



CHINA SPORTS INTERNATIONAL LIMITED

(Incorporated in Bermuda)
(Company Registration: 39798)

RESPONSE TO QUERIES FROM SINGAPORE EXCHANGE SECURITIES TRADING LIMITED ON THE ANNOUNCEMENT RELEASED ON 25 SEPTEMBER 2017 IN RELATION TO ITS RESPONSE TO SGX'S QUERIES

The Board of Directors (the “**Board**”) of China Sports International Limited (the “**Company**”) would like to respond to the following queries raised by the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) on 29 September 2017 (each, a “**SGX Query**”) as follows:

SGX Query 1

We refer to the Company’s response to SGX Query 1. It was mentioned that the loan facilities were utilised for “operational cashflow”. Please disclose the relevant subsidiaries to which the loan proceeds were utilized for.

Company’s Response to SGX Query 1

Loan Proceeds were utilized for two subsidiaries in PRC, Yeli Sports (China) Co., Ltd. and Hengfa (Fujian) Light Industry Development Co., Ltd.

SGX Query 2

We refer to the Company’s response to SGX Query 3(a), where it was disclosed that “Revenue recorded for the 18 months period beginning from 1 January 2016 to 30 June 2017 amounting to RMB 358 million or RMB 418.86 million (inclusive GST). Trade receivables (inclusive GST) as at 30 June 2017 amounting to RMB 141.8 million which representing 33.8% of total revenue (inclusive GST)”.

- a. Where is GST reflected in the Group’s income statement?
- b. Why is the movement in trade receivables being compared to the Group’s revenue, inclusive of GST? Please elaborate on how GST is relevant to the Group’s operations.
- c. Please address our previous query and explain the significant increase in trade receivables given only a modest increase in Group revenue (excluding GST).

Company's Response to SGX Query 2

- (a) Value-added tax ("VAT") was wrongly named as GST in our previous response to SGX query in 3(a) release on 25 September 2017. There are no subsidiaries under the Group registered GST and VAT payables recorded in balance sheet under other payables.
- (b), (c) We have made a ratio analysis on percentage on trade receivables (inclusive VAT) against total revenue (inclusive VAT) for the Group which representing 33.8% of total revenue (inclusive VAT) for comparable purposes and 39.4% of total revenue (exclusive VAT). As compared with the ratio analysis for FY2015, total trade receivables as at year ended 31 December 2015 representing 33.9% of total revenue of FY2015 which representing an increase of 5.5% in FY2017. We have strictly implement our collection policy in order to keep our outstanding debts a low as possible and strive a balances to maintain a good relationship with our existing customers.

SGX Query 3

We refer to the Company's response to SGX Query 3(b) on the breakdown of trade receivables. Please disclose the corresponding sales made to the customers during 18M17.

Company's Response to SGX Query 3

We set out below breakdown of corresponding sales from the major customers as at 30 June 2017.

No.	Name*	Sales RMB (million)
1	Chongqing Youkou Trading Co., Ltd.	28.7
2	Fujian Kaiyi Trading Co., Ltd.	27.6
3	Daqing Zuoli Trading Co., Ltd.	23.7
4	Fujian Mailian Trading Goods Co., Ltd.	23.4
5	Others [#]	255.4
	Total revenue	358.8
	Notes: # These comprise 25 customers.	

SGX Query 4

We refer to the Company's response to SGX Query 3(c), where it was disclosed that "Outstanding debts from the customers as at 30 June 2017 were within the credit term 90-150 days and there are no indication come to our attention that those debts will be impaired".

Please provide the Company's basis for the statement "there are no indication come to our attention that those debts will be impaired".

Company's Response to SGX Query 4

Allowances for bad and doubtful debts are based on an assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. As at 30 June 2017, we have strictly implemented our collection policy as well as internal control on monitoring older debts which including customer visit by our sales personnel, reminder call/emails in weekly basic to ensure that those on-going customers are pay us on time.

SGX Query 5

We refer to the Company's response to SGX Query 3(e),(f) on the procedures for the collection of trade receivables.

Please elaborate on the next steps which are undertaken after the lawyers issue a letter of demand on the Group's behalf on the outstanding receivables.

Company's Response to SGX Query 5

We will file a police report and assess the probable on recoverability of the outstanding receivables with our legal counsel to decide whether legal action is necessary and cost effective against the debtors.

SGX Query 6

We refer to the Company's response to SGX Query 4, which the Company mentioned "please refer to the announcement released on 6 September 2016 under Query 3 (a) to (f)" regarding our queries in relation to the proposed acquisition of land in Suzhou, Anhui Province (the "Suzhou Project") to construct the Group's new plant.

- a. Given that a year has passed since the Company's responses which were announced on 6 September 2016, and the most recent set of queries which were issued are not directly comparable, please set out the Company's responses to all the questions which are contained in SGX Query 4.
- b. The Company had also mentioned that the overall negotiation progress has slowed down due to a change in the local Anhui government officer and his team since October 2016. Notwithstanding the change in the designated government officer, please elaborate on the current stage of negotiations. We note that the Company had represented in its 6 September 2016 announcement that negotiations for the repayment of the Deposit had commenced since 2015. Please provide details of the progress on the negotiations made in the 2 years that have passed.

- c. Please provide a milestone timeline for the continuation of negotiations with the Anhui government.
- d. Please disclose the details of (i) the Company's representative(s); and (ii) the Anhui government officer(s), who are involved in the said negotiations.
- e. What is the status of the land in Suzhou? Has it been re-sold?

Company's Response to SGX Query 6

(a) SGX Query 4 (previous queries)

a) *What is the purchase consideration for the land?*

The acquisition of the land is subject to a tender process. The tender not having been called, the sale and purchase agreement has yet to be executed.

b) *Under what circumstances will the Deposit be refunded to the Company?*

Under normal circumstances deposit will be refunded upon request.

c) *What is the Company's recourse if the Anhui government does not refund the Deposit?*

We can issue a demand letter to Central Government if the negotiation is not success.

d) *Please provide the relative figure computations under Listing Rule 1006 for the proposed land acquisition.*

As this is a refundable deposit, title and rights have not been transferred, hence computation for Rule 1006 is not applicable

Please disclose the following in relation to the new plant:

a) *What is the intended purposes of the new plant?*

Please refer to General announcement release on SGX on 29 April 2014.

b) *What is the current capacity and capacity utilization of the Group's current plant(s)?*

Our utilisation rate on our current capacity was around 60%-70% for our OEM and YELI branded shoe

c) *Why is the Company constructing a new plant when it's operations are still incurring losses and when the Group's customers are not able to pay for their purchases?*

We had made the decision to constructing a new plant on year 2013. Subsequently in year 2015 we had form the view that the Suzhou Project might be too aggressive and that we would negotiate with the Administrative Committee of the Shoes City of Suzhou Economic & Technological Development Zone (“**ACSETDZ**”) for the repayment of the deposit and mainly due to the China sportswear industry, which has been facing challenges stemming from excessive inventory and over-expanded retail channels over the past few years has not shown much improvement.

- (b) Our CEO. Mr Lin Shaoxiong was personally meeting with ACSETDZ for 4 time in year 2015 and year 2016 and the recent meeting was held with the them before Chinese New Year in year 2017. We have not gotten any favourable response from the ACSETDZ as at current status.
- (c) We have request a meeting with them at this coming December 2017 but we are still pending their confirmation on their availability.
- (d) (i) Our CEO Lin Shaoxiong and (ii) the officer from ACSETDZ.
- (e) We are not aware of the status on the land as the acquisition of the land is subject to a tender process but the tender yet to called.

SGX Query 7

We refer to the Company’s response to SGX Query 5 in relation to a Director of the Company making payment of certain professional expenses for the Group.

- a. Please provide details of the Group’s internal policy on the reimbursement of expenses incurred by Directors on behalf of the Group.
- b. We refer to the Company’s response to SGX Query 5(b), where it was disclosed that “The amount owing to director amounting to RMB 9.0 million as at 30 June 2017 comprise of approximately RMB 8.3 million due to the directors for their emoluments and RMB 0.7 million for the professional fee paid on behalf of the Group”.

Please provide a breakdown of “RMB 8.3 million due to directors for their emoluments”, including each of the recipient directors, quantum of emolument received, and the period to which the emolument applies to. Please also identify the director(s) who made such payments, and the amount of payment made, on behalf of the Group.

- c. We refer to the Company’s response to SGX Query 5(d), where it was disclosed that the “payment made is in accordance with the Company’s internal controls policy”.

Please provide the Audit Committee’s views on such practice of Directors making direct payments on behalf of the Group.

Company's Response to SGX Query 7

- (a) Our finance department will require supporting documents for expenses incurred overseas for reimbursement purposes and head of finance and another director who not claim the reimbursement will responsible for approving role for reimbursement.
- (b) (i) Breakdown for RMB 8.3 million

Director	Period	Quantum (RMB million)
Mr Lim Kim Huat (Ex-ID)	Director fee FY15	0.38
Mr. Tham Hock Chee (Ex-ID)	Director fee FY13-15	0.75
Mr. Sim Hong Boon (EX-ID)	Director fee FY 13-14	0.33
Ms. Lai Chin Yee (Ex-ID)	Director fee FY13-15	0.64
Mr. Ang Wei Chuan	Director fee FY 16-17	0.38
Mr. Leow Yong Kin	Director fee FY 16-17	0.20
Mr. Lin Shaoqin	Remuneration payable FY14-17	2.35
Mr. Lin Shaoxiong	Remuneration payable FY14-17	3.27
Total		8.30

- (ii) RMB 0.7 million for the professional fee paid on behalf of the Group by our CEO Mr. Lin Shaoxiong
- (c) Audit committee has informed CEO that payment on behalf for the Group should be minimised. CEO has indicated most of these expenses are professional fees incurred from overseas service providers. Hence to expedite payment, he deem necessary to pay upfront whenever he in Singapore as Company did not have bank account in Singapore. Audit committee has suggested CEO to open a bank account in Singapore to minimise these transactions. Notwithstanding the above, payment reimbursement claimed from directors has been supported with source documents.

SGX Query 8

We refer to the Company's response to SGX Query 6(a). It is noted that the royalty fee payable under the licensing agreement for the license period 1 Jan 2016 to 30 June 2016 (HY2016) was RMB 2.9 million. Assuming a license period of 12 months at the same rate, the total amount of fees payable would be RMB 5.8 million, which would be a decrease of 85% as compared to the royalty fee payable of RMB 39.8 million under the licensing agreement for the license period 1 Jan 2015 to 31 Dec 2015.

Please explain the significant decrease in royalty fee payable for HY2016.

Company's Response to SGX Query 8

We have provide a breakdown for the Royalties payable as at 30 June 2017. Royalties for FY2015 was RMB 8.1 million and compare with HY2016 amounting to RMB 5.8 million (assuming 12 months at the same rate) which representing a decrease of RMB 2.3 million or 28%. Royalties drop in HY 2016 was mainly due to drop in the sales of breathable shoes as compared with FY2015.

Year ended		RMB (million)
31.12.2014	Royalties Payables	31.7
Add:	Royalties for FY 2015	8.1
31.12.2015	Royalties Payables	39.8
Less:	Payment for Royalties FY2015	(8.1)
Less:	Payment for Royalties FY2014	(2.8)
Add:	Royalties for HY 2016	2.9
31.06.2017	Royalties Payables	28.9

SGX Query 9

We refer to the Company's response to SGX Query 6(b), where it was disclosed that underlying sales of breathable shoes which amounted to RMB 635 million and RMB 163 million had been written off in FY2014 and FY2015 respectively.

Please explain the reason(s) for the significant write-off of the underlying sales in FY2014 and FY2015.

Company's Response to SGX Query 9

We have write-off the corresponding trade receivables in FY2014 and FY2015 which due to the fact that the trade receivables have been outstanding for some time, and the current economic and financial environment in China, for prudence, we have made the impairment. However, we cannot conclude the reasons of these customers unable to pay because majority of them are not contactable through phone/email/customer visit as well as we are being informed that from some of them the outstanding balances will not be paid in foreseeable future due to poor economic and low demand of sport footwear.

SGX Query 10

We refer to the Company's response to SGX Query 6(c). Please disclose if the yearly renewal of the Licensing Agreement will be subject to the Audit Committee's review and approval prior to the renewal taking place. If not, please explain how the Audit Committee satisfies itself that the automatic yearly renewal will be on normal commercial terms and not prejudicial to the interests of the Company and minority shareholders.

Company's Response to SGX Query 10

Audit Committee was being informed on the existing terms and condition remained unchanged in the yearly renewal and the royalties for breathable shoe will be lesser in year 2016 as compared to previous year due to less demand on the market.

SGX Query 11

We refer to the Company's responses to SGX Query 7.

- a. The Company mentioned in its responses to SGX Query 7(a) that it is "currently interviewing with few potential candidates and we tend to appoint qualified CFO with PRC nationality with the consideration of cost effectiveness as well as the potential CFO able to on-site monitoring of operation of finance department".

It has been 2 years since the previous CFO's departure. Please disclose:

- (i) Who in the Company is handling the CFO hiring process; and
 - (ii) When the Company expects the replacement CFO to be appointed.
- b. The Company disclosed in its response to SGX Query 7(b) that "our local finance manager based in PRC prepares the financial statements of the Company and the financial statement and result announcement will be reviewed by external consultant based in Xiamen, PRC".
 - (i) Please elaborate on the qualifications and work experience of the local finance manager who prepares the Company's financial statements;
 - (ii) Has the Board and Nominating Committee reviewed the qualifications and credentials of the local finance manager? Please elaborate on the Board and Nominating Committee's assessment of the local finance manager's suitability to prepare the Company's financial statements; and
 - (iii) Please provide details of the external consultant in Xiamen, including its track record and credentials.

Company's Response to SGX Query 11

- (a) (i) CEO. Lin Shaoxiong is handling the CFO hiring process.
 - (ii) We expect to hire the CFO before AGM to handle the financial reporting and audit related matters and we are actively looking for potential candidate as at current status.
- (b) (i) Local finance manager who prepares the Company's financial statements has been with our Company since IPO and previously she had assists our ex-CFO prepare and consolidate our China subsidiaries' accounts. However, she has left our Company in first quarter of year 2017.
 - (ii) Our board and nominating committee are of the view that the finance manager has been with the Company since IPO. Her main responsibilities in the Company is on the financial reporting. This was a temporary solution to overcome the difficulty faced by Company in recruiting a suitable candidate.

(iii) The external consultant is a China certified accountant with working experiences in China and Hong Kong listed entities and she was familiar with Accounting standard in China and International accounting standard. However, currently she is working with another HK listed company and assists our Company as consultant and currently our CEO has approached her to join our Company to become our Finance Manager.

BY ORDER OF THE BOARD

Lin Shaoxiong
Executive Chairman and Chief Executive Officer
13 October 2017