



**CHINA SPORTS INTERNATIONAL LIMITED**

(Incorporated in Bermuda)  
(Company Registration: 39798)

---

**RESPONSE TO QUERIES FROM SINGAPORE EXCHANGE SECURITIES TRADING LIMITED ON THE RESULTS ANNOUNCEMENT FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2017**

---

The Board of Directors (the “**Board**”) of China Sports International Limited (the “**Company**”) refers to the Results announcement for the 18 months ended 30 June 2017 released on 30 August 2017. The Board would like to respond to the following queries raised by the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) on 6 September 2017 and 11 September 2017 (each, a “**SGX Query**”) as follows:

**SGX Query 1**

We refer to interest-bearing bank borrowings which amounted to RMB 65.0 million as at 30 June 2017. Please provide details of these borrowings and the purpose of the proceeds.

**Company’s Response to SGX Query 1**

Details as following:

Bank	Amount (RMB)	Interest rate range %	Maturity Date	Purpose of the proceeds
Argriculture Bank of China	25,000,000	6.20 to 6.94%	Oct’ 2017	Operational cashflow
Argriculture Bank of China	40,000,000	5.15% to 5.75%	Jan’2018	Operational cashflow

**SGX Query 2**

Selling and distribution expenses decreased by approximately RMB 65.9 million to RMB 34.1 million in 18M17. It was disclosed on page 15 that the Group had only spent RMB 13.1 million in 18M17 as compared to RMB 17.8 million in 18M16 in advertising on the internet to create and promote the awareness of the YELI brand and functionality of YELI breathable shoes on various e-commerce platforms.

- (a) Please explain the remaining decrease of approximately RMB 61.2 million in selling and distribution expenses.
- (b) Please provide the breakdown of selling and distribution expenses in 18M17 and disclose the major components of both items.

### **Company's Response to SGX Query 2**

- (a) Our Group has incurred approximately RMB66.5 million to help to subsidize the distributors in closing their stores which mainly comprise of restoration fee in year 2015 (covered in the corresponding period of 18M2016) which resulting a significant drop in selling and distribution expenses in 18M2017.
- (b) Breakdown of selling and distribution expenses RMB 34.1million into significant expenses:

S&D expenses	Amount (RMB million)
Advertising	18.1
Salaries and related cost	5.2
Product sales tax supplement	1.5
Royalties	3.0
Depreciation & Amortisation	1.9
Others	4.4
Total	34.1

### **SGX Query 3**

Trade receivables had increased by RMB 59.3 million to RMB 141.8 million as at 30 June 2017 when the Group's revenue had only increased by RMB 16.5 million in 18M17.

- a) Please explain the significant increase in trade receivables given only a modest increase in Group revenue.
- b) Please provide a breakdown and disclose the identity of customers by ageing.
- c) Please explain why customers are not paying for purchases from the Company.
- d) Please provide further breakdown of trade receivables which had been outstanding for over 90 days and amounted to RMB 59.4 million as at 30 June 2017. Please specify the longest outstanding period.
- e) Please elaborate on the procedures for the collection of trade receivables and the impairment policy of the Company.
- f) Please disclose the steps undertaken by the Company to mitigate the risk of impairments of trade receivables.
- g) Please disclose the due diligence undertaken by the Company to assess its customers' financial standing prior to transacting.

### **Company's Response to SGX Query 3**

- (a) 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 (inclusive GST). Trade receivables (inclusive GST) as at 30 June 2017 amounting to RMB 141.8 which representing 33.8% of total revenue (inclusive GST).

- (b) We set out below details of outstanding balances from the major customers as at 30 June 2017. For purposes of this response, the Company has deemed customers with outstanding trade receivables as at the end of 18M2017 are more than 5% of the total gross trade receivables as being “major” customers.

No.	Name*	Amount (million RMB)	%	Amount (million RMB)	Aging
1	Chongqing Youkou Trading Co., Ltd.	12.3	9%	10.1	Less than 90 days
				2.2	Less than 120 days
2	Fujian Kaiyi Trading Co., Ltd.	12.2	8%	9.5	Less than 90 days
				2.7	Less than 120 days
3	Daqing Zuoli Trading Co., Ltd.	10.2	7%	9.1	Less than 90 days
				1.1	Less than 120 days
4	Fujian Mailian Trading Goods Co., Ltd.	9.8	7%	6.3	Less than 90 days
				3.5	Less than 120 days
5	Others <sup>#</sup>	97.3	70%	47.4	Less than 90 days
				28.6	Less than 120 days
				21.3	Less than 150 days
Total gross receivables		141.8	100.0%		
<b>Notes:</b>					
# These comprise 25 customers.					

Breakdown aging:

Aging	Amount (RMB million)
Current (less than 30 days)	39.9
31 to 60 days	25.9
61 to 90 days	16.4
More than 90 days less than 120 days	38.1
More than 120 days less than 150 days	21.3
Total	141.8

- (c) Customers were paid for the purchases within the credit term given. 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.
- (d) Please refer to our response in SGX query 3 (b).

- (e), (f) 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 and we will make impairment on the specific amount identified.

In order to strengthen our collection policy on long due trade receivables that we have request our existing customers to pay off at least 50% of the outstanding amount and 60% from new customers due in immediate previous quarter before delivery of goods and payment have to follow our repayment schedule set for each individual customers and such collection policy have been strictly implemented.

- (g) We will request new customer to fill up an interview form initialled by Sales department and attached with customer's company latest registration information together with latest audited account. Thereafter, our central business department will responsible to verify the information through reputation check and the final approval or any exceptional case will be seek for CEO's approval. For existing customers, we will request them to submit their latest business registration information and audited account to us annually and verify by our central business department.

#### **SGX Query 4**

The Company had disclosed on page 17 that there was a refundable deposit of RMB 55 million ("**Deposit**") which was paid to the Anhui government in relation to the proposed acquisition of land in Suzhou, Anhui Province (the "**Suzhou Project**") to construct the Group's new plant.

Please disclose the following in relation to the proposed land acquisition:

- a) What is the purchase consideration for the land?
- b) Under what circumstances will the Deposit be refunded to the Company?
- c) What is the Company's recourse if the Anhui government does not refund the Deposit?
- d) Please provide the relative figure computations under Listing Rule 1006 for the proposed land acquisition.

Please disclose the following in relation to the new plant:

- a) What is the intended purposes of the new plant?
- b) What is the current capacity and capacity utilization of the Group's current plant(s)?

- 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?

#### **Company's Response to SGX Query 4**

We have made a response to SGX query regarding the refundable deposit of RMB 55 million ("**Deposit**") which was paid to the Anhui government in relation to the proposed acquisition of land in Suzhou, Anhui Province (the "**Suzhou Project**") and please refer to the announcement released on 6 September 2016 under Query 3 (a) to (f).

Currently we are in the discussion with a new local government officer and his team of Anhui government due to change of official and his team since October 2016 resulting slower down the overall negotiation progress inevitably. We would release a detailed announcement in regarding the Suzhou Project upon completion of the negotiations (including the consequences, whether the negotiations were successful or not) in due course.

#### **SGX Query 5**

The Company had disclosed on page 17 that a director had helped to make payment of certain professional expenses for the Group. Please disclose the following:

- a) How were such payment made by the director on behalf of the Company? Were the amounts first advanced to the Company?
- b) Please provide details of these professional expenses, including the quantum and nature of services rendered in relation thereto.
- c) Why is the Company unable to pay the expenses directly when it has cash and cash equivalents of RMB 204 million as at 30 June 2017?
- d) Are such payments made in accordance with the Company's internal controls policy?

#### **Company's Response to SGX Query 5**

- (a) CEO Mr. Lin Shaoxiong and Director Mr. Lin Shaoqin Directors have made the payment directly to professionals.
- (b) Professional expenses related to payment made to corporate secretary, audit fee, corporate advisory and share issue expenses. 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.
- (c) Directors will pay the expenses when they were travel to overseas for some instances but most of the times the Company has paid the expenses directly.
- (d) Yes. Payment made in accordance with the Company's internal controls policy.

## **SGX Query 6**

We refer to the disclosures on Interested Person Transactions (“**IPTs**”) on page 25, where the Group had entered into a licensing agreement with Mr. Lin Yongjian (“**LYJ**”), the father, and accordingly an associate, of Mr. Lin Shaoxiong, the CEO and controlling shareholder of the Company, under which the Group was licensed to utilize the technology relating to breathable shoes (“**License**”) (“**Licensing Agreement**”). It was disclosed that the Licensing Agreement was first entered on 12 December 2011, and subsequently two extension agreements were entered into for the License to be extended till 31 December 2014 (“**2014 Extension Agreement**”) and further till 31 December 2015 (“**2015 Extension Agreement**”). Based on the 2015 Extension Agreement, the License shall be automatically extended for the next subsequent year if neither party announces the termination of the Licensing Agreement.

Please disclose the following:

- a) The material terms and conditions under the Licensing Agreement when it was first entered into in December 2011, and when it was extended under the 2014 Extension Agreement and 2015 Extension Agreement.
- b) The Company had previously stated that the LYJ had agreed that the payment of royalty would be subject to the collection on the relevant trade receivables.

Please disclose the amount of royalty fees paid/accrued, relevant trade receivables and corresponding revenue from the sale of breathable shoes since 2011 to-date (please tabulate by financial year). Please also disclose any related impairments or write-offs which had been made, and if the amounts owing to LYJ were corresponding waived.

- c) Given that the circumstances such as the financial position of the Group as well as the sales and profitability of the breathable shoes may vary from year to year, how does the Audit Committee satisfy itself that the automatic renewal of the Licensing Agreement for the next subsequent year is made on arm’s length basis, is based on normal commercial terms and not prejudicial to the interests of the Company and minority shareholders? Please provide the Audit Committee’s bases and justifications.

## **Company’s Response to SGX Query 6**

- a) The material terms and conditions under the Licensing Agreement when it was first entered into in December 2011, and when it was extended under the 2014 Extension Agreement and 2015 Extension Agreement, as follows:

<b>Terms &amp; conditions</b>	<b>Licensing Agreement entered into on 12 Dec 2011</b>	<b>Licensing Agreement as extended under the 2014 Extension Agreement</b>	<b>Licensing Agreement as extended under the 2015 Extension Agreement</b>	<b>Licensing Agreement based on automatic yearly renewal subsequent to 31 December 2015</b>
License period	1 Jan 2012 to Dec 2012 / 1 Jan 2013 to 30 June 2013 / 1 July 2013 to Dec 2013	1 Jan 2014 to 31 Dec 2014	1 Jan 2015 to 31 Dec 2015	1 Jan 2016 to 30 June 2016(HY2016)
Royalty fee payable	RMB 24.3 million (FY2012)  RMB 30.1 million (FY2013)	RMB 31.9 million (FY2014)	RMB 39.8 million (FY2015)	RMB 2.9 million (HY2016)
Sign-on fee	-	-	-	-
License fee	-	-	-	-
(A) Cap on total amount of fees payable	RMB 24.3 million (FY2012)  RMB 30.1 million (FY2013)	RMB 31.9 million (FY2014)	RMB 39.8 million (FY2015)	RMB 2.9 million (HY2016)
(B) Latest audited NTA of the Group at the time the licensing or extension agreement (as the case may be) was entered into	RMB 1,117 million as at FY2010  RMB 1,162 million as at FY2011	RMB 1,022 million as at FY2013	RMB 1,032 million as at FY2014	RMB 1,032 million as at FY2014
<b>(A) / (B), as a %</b>	<b>FY2012:2.1%</b>  <b>FY2013:2.6%</b>	<b>FY2014:3.1%</b>	<b>FY2015:3.9%</b>	<b>HY2016:0.3%</b>
(C) Value of all IPTs entered into with LYJ during the financial year	RMB 24.3 million (FY2012)  RMB 30.1 million (FY2013)	RMB 31.9 million (FY2014)	RMB 39.8 million (FY2015)	RMB 2.9 million (HY2016)
<b>(C) / (B), as a %</b>	<b>FY2012:2.1%</b>  <b>FY2013:2.6%</b>	<b>FY2014:3.1%</b>	<b>FY2015:3.9%</b>	<b>HY2016:0.3%</b>

- (b) Breakdown of payments of royalties made since 2011 to-date with corresponding revenue for relevant financial years since 2011 and sales of breathable shoes have been written off since FY2011 to-date. Please tabulate by financial year as below:

Financial Year	Royalties paid (RMB million)	Underlying Revenue of royalties paid (RMB million)	Underlying sales written off (RMB million)
FY2011	1.1	220	NIL
FY2012	24.3	486	NIL
FY2013	30.1	602	NIL
FY2014	2.9	58	635
FY2015	NIL	NIL	163
18M2017	NIL	NIL	NIL

Royalties for any financial year is only payable in the succeeding financial year, after the audited financial statements of our Group have been issued. The License does not have any provision that allows our Group to claim back royalties already paid. Nevertheless, with the licensor's consent, our Group has, in light of the rate of collections and impairment on trade receivables, not paid royalties accrued for financial years ended 31 December 2014 and 2015. Our Group and the licensor have agreed that payment of royalties would be subject to our collection on the relevant trade receivables. Currently, we are in the midst of discussion with LYJ to obtain his consent to waive the outstanding amount due to him.

- (c) AC performed its functions and responsibilities including review all IPTs to ensure compliance with Chapter 9 of the Listing Manual of the SGX-ST and review all other existing and future IPTs not having been approved by the Shareholders to ensure that they are carried out at arm's length basis and on normal commercial terms which will not be prejudicial to the interests of the Company and minority Shareholders. AC was in the view that IPT transaction entered into with LYJ for the HY16 will not be substantial to the Group based on the discussion with the CEO.

### **SGX Query 7**

The Company's Chief Financial Officer ("**CFO**"), Ms. Ang Suk Ching ("**Ms. Ang**"), had ceased with effect with 3 July 2015. The Company has not appointed a replacement since then.

Please elaborate on:

- a) What the Company has done so far to find a replacement for Ms. Ang.
- b) Whom prepares and reviews the financial statements of the Company and the Group in the absence of a CFO or equivalent?
- c) Is the Board satisfied that the financial statements of the Company and the Group have been properly maintained and that they give a true and fair view of the Company's operations and finances in the absence of a CFO? Please provide its bases and justifications



### **Company's Response to SGX Query 7**

- (a) We are 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. We will make necessary announcement of appointment of CFO in due course.
- (b) 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.
- (c) Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance for the preparation of the financial statements. The directors' responsibilities include overseeing the Group's financial reporting process. Our AC will continue monitoring the operation of the finance reporting functions.

### **BY ORDER OF THE BOARD**

Lin Shaoxiong  
Executive Chairman and Chief Executive Officer  
25 September 2017