



**CHINA SPORTS INTERNATIONAL LIMITED**  
Incorporated in Bermuda  
(Company Registration: 39798)

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**RESPONSE TO SGX QUERIES ON ANNOUNCEMENT OF RESULTS  
FOR FINANCIAL PERIOD ENDED 30 SEPTEMBER 2015**

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In response to the queries raised by the Singapore Exchange Limited (“SGX”) in its email in connection with our announcement of unaudited results for the second quarter ended 30 September 2015 (the “Results Announcement”), we wish to provide additional information as follows. Page references in this announcement are references to the relevant page in the Results Announcement. Terms defined in the Results Announcement shall bear the same meaning in this announcement.

**SGX’s Query 1:**

*We refer to page 13 of the Results Announcement. We note the impairment loss on trade receivables of approximately RMB 487.4 million. Please provide the following information:-*

- (a) Details on the underlying sales, when the sales were made, the amount, aging, outstanding since when.*
- (b) Details on the name, type of customers and whether they are major customers and whether they are still the Company’s customers.*
- (c) How much of the Company’s sales in 2014 and 2015 were from these customers.*
- (d) Reasons why these customers are unable to pay*
- (e) Provide details on the Company’s statement that it has tried all ways of collecting trade receivables and in what ways.*

**Company’s Response:**

- (a) We set out below details of the impairment loss on trade receivables of approximately RMB 487.4 million

Underlying Sales in FY 2014 (1) (RMB million)	Underlying sales in 9M2015 (2) (RMB million)	Value Added Tax (3) (RMB million)	Total (1)+(2)+(3) (RMB million)
324.5	92.1	70.8	487.4

Breakdown of impairment loss on trade receivables over 90 days:

Aging	Amount (RMB million)
90 to 180 days	54.0
181 to 270 days	53.7
271 to 365 days	169.2
More than one year to 2 years	210.5
More than 2 years to 3 years	NIL
Total	487.4

- (b) We set out below details of impairment loss from the major customers for 9M2015. For purposes of this response, the Company has deemed customers which outstanding trade receivables as at the end of 9M2015 are more than 5% of the total gross trade receivables as at the end of 9M2015 as being “major” customers.

No.	Name*	Amount (million RMB)	%
1	昆明铄航贸易有限公司 Kunming Shuohang Trading Co., Ltd.	34.3	6.26%
2	河南创荣商贸有限公司 Henan Chuangrong Trading Goods Co., Ltd.	34.1	6.23%
3	西安铮锋体育用品有限公司 Xi'an Zhengfeng Sporting Goods Co., Ltd.	32.3	5.89%
4	沈阳菲仕杰商贸有限公司 Shenyang Feishijie Trading Co., Ltd.	30.7	5.60%
5	广州新行派体育用品有限公司 Guangzhou Xinhangpai Sporting Goods Co., Ltd.	28.6	5.23%
6	Others <sup>#</sup>	327.4	70.79%
	Total Impairment loss <sup>^</sup>	487.4	100.00%

(c) We set out below details of sales in FY2014 and 9M2015 of these major customers.

No.	Name*	FY2014 (million RMB)	9M2015 (million RMB)
1	昆明铄航贸易有限公司 Kunming Shuohang Trading Co., Ltd.	57.8	NIL
2	河南创荣商贸有限公司 Henan Chuangrong Trading Goods Co., Ltd.	50.2	3.9
3	西安铮锋体育用品有限公司 Xi'an Zhengfeng Sporting Goods Co., Ltd.	56.6	NIL
4	沈阳菲仕杰商贸有限公司 Shenyang Feishijie Trading Co., Ltd.	61.5	NIL
5	广州新行派体育用品有限公司 Guangzhou Xinhangpai Sporting Goods Co., Ltd.	47.5	NIL
5	Others <sup>#</sup>	363.1	88.2
<p><b>Notes:</b></p> <p>* The English names set out above are transliteration of the Chinese names; and may not be the legal names of the respective customers.</p> <p># These comprise 33 customers.</p> <p>^ 77% of the trade receivables relate to YELI footwear and 23% related to OEM customers.</p>			

(d) 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.

(e) When a customer does not pay on time, our sales personnel would contact to remind them to settle their outstanding invoices with us. This process would be repeated periodically over the period of a few months. If a customer still fails to settle his outstanding invoices despite these reminders, the matter would be escalated to our sales manager and also our Chief Executive Officer, Mr Lin Shaoxiong. Either of them would personally visit the customer to ask for settlement. If payment is still not received after the meeting, our Group would issue a demand letter for payment. Thereafter, if necessary, we would instruct lawyers to issue a letter of demand on our behalf.

In order to strengthen our collection policy on long due trade receivables that we have request our existing customers to pay off at least 60% of the outstanding amount and 80% from new customers due in 6M2015 before delivery of goods in 3Q2015.

In view of 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.

**SGX's Query 2:**

*We refer to page 14 of the Results Announcement. We note that the Group has incurred approximately RMB 66.5 million to help to subsidize the distributors in closing their stores which mainly comprise of restoration fee. Please provide the following information:-*

- (a) Why does the Company need to spend RMB 66.5 million to subsidize distributors to close down their stores.*
- (b) Has the money been returned to the Company.*
- (c) Are these customers related to the Company, its controlling shareholder, directors or their respective associates.*
- (d) How was the amount of RMB 66.5 million determined and paid to whom and whether the Board's approval has been obtained.*
- (e) Why is this an expense and not a receivable.*
- (f) What happened to the customers and how much sales to these customers*
- (g) How much money owing by these customers as at 30 September 2015*
- (h) Is the Audit Committee looking into the veracity of these transactions in the Company's accounts.*

**Company's Response:**

- (a) As per part of the terms and condition in addendum supplemented to the sales agreements with our distributors, we have agreed to subsidise them during the transition period of closing down those selling points and speciality stores which deemed with low economic value (poor of number of customers visit/ daily sales) and encouraging our distributors to close down inefficient specialty stores and instead set up more shops and counters within departmental stores in first, second and third-tier cities in the PRC.

- (b) Restoration costs subsidised to distributors will be return with 5% margin increase of selling price of goods to them starting in first quarter of FY2016 instead of pulling back the restoration costs during the transition period.
- (c) These customers were not related to our Company, its controlling shareholder, directors or their respective associates.
- (d) The decision to subsidise our distributors to restore and transform the selling point was made by Chief Executive Officer, Mr. Lin Shaoxiong. Breakdown of restoration fee are as below:

Type of Shop	No. of Closure in FY2015	Closure not entitled subsidise*	Closure entitle to subsidise#	Restoration cost subsidise/unit (million RMB)	Total Restoration cost (million RMB)
Point-of-Sales	865	(315)	550	0.09	49.5
Specialty Stores	120	(36)	84	0.202	17.0
<b>Notes:</b>					
* Type of shop operated under those customers with bad debts impaired in FY2015					
# Type of Shop operated under on-going customers with healthy collection record					

- (e) The amount paid in are considered as one-off expenses to subsidise our distributors and will not be repayable in future.
- (f) Those distributors are on-going customers with our group and the total revenue contributed to the group as at 9M2015 are approximately to RMB 99.1 million.
- (g) Total outstanding balances due from these customers amounting to RMB 60.1 million as at 9M2015.
- (h) The Audit Committee will discuss with our external auditors to review this transaction in coming audit.

**SGX's Query 3:**

*We refer to page 15 of the Results Announcement. We note that the advance payment to a marketing agency of approximately RMB 20.1 million and RMB 45 million prepayment made to an academic researcher to conduct a long term strategic course for key management. Please provide the following information:-*

- (a) Details of the advance prepayment, the agreement and identity of the marketing agency.*
- (b) Details of the academic researcher – name, qualification and background.*
- (c) What is the academic researcher researching on and when is the research due.*
- (d) Details on the terms of the research agreement and contract and when the agreement and contract was signed.*

**Company's Response:**

- (a) Prepayment for the marketing agency - XIAMEN DATENG NETWORK SOLUTION CO.,LTD) related to development of online shopping platform” included production of the advertisements and setup for internet sales over the various e-commerce platforms including T-mall, Tao Bao, shop.qq.com. The revenue generated from the various shopping platforms for 9M2015 was less than 5% of total revenue. However, we have to continue to develop our e-commerce platforms in order to increase market awareness as increasingly consumers shop using these platforms. The services agreement was signed on Oct 2014 and valid until Oct 2016.
- (b) The academic researcher was 上海智邑咨询有限公司 which provide business transformation solutions that are sustainable, practical and will deliver high performance to fully maximize the potential of the organization. The academic researcher has a few professional teams with more than 20 years of marketing and business development, strategic management and fund raising experiences in South East Asia and PRC in different industries in F&B, packaging, retail marketing and so on and they have notable achievements in leading few MNC successful accelerated growth into the enterprise.
- (c) The academic researcher researching on long term strategic for the sustainable of the Group for key management and invited distributors (including more than 150 personnel) to assist our Group in analysing the strategic opportunities, effectiveness and profitability of the Group which also included an on-going monitoring programme for eighteen months.
- (d) The agreement was signed on July 2015 with contract sum of RMB 54 million which covered eighteen months period till Dec 2016.

**SGX's Query 4:**

*We refer to page 16 of the Results Announcement. We note that trade payables and bills payable decreased from approximately RMB147.5 million as at 31 December 2014 to approximately RMB17.7 million as at 30 September 2015 due to prompt payment made to suppliers to secure better trade terms. Please provide the following information:-*

- (a) How much better are the trade terms. To quantify*
- (b) How much has the Company saved.*

**Company's Response:**

Generally, if we paid a supplier promptly, we would negotiate a discount on invoice for which payment was tendered. On average, we get a discount of about 5%.

**SGX's Query 5:**

*We refer to page 16 of the Results Announcement. We note that accrued liabilities, other payables (included wages payables, accrued utilities expenses) and amount owing to a director increased from approximately RMB 68 million as at 31 December 2014 to approximately RMB 69.6 million as at 30 September 2015 and the increase was mainly due to the director helping to make payment of certain operating expenses of the subsidiaries. Please provide the following information:-*

- (a) Who is the director in which the amount was owing to.*
- (b) What expenses are paid and provide breakdown.*

**Company's Response:**

- (a) CEO Mr. Lin Shaoxiong and Director Mr. Lin Shaoqin
- (b) The amount owing to director amounting to RMB 8.01 million as at 9M2015 comprise of approximately RMB 7.39 million due to the directors for his emoluments and RMB 0.62 for the professional fee paid on behalf of the Group.

**SGX's Query 6:**

*We refer to page 18 of the Results Announcement. We note the planned usage of the utilization of placement proceeds. Please provide details of the said planned activities, the status and outcome of these investments.*

**Company's Response:**

We set out below detail for the planned activities:

No.	Planned Activities	Status	Outcome
1	Penetrate kids-wear market in the PRC: Research and development and setting up distribution network, including setting up YELI kids-wear specialty stores	In the progress of leveraging on breathable shoes technology and cooperate with our distributors to transforming part of the specialty stores to kids-footwear stores. As part of effort in R&D that we have secure the right to use images of "Garfield" and related characters on the products since FY2014	We are in the progress of transformation and our expectation for kids-wear market is very confident due to the statement from China's top family planning authority that the new two child policy would be implemented once it is ratified in annual session of the National People's Congress scheduled in March 2016 and corresponding effect on this will have a positive impact on our kid-wear market as a whole.
2	Penetrate kids-wear market in the PRC: Advertising and promotional expenses for YELI kids-wear	On-going advertising campaign is published in strategic location with signboard, TV media and promotional during festival season.	We will increase our advertisement expenses in FY2016 in order to enhance market awareness of our products in line with our transformation of business plan take part in forthcoming year.



No.	Planned Activities	Status	Outcome
3	Development of online shopping platform	Completed	The revenue generated from the various shopping platforms for 9M2015 was less than 5% of total revenue. However, we have to continue to develop our e-commerce platforms in order to increase market awareness as increasingly consumers shop using these platforms.

**SGX’s Query 7:**

*We refer to page 18 of the Results Announcement. We note that the Group will strategically move to sustain its market share and continue to invest in product design and development in response to market trends as well as to better differentiate its products from competitors. Please elaborate on this.*

**Company’s Response:**

Our Group has taken various measures to develop better differentiated products, and to improve our retail channel management and operational efficiency to face these challenging times in the market as well as the streamlining of distribution networks through reduction of inefficient stores and the establishment of more shops and counters within departmental stores. Such measures include leveraging on its breathable shoes technology and the change in product positioning with added emphasis on casual fashion wear and kid-wear which including secure the image right of popular cartoon’s image right for our products and also we are in the midst to obtain other popular cartoon’s image rights in order to enhance the competitive power of our kid-wears in forthcoming year.

**SGX's Query 8:**

*We refer to page 20 of the Results Announcement. We note that the aggregate royalty fee for the 2014 Extended Term together with other transactions entered into with Mr Lin Yongjian during FY2014 is subject to a cap of RMB 50,217,550. Please provide the basis for this amount.*

**Company's Response:**

The basis for the amount was 5% of the net tangible asset value of our Group, based on our latest audited financial statements for the financial year ended 31 December 2013.