.15	0.89	11.23	4.45	0.49	0.96	0.97
1368.HK Xtep	6,683	43.95	16.29	13.43	15.13	1.08	12.25	6.66	0.68	1.08	0.98

Low		42.32	9.27	4.73	5.17	0.89	11.23	4.45	0.49	0.96	0.97
Mean		44.64	15.68	9.85	13.15	1.44	19.75	9.13	1.03	1.18	1.12
Median		43.95	16.29	11.37	15.13	1.08	12.25	6.66	0.68	1.08	0.98
High		47.65	21.48	13.43	19.15	2.35	35.77	16.27	1.92	1.51	1.42

Conclusion – Market Approach

By applying the low and high ratios of Price-to-Sales and Price-to-Book from the table, we can infer the relative valuation of the value of Profitstart Group to fall in the range from RMB414 million to RMB1,599 million.

Item	Low (RMB)	High (RMB)
Market Approach		
Indicative Value of Equity Interest of Profitstart Group	414,000,000	1,599,000,000

The above implies the indicative value a rational investor will apply to Profitstart Group on the assumption that the group is similar to 3 selected companies, in terms of business nature, business model, financial performance, capital structure and other characteristics. From another perspective, it can represent what the value of Profitstart Group may be if it can perform similarly to the comparable companies.

Do note that in this simplified analysis, we have not considered any adjustments, such as control or size premia, in the calculation to account for the differences between Profitstart Group and the selected comparable companies. While they all manufacture and sell local-branded sportswear, the similarities end there. The lackluster financial performance and market position of the Hongxing Business Group will require substantial downward adjustment to the value range estimated above. Such adjustments are subjective and this lead us to conclude that **it is inappropriate to derive a value of Profitstart Group using the market approach**.

Valuation of Balance Sheet – Cost Approach

The cost approach measures the value of a business or asset by the cost to reconstruct or replace it with another of like utility. The cost approach recognizes that a prudent investor would not ordinarily pay more for property or an asset than the cost to replace them new. In this section, we discuss the value of Profitstart Group on a revalued basis, adjusting for the market value of its property, plant & equipment, land use rights and the intangible asset of the Trademark.

Our valuation of the property, plant & equipment and the land use rights (the "Fixed Assets"), are presented in Exhibit 1 and 2 while the analysis for the valuation of the Trademark is presented in Exhibit 3. Both valuations are meant to update the value of selected items in the balance sheet.

Cost Approach – Adjusted Net Asset Value

We conducted a limited scope review of the balance sheet items to assist the Board to derive an Adjusted Net Asset Value for them to understand the adjusted book value of its assets. The objective is to provide a best estimate of their fair values based on the information gathered and revaluation of the Fixed Assets as conducted by AVA. The table below highlights the value adjustment, to account for the value uplift in Fixed Assets, to arrive at an Adjusted Net Asset value of RMB465 million, as compared to the unaudited book value of RMB403 million.

(RMB'000)

	30-Jun-17 Unaudited	Fair Value Adjustment	30-Jun-17 Adjusted
NON-CURRENT ASSETS			
Property, plant and equipment	456,233	51,874	508,107
Land use rights	23,465	10,715	34,180
Deferred tax assets	15,952		15,952
Investments in subsidiaries	-		
	495,650		558,239
CURRENT ASSETS			
Inventories, at cost	350,825		350,825
Trade receivables	294,035		294,035
Land use rights - current portion	878		878
Prepayments, deposits and other receivables	5,657		5,657
Due from subsidiary	-		-
Bank and cash balances	19,149		19,149
	670,544		670,544
Total Assets	**1,166,194**		**1,228,783**
EQUITY			
Net Asset value	403,635		466,224
CURRENT LIABILITIES			
Trade payables	475,660		475,660
Accruals and other payables	173,691		173,691
Amount due to shareholders	64,383		64,383
Amount due to executive director	-		-
Current tax liabilities	47,914		47,914
	761,648		761,648
NON-CURRENT LIABILITIES			
Deferred tax liabilities	911		911
Total Liabilities	762,559		762,559
Total Equity and Liabilities	**1,166,194**		**1,228,783**

Item	Low (RMB)	High (RMB)
Cost Approach		
Adjusted Net Asset Value (excluding Trademark)	465,000,000	465,000,000
Adjusted Net Asset Value (including Trademark)	614,000,000	664,000,000

The table above shows the range of values of the Adjusted Net Asset Value of Profitstart Group, with and without the inclusion of the Trademark.

Cost Approach – Realizable Net Asset value

At the request of the Board, we have prepared a desktop estimate of the Realizable Net Asset Value in the event of an orderly disposal of the assets and liabilities of Profitstart Group. We have included the value of the Trademark to complete the balance sheet as it forms part of the makeup of the group. It is important to note that the realizable percentages are based on our personal judgement

as to the asset and liability's recoverable value, for an illustrative purpose only. We designed the calculation to provide low and high estimates, varying the percentages of expected recovery for the assets from 0.0% to 100.0%, while the liability amounts are left unchanged.

Item	Low (RMB)	High (RMB)
Cost Approach		
Realizable Net Asset Value (including Trademark)	Nil	264,000,000

It is worth noting that the average recovery percentages will have to be relatively high in order to see a positive balance, given the liabilities of more than RMB761 million. In short, if an orderly disposal was conducted on the balance sheet of Profitstart Group, the residual value to shareholders would likely range from NIL to RMB264 million, a figure that is close to the RMB235 million equity value of Profitstart Group under the optimistic operating scenario.

Conclusion – Cost Approach

The Adjusted Net Asset Value provides an indicative value of RMB465 million, or RMB614 million to RMB664 million if the value range of the Trademark is included, as the cost to replace each of the balance sheet items. While these values provide an indication of value, we are of the opinion that **the Adjusted Net Asset Value does not best represent the market value of Profitstart Group** as an investor is unlikely to invest the amount to recreate a company with like utility that performs like Profitstart Group.

The Realizable Net Asset Value indicates a value ranging from NIL to RMB264 million, in the event the assets and liabilities are disposed in an orderly manner. We would like to stress that these values are subject to the recovery rate on each class of assets and liabilities. Such rates, in the context of China, are generally subjective, dependent on various market conditions and time available for the disposal. As such, **we have not relied on the Realizable Net Asset Value to form our opinion on the value of Profitstart Group**.

Conclusion of Value

Under the Income Approach, we prepared 2 scenarios to arrive at our opinion of value. Our base case scenario, which is based on an as-is basis, points to a NIL value as the Market Value of the Equity Interest in Profitstart Group. Our optimistic scenario, which assumes Proftistart Group emerging from its current troubles organically to achieve marginal profits over a 5 year-period, sees the Market Value as RMB235 million. Based on the information provided, our analyses and conclusions on the various approaches, and subject to the attached Statement of General Assumptions and Limiting Conditions, we are of the opinion that, as at Valuation Date, the Market Value of the Equity Interest in Profitstart Group is reasonably represented, through the Income Approach, as follows.

Item	Market Value - Low (RMB)	Market Value - High (RMB)
100% Equity Interest in Profitstart Group Limited	Nil	235,000,000

We do not intend to express any opinion on matters which require legal or other specialized expertise or knowledge, beyond what is customarily employed by valuers. Our conclusions assume continuations of prudent management over whatever period of time that is reasonable and necessary to maintain the character and integrity of the assets valued.

This report and the observations and analyses are intended solely for use by the Company and are not to be reproduced, disseminated or disclosed, in whole or in part, to any other party except in accordance with the terms of our engagement letter. The information contained in this report may include proprietary, sensitive and confidential information that has not been publicly disclosed. Release of this information to any other party could be damaging to the Company.

Respectfully submitted,

AVA Associates Limited

AVA Associates Limited, based in Hong Kong and Singapore, has been providing independent valuation services to clients in Asia since 2008. We provide transaction-based advisory services, primarily focusing on independent valuation services to assist its clients to comply with internal and external requirements. Our valuation team, made up of qualified professionals in their respective fields, has the expertise covering various classifications of tangible and intangible assets, focusing on four key competencies of business valuation, financial instrument valuation, intellectual property valuation and fixed asset valuation. Please refer to Exhibit 4 for more details.

Exhibit 1

Description - Property

The Real Properties under consideration are two industrial facilities both located at Licheng District, Quanzhou City, Fujian Province of the People's Republic of China. The first property, Hongxing plant 尔克 （泉州旧厂）, is formed by one parcel of land, plus buildings and various ancillary structures currently erected on the land to facilitate production. The second property, Hongrong plant 鸿荣 （泉州新厂）, is formed by one parcel of land, plus buildings and various ancillary structures currently erected on the land to facilitate production. As per our on-site inspection on 16 October 2017, buildings and structures erected thereon included production workshops, office buildings, warehouses and dormitory buildings.

In Hongxing plant 尔克 （泉州旧厂）, according to a State-owned Land Use Right Certificate, Quan Guo Yong (2006) No. 100074, the site area of the land is approximately 11,195.50 square metres. The usage is for industrial purposes. Lease term of the land parcel is 50 years, expiring on 26 February 2056. Pursuant to building ownership Certificates – Quan Fang Quan Zheng Li Cheng Qu (li) Zi Nos. 201004614, 45684 and 31000, 4 buildings with a total gross floor area of 18,156.13 sq.m. are owned by Fujian Hongxing.

In Hongrong plant 鸿荣 （泉州新厂）, according to a State-owned Land Use Right Certificate, Quan Guo Yong (2005) No. 100118, the site area of the land is approximately 38,169.00 square metres. The usage is for industrial purposes. Lease term of the land parcel is 50 years, expiring on 22 July 2055. Pursuant to building ownership Certificates – Quan Fang Quan Zheng Li Cheng Qu (li) Zi Nos. 200810385, 200810386 and 201103159, 6 buildings with a total gross floor area of 73,665.53 sq.m. are owned by Quanzhou Hongrong. As advised by Quanzhou Hongrong, the Building Ownership Certificates of the remaining 2 buildings of with a total gross floor area of approximately 21,171.98 sq.m. are currently under application.

General Assumptions

No allowance has been made in our report for any charges, mortgages or amounts neither owing on the property valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its value.

As the property is held under long term land use rights, we have assumed that the owner has free and uninterrupted rights to use the property for the whole of the unexpired term of the land use rights.

We have assumed the design and construction of the subject development are in compliance with the local planning regulations and have been approved by the relevant authorities.

Inspections

Our valuer, Ms. Jasper Jia (MRICS No. 6610986), visited the premises for this exercise.

For this exercise, we did not conduct site surveys or site investigations, as these do not form part of our terms of reference and therefore we cannot report that the subject property is free from rot, infestation or any other structural defects. We did not carry out a building or land survey, and we assume that the subject property is in a fair state of repair and condition. No tests have been carried out to any of the building services.

Sources of Information

We have relied to a considerable extent on the information provided by the instructing party and site staff in particular, but not limited to, tenure, planning approvals, statutory notices, easements, particulars of occupancy, floor areas, identification of the property and all other relevant matters.

We have been provided with copies of title documents including State-owned Land Use Rights Certificates, Building Ownership Certificates and floor plans relating to the subject properties by the instructing party, and have made relevant enquiries. However, we have not searched the original documents nor have we verified the existence of any lease amendments, which do not appear on the documents available to us. All documents have been used for reference only.

For the purposes of this engagement, we did not investigate any financial data pertaining to the present or prospective earning capacity of the operation in which the appraised assets are used. It was assumed that prospective earnings would provide a reasonable return on the appraised value of the assets, plus the value of any assets not included in the appraisal, and adequate net working capital.

Valuation Methodologies

In arriving at our opinion of the Market Value of the subject facility, the property is valued on the basis of its "Depreciated Replacement Cost".

We have adopted the "Direct Comparison Approach" for the valuation of the subject site; and Cost Approach for the improvements (including buildings and structures).

"Depreciated Replacement Cost" is based on an estimate of the Market Value for the existing use of the land, plus the current gross replacement (reproduction) costs of the improvements, less allowances for physical deterioration and all relevant forms of obsolescence and optimisation.

"The Direct Comparison Approach" is universally considered the most accepted valuation approach for valuing most forms of real estate. This involves the analysis of recent market sales evidence of similar properties to compare with the premises under valuation. Each comparable is analyzed on the basis of its unit rate; each attribute of the comparable is then compared with the subject and where there is a difference, the unit rate is adjusted in order to arrive at the appropriate unit rate for the subject. This is done by making percentage adjustments to the unit rate for various factors, such as location within the city, size, configuration, access, and so on.

Valuation Conclusion - Property

Subject to the assumptions and limiting conditions of this report, we are of the opinion that the Market Value of the Real Properties in its existing state as of the Valuation Date and assuming that it is free from any encumbrances is circa **RMB343,301,500** with breakdown as follows:

Item	Book Value (RMB)	Market Value (RMB)
鸿荣 （泉州新厂）		
Buildings	223,581,246	286,260,000
Land use rights	22,400,000	26,370,000
尔克 （泉州旧厂）		
Buildings	24,374,146	22,861,500
Land use rights	1,900,000	7,810,000
TOTAL	**272,255,392**	**343,301,500**

Exhibit 2

Description – Machinery & Equipment

The Machinery & Equipment considered in this valuation included those assets shown on equipment list supplied to AVA at the beginning of the valuation project and through other information provided during the engagement.

Our investigation included machinery and equipment as comprised in a numbered Asset List handed to us for the purposes of this assignment. Excluded from the investigation were supplies, materials on hand, inventories, company records, and any current or intangible assets that might exist.

As agreed, this valuation assumes that each of the assets, unless identified otherwise in this report, will continue to be used 'as is' and as part of an ongoing business. Therefore, the assets have been valued under an in-use premise, which recognizes the additional value related to the freight, tax, and installation (including engineering and installation) costs that were incurred when the assets were placed into service.

Methodology

We have considered and excluded the income approach due to difficulty in determining income that can be directly related to specific equipment.

In arriving at our opinion of value, we have given consideration to the cost of similar used equipment in the second hand market, current cost new, accrued depreciation, extent, character, utility, lack of improved features of new equipment and continuation of use of the assets in their present location.

In estimating the Market Value under the premise of continued use, we assumed it to be offered in the open market and considered the following factors:

- The extent, character and utility of the assets
- The estimated cost to acquire new or construct, or acquire used if comparable property was available, plus the cost to erect or install as an integrated entity
- From current cost new, a deduction for depreciation, or loss of value, arising from condition, utility, age, wear and tear, obsolescence and lack of improved features of new equipment currently in the market
- For the cost of comparable used property, a positive or negative adjustment to the market price to reflect the difference in condition and utility between the item under appraisement and its comparable
- Dealers' prices for machinery and equipment in operative condition, plus allowances for freight and installation

The term "current cost new" as used herein is defined as the amount required to reproduce or replace in like kind and new condition an asset, or group of assets, taking into account current costs of materials and labour and including all attendant costs associated with its acquisition.

For the purposes of this engagement, we did not investigate any financial data pertaining to the present or prospective earning capacity of the operation in which the appraised assets are used. It was assumed that prospective earnings would provide a reasonable return on the appraised value of the assets, plus the value of any assets not included in the appraisal, and adequate net working capital.

Description

The Machinery & Equipment that are valued are at the location of Quanzhou City and Xiamen City, Fujian Province of the People's Republic of China. They comprise of molding line, infrared drying line, sewing machinery, die set, production tool, air-conditioning system, transformer, power generation, transformer and distribution equipment, products packaging and transport equipment, office equipment and vehicles.

Observation and Findings

We conducted an inspection of the Machinery & Equipment on 16 October 2017.

Exclusions

Our valuation is based on a desktop analysis and we did not carry out a full mechanical survey, nor inspected machinery and equipment which are covered, unexposed or inaccessible. Our assessment is based on the premise that the items are in a condition commensurate with age and usage.

We have relied to a considerable extent on information such as machinery and equipment list, and when available to us, equipment specifications, drawings, contract invoices and other documents furnished to us by the Company.

We have not investigated the title or any liabilities affecting the machinery and equipment appraised. No consideration was made for any outstanding amount owed under financing agreements, if any.

We hereby certify that we have neither present nor prospective interest in the assets appraised or on the value reported.

Valuation Conclusion

Based on the information provided and the analysis conducted, and subject to the attached Statement of General Assumptions and Limiting Conditions, we are of the opinion that, as at Valuation Date, the Market Value of the Equipment is **RMB186,166,170** with breakdown as follows:

Item		Book Value (RMB)	Market Value (RMB)
鸿荣 （泉州新厂）			
Machinery & Equipment		176,034,281	161,518,140
尔克 （泉州旧厂）			
Machinery & Equipment		14,836,384	20,370,000
同安 （服装厂）			
Machinery & Equipment		4,587,481	4,278,030
	TOTAL	**195,458,146**	**186,166,170**

Exhibit 3

Identification & Methodology

The Hongxing Business Group operates the business under the "Erke" brand. It is a trademark that belongs to the group and has been used to market the group's products for a long time.

As seen in a table in the section of this report on "Overview of the Sportswear Industry in China", the "Erke" brand is reported to have a 2.9% market share in 2015.

In order to better reflect the value of Profitstart Group's balance sheet, we have estimated the value of this Trademark. We estimated this intangible asset using the RfR method as it is a commonly adopted method to value such asset.

Key Assumptions

For the purpose of valuing the Trademark, we have adopted certain key assumptions as presented in the table below:

Key Assumptions	
Forecast Period	1-year for capitalization purpose.
Revenue	Based on the average unaudited revenue for 2015 and 2016.
Terminal Growth Rate	0.0%
Royalty Rate	3.0% to 4.0% of sales
Corporate tax rate	25.0%
Discount rate	19.0%, as measured by WACC + 2.0%

Royalty Rate

For this exercise, we have relied on data sourced from RoyaltySource, a leading data provider in the intellectual property industry, on comparable transactions involving the sale and/or licensing of trademark in the sports apparel industry. Based on the data, we observed an average royalty rate of 3.0% to 4.0% of sales as the applicable rate for the Trademark.

Analysis

The value is derived through capitalization of the cashflow by dividing the after-tax royalty savings, forecasted to be from RMB28.3 million to RMB37.7 million, with the discount rate.

Item	Low (RMB)	High (RMB)
Income Approach		
"Erke" Trademark	149,000,000	198,000,000

Based on our simplified valuation analysis, the value of the Trademark can be reasonably stated between RMB149 million and RMB198 million.

Exhibit 4

Recent China Valuation Experience with SGX-Listed Companies

Fabchem China Limited
– Valuation of commercial property in Shandong Province, China for acquisition purpose.

Imperium Crown Limited
- Valuation of property development right to a tourism asset in China for acquisition purpose.

Action Asia Limited
- Valuation of industrial properties in China and Malaysia for privatization exercise.

Albedo Limited
- Valuation of aesthetics business in Taiwan and China for acquisition purpose.

Longcheer Holdings Limited
- Valuation of industrial property and telecommunication products business in China for a proposed disposal.

Sinotel Technologies Limited
- Valuation of land use right to an industrial property in China for public disclosure.

Oriental Group Limited
- Valuation of industrial properties, plant & equipment in China for public disclosure.

Sapphire Corporation Limited
- Valuation of property, plant & equipment and steel business in China for public disclosure.

Profile of Valuation Team

Thomas Chua – *Director*
Thomas has worked in the industry for more than 15 years. Prior to joining Kroll Inc, one of the world's leading risk consulting company and an operating unit of Marsh & McLennan Companies, Inc., the global professional services firm, he was an Associate Director of Hong Kong-based business advisory and consulting firm, Jones Lang LaSalle Sallmanns, where he spearheaded the Singapore operations. He holds Bachelor of Science and Master of Business Administration degrees.

Fiona Tay – *Associate Director*
Fiona has worked in the valuation field for more than 12 years. Prior to joining AVA, she was a manager at Ernst & Young Solutions LLP, Singapore. She holds a Bachelor of Accountancy degree and is also a provisional member of the Institute of Certified Public Accountants of Singapore.

Jack Li – *Property & Business Valuer*
Jack has been doing valuation for more than 10 years. He was previously a director of Hong Kong-based business advisory and consulting firm, Jones Lang LaSalle Sallmanns. He has a Master of Business Administration degree and is a member of the Royal Institute of Chartered Surveyors (MRICS No. 6519016).

Lee Tak Wa – *Business Valuer*
Tak Wa has more than 15 years of experience in the valuation industry. He was previously an Associate Director at Jones Lang LaSalle Sallmanns, one of the region's leading business advisory and consulting firms where he supervised the business valuation teams involved in valuation of various assets for financial reporting purposes. He holds Bachelor of Business Administration and Master of Finance degrees. He is also a Chartered Financial Analyst.

Statement of General Assumption and Limiting Conditions

This analysis is subject to the following general assumptions and limiting conditions:

Valuation - General

1. No investigation has been made of, and no responsibility is assumed for, the legal description of the property being valued or legal matters, including title or encumbrances. Title to the property is assumed to be good and marketable unless otherwise stated. The property is assumed to be free and clear of any liens, easements, encroachments, and other encumbrances unless otherwise stated.

2. Information furnished by others, upon which all or portions of this valuation is based, is believed to be reliable but has not been verified except as set forth in this report. No warranty is given as to the accuracy of such information.

3. This report has been made only for the purpose stated and shall not be used for any other purpose. Neither this report nor any portions thereof (including, without limitations, any conclusions, the identity of AVA or any individuals signing or associated with this report, or the professional associations or organizations with which they are affiliated) shall be disseminated to third parties other than the Company and its financial accounting firm, by any means without the prior written consent and approval of AVA.

4. This appraisal has been made in conformance with the International Valuation Standards issued by the International Valuation Standards Council.

5. Neither AVA nor any individual signing or associated with this report shall be required by reason of this report to give further consultation, provide testimony or appear in court or other legal proceedings unless specific arrangements therefore have been made.

6. No responsibility is taken for changes in market conditions and no obligation is assumed to revise this report to reflect events or conditions, which occur subsequent to the valuation date hereof.

7. The date of value to which the estimate expressed in this report applies is set forth in the beginning of this report. This valuation is valid only for the valuation date indicated. Our analysis is based on the purchasing power of the Singapore Dollar as of that date.

8. It is assumed that all required licenses, certificates of occupancy, consents, or other legislative or administrative authority from any local, state, or national government, or private entity or organization have been or can readily be obtained or renewed for any use on which the value estimate provided in this report is based.

9. Full compliance with all applicable federal, state, and local zoning and use, occupancy, environmental, and similar laws and regulations is assumed, unless otherwise stated.

10. Responsible ownership and competent management are assumed.

11. The value estimate is predicated on the financial structure prevailing as of the date of this analysis.

12. This report may not be included or referred to in any statutory filing or other public document.

13. This is a Summary Report. As such, it might not include full discussions of the data, reasoning, and analyses that were used in the valuation process to develop the valuation professional's estimate of value. Supporting documentation concerning the data, reasoning, and analyses is retained in the valuation professional's file. The information contained in this report is specific to the needs of the client and for the intended use stated in this report. The valuation professional is not responsible for unauthorized use of this report.

Valuation - Property

1. This valuation is prepared in accordance with the Valuation Standards and Guidelines published by the Singapore Institute of Surveyors and Valuers.

2. Our responsibility in connection with this valuation report is limited to our client or person to whom this report is addressed and to that client only. We disclaim all responsibility and accept no liability to any other person(s) or party should this report be used by any such person(s) or party or for any.

3. Any action, claim or proceedings arising out of the engagement of services shall be brought against the Firm with whom the Client has engaged and not against any employee, director or sub-contractor of the Firm involved directly or indirectly in the delivery of the Services.

4. Any liability arising from the Valuer's negligence (if any) in connection with this engagement shall be limited to the amount of fees received for this engagement.

5. The report is considered invalid if there is non-payment of the valuation fees. We shall not be responsible and accept no liability of the report if payment is not received within 30 days from the date of report.

6. Each valuation is current as at the Valuation Date only. The value assessed may change significantly and unexpectedly over a relatively short period (including as a result of general market movements or factors specific to the particular property). We do not accept liability for losses arising from such subsequent changes in value. We also do not assume any responsibility or accept liability where this valuation is relied upon after the expiration of three months from the Valuation Date.

7. The values assessed in this report for the subject property and any allocation of values between parts of the property applies strictly on the terms of and for the purpose of the valuation stated in the report and may not be used for any other purpose.

8. Where it is stated in the report that information has been supplied to us by another party, this information is believed to be reliable and accurate and we accept no responsibility if this information should later prove not to be so.

9. We may adopt assumptions in the valuation being carried out as some matters cannot be calculated accurately or fall outside the scope of our expertise. The risk that any of the assumptions adopted in our valuation may be incorrect should be taken into account. While all reasonable care is taken, we does not warrant or represent that the assumptions on which this valuation is based are accurate or correct.

10. Neither the whole nor any part of this report nor any reference to it may be included in any document, circular or statement nor published in any way without our prior written approval of the form and context in which it may appear.

11. While due care is taken in the course of inspection to note serious building defects, no structural survey has been made and no guarantee is given that the building is free from rot, termite, pest infestation of other hidden defects. We have also not made any tests to the building services (e.g. air-conditioning, fire-fighting systems, lifts, escalators, plumbing and lighting etc.) and these services are presumed to be in good working order.

12. Our valuation assumes that the title(s) is(are) in good order and marketable, free from any liens, mortgages, encumbrances, restrictions and other legal impediments. We accept no responsibility for investigations into title(s), searches, legal requisitions, legal validity of title or any charges, claims, liabilities registered against the title(s). The client is advised to consult his solicitors on any matter concerning the title(s).

13. We have not conducted a land survey to verify the land boundaries and site areas and whether all developments and improvements are within such boundaries. We have assumed, unless otherwise stated, that all developments and improvements are within the boundaries of such land parcel as described in this report and the land parcel is fully owned by the property owner.

14. Any plans or map included in this report are meant for identification purposes and to assist the reader in visualizing the subject property. We have not made any survey of the property and assume no responsibility in connection with such matters.

15. Unless otherwise instructed, we do not carry out requisition with the various public authorities to confirm that the property is not adversely affected by any public schemes such as road improvements, drainage proposal, etc.

16. Our valuation presumes that the subject property, as currently used, is in compliance with the existing land use zoning and is not in contravention of any planning rules or regulations.

17. Our valuation is prepared on the basis that the premises and any works (e.g. alterations and additions) thereto comply with all relevant statutory regulations. It is assumed that they have been, or will be issued with a statutory completion by the Building Authority.

18. Our valuation assumes that all development charges and maintenance/service/conservancy charges, if any, whether outstanding or payable as at the date of valuation, have already been fully paid.

19. Our valuation further assumes that, as at the date of valuation, there are no outstanding liabilities or charges attached to the property(ies).

20. In the event that we are instructed to provide a valuation based on kerb-side inspection and/or without the extent of information normally available, our valuation will be dependent on the adequacy and accuracy of the information supplied and/or the assumptions make. Should the information prove to be incorrect or inadequate, the accuracy of the valuation may be affected and we shall not be held responsible for the inaccuracy of the valuation.

21. We shall not be required to give testimony or to appear in court for any other tribunal or to any government agency by reason of this valuation report or with reference to the property in question unless prior arrangements have been made and we be properly reimbursed.

CHINA HONGXING SPORTS LIMITED

(Company Registration Number: 36746)
(Incorporated in Bermuda)

*Unless otherwise defined, all capitalised terms used herein shall bear the same meaning as used in the circular dated 2 March 2018 issued by China Hongxing Sports Limited (the "**Circular**").*

NOTICE IS HEREBY GIVEN that a Special General Meeting of **CHINA HONGXING SPORTS LIMITED** (the "**Company**") will be held on 28 March 2018 at 9.30 a.m. at RELC International Hotel, Auditorium, 30 Orange Grove Road, Singapore 258352, for the purpose of considering and, if thought fit, passing the following resolutions:

Shareholders should note that each of Resolutions 1, 2 and 3 are inter-conditional (the "Inter-Conditional Resolutions") as they are integral parts of the same transaction, namely the Proposed Disposal. This means that if any of the Inter-Conditional Resolutions is not passed, the other Inter-Conditional Resolutions will not be passed.

ORDINARY RESOLUTION 1: THE PROPOSED DISPOSAL OF THE ENTIRE SHARE CAPITAL OF PROFITSTART GROUP LIMITED AS A MAJOR TRANSACTION AND AN INTERESTED PERSON TRANSACTION

That contingent upon the satisfaction of any applicable regulatory approvals and/or statutory requirements:

(1) the Proposed Disposal, on the terms and subject to the conditions set out in the SPA Documents, being a major transaction and an interested person transaction for the purposes of Chapter 10 and Chapter 9 of the Listing Manual respectively, be and is hereby confirmed and approved; and

(2) any of the Directors be and is hereby authorised to complete and do all such acts and things (including but not limited to approving, amending, modifying, supplementing and executing all such documents as may be required), as he may consider necessary, desirable, expedient or in the interests of the Company to give effect to this Ordinary Resolution and/or the Proposed Disposal as he may deem fit.

SPECIAL RESOLUTION 2: THE PROPOSED BYE-LAW AMENDMENT

That contingent upon the satisfaction of any applicable regulatory approvals and/or statutory requirements:

(1) the deletion of the existing Bye-law 138 of the Bye-laws of the Company in its entirety, and the substitution of the following new Bye-law 138 therefor:

"*138. No dividend shall be paid or distribution made if to do so would render the Company unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than its liabilities.*"

be and is hereby confirmed and approved; and

(2) any of the Directors be and is hereby authorised to complete and do all such acts and things (including but not limited to approving, amending, modifying, supplementing and executing all such documents as may be required), as he may consider necessary, desirable, expedient or in the interests of the Company to give effect to this Special Resolution and/or the Proposed Bye-law Amendment as he may deem fit.

SPECIAL RESOLUTION 3: THE PROPOSED CAPITAL REORGANISATION

That contingent upon and subject to Special Resolution 2 being passed, and the satisfaction of any applicable regulatory approvals and/or statutory requirements:

(1) the reduction of the share premium account of the Company from RMB2,978,708,000 (equivalent to approximately S$595,741,600) to RMB2,956,308,000 (equivalent to approximately S$591,261,600), by cancelling the sum of RMB22,400,000 (equivalent to approximately S$4,480,000) standing to the credit of the share premium account as at 30 September 2017 (the "**Share Premium Reduction**") with effect from such date as the Directors may determine in accordance with the Bermuda Companies Act, be and is hereby confirmed and approved;

(2) subject to the Share Premium Reduction taking effect, the transfer of the resulting credit arising from the Share Premium Reduction in the amount of RMB22,400,000 (equivalent to approximately S$4,480,000) to the contributed surplus account of the Company, and the utilisation of the amount of RMB22,400,000 (equivalent to approximately S$4,480,000) towards a cash distribution from the balance of the contributed surplus account of the Company to the Shareholders (save for the Wu Family) as at a books closure date to be determined by the Directors, be and is hereby confirmed and approved; and

(3) any of the Directors be and is hereby authorised to complete and do all such acts and things (including but not limited to approving, amending, modifying, supplementing and executing all such documents as may be required), as he may consider necessary, desirable, expedient or in the interests of the Company to give effect to this Special Resolution and/or the Proposed Capital Reorganisation as he may deem fit.

By order of the Board

Madelyn Kwang Yeit Lam
Company Secretary

2 March 2018

NOTES:

(1) Other than CDP, every member entitled to attend and vote at the SGM is entitled to appoint one (1) or two (2) proxies to attend and vote on his behalf. A proxy need not be a member.

(2) The instrument appointing a proxy must be signed by the appointer or his attorney duly authorised in writing or, if the appointer is a body corporate, signed by an attorney duly authorised, or by an officer on behalf of the corporation, or the common seal must be affixed thereto. Where an instrument appointing a proxy is signed on behalf of the appointor by an attorney, the letter or power of attorney or a notarially/duly certified copy thereof (failing previous registration with the Company) must be lodged with the instrument of proxy, failing which the instrument may be treated as invalid.

(3) Completion and delivery of the Shareholder Proxy Form shall not preclude a member from attending and voting in person at the SGM and in such event, the Shareholder Proxy Form shall be deemed to be revoked.

(4) A Depositor holding Shares through CDP and whose name appears in the Depository Register who wishes to attend and vote at the SGM may do so as CDP's proxy. Such a Depositor who is not an individual and such a Depositor who is an individual and who is unable to attend the SGM personally but wishes to appoint a nominee to attend and vote on his behalf as CDP's proxy should complete the Depositor Proxy Form.

(5) The instrument appointing a proxy must be deposited at the office of the Company's share transfer agent in Singapore, Boardroom Corporate & Advisory Services Pte. Ltd., 50 Raffles Place, #32-01, Singapore Land Tower, Singapore 048623, not less than 48 hours before the time set for the SGM or any adjournment thereof.

Personal Data Privacy

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the SGM and/or any adjournment thereof, a member, or as the case may be, a Depositor (a) consents to the collection, use and disclosure of the member's, or as the case may be, the Depositor's personal data by the Company (or its agents or service providers) for the purpose of the processing, administration and analysis by the Company (or its agents or service providers) of proxies and representatives appointed for the SGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the SGM (including any adjournment thereof), and in order for the Company (or its agents or service providers) to comply with any applicable laws, listing rules, take-over rules, regulations and/or guidelines (collectively, the "**Purposes**"), (b) warrants that where the member, or as the case may be, the Depositor, discloses the personal data of the member's, or as the case may be, the Depositor's, proxy(ies) and/or representative(s) to the Company (or its agents or service providers), the member, or as the case may be, the Depositor, has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents or service providers) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (c) agrees that the member, or as the case may be, the Depositor will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's, or as the case may be, the Depositor's breach of warranty.