



**CHINA SPORTS INTERNATIONAL LIMITED**

(Incorporated in Bermuda)  
(Company Registration: 39798)

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**RESPONSE TO QUERIES FROM SINGAPORE EXCHANGE SECURITIES TRADING LIMITED ON THE RESULT ANNOUNCEMENT FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2016**

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The Board of Directors (the “**Board**”) of China Sports International Limited (the “**Company**”) refers to the Result announcement for the second quarter ended 30 June 2016 released on 15 August 2016. The Board would like to respond to the following queries raised by the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) on 26 August 2016 (each, a “**SGX Query**”) as follows:

**SGX Query 1**

We refer to page 13 of the Results Announcement. We note the impairment loss on trade receivables of approximately RMB 299.3 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 2015 and to-date 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 to SGX Query**

- (a) We set out below details of the impairment loss on trade receivables of approximately RMB 299.3 million in second quarters ended 30 June 2015.

Underlying Sales in FY 2014 (1) (RMB million)	Underlying sales in HY 2015 (2) (RMB million)	Value Added Tax (3) (RMB million)	Total (1)+(2)+(3) (RMB million)
221.2	34.6	43.5	299.3

Breakdown of impairment loss on trade receivables over 90 days as at 30 June 2016:

Aging	Amount (RMB million)
More than one year to 2 years	63.5
More than 2 years to 3 years	235.8
Total	299.3

- (b) We set out below details of impairment loss from the major customers for HY2015. For purposes of this response, the Company has deemed customers which outstanding trade receivables as at the end of HY2015 are more than 5% of the total gross trade receivables (before impairment loss) as at the end of HY2015 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	5.8%
2	西安铮锋体育用品有限公司 Xi'an Zhengfeng Sporting Goods Co., Ltd.	32.3	5.4%
3	沈阳菲仕杰商贸有限公司 Shenyang Feishijie Trading Co., Ltd.	30.7	5.2%
4	河南创荣商贸有限公司 Henan Chuangrong Trading Goods Co., Ltd.	29.5	5.0%
5	Others <sup>#</sup>	172.5	28.8%
	Total impairment loss <sup>^</sup>	299.3	50.2%
	Total gross receivables	595.2	100.0%

- (c) We set out below details of sales in HY15 and HY16 of these major customers.

No.	Name*	HY2015 (million RMB)	HY2016 (million RMB)
1	昆明铄航贸易有限公司 Kunming Shuohang Trading Co., Ltd.	NIL	NIL
2	西安铮锋体育用品有限公司 Xi'an Zhengfeng Sporting Goods Co., Ltd.	NIL	NIL
3	沈阳菲仕杰商贸有限公司 Shenyang Feishijie Trading Co., Ltd.	NIL	NIL
4	河南创荣商贸有限公司 Henan Chuangrong Trading Goods Co., Ltd.	3.9	NIL
5	Others <sup>#</sup>	30.7	NIL
	<b>Notes:</b>		
	* The English names set out above are transliteration of the Chinese names; and may not be the legal names of the respective customers.		
	# These comprise 20 customers.		
	^ 78% of the trade receivables relate to YELI footwear and 22% related to OEM customers.		

- (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 of amount due in prior quarter before delivery of goods since 3Q2015 and the practice remained to-date.

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 Query 2**

We refer to page 15 of the Results Announcement. We note that the advance payment to a marketing agency of approximately RMB 15.1 million and RMB 18 million prepayment made to an academic researcher to conduct a long term strategic course for key management and main distributors. Please provide the following information:-

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

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

- (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 track record with the agency was revenue generated from the various shopping platforms which less than 5% and 8% of total revenue in HY15 and HY16 respectively. However, we have to continue to develop our e-commerce platforms in order to increase market awareness as increasingly consumers shop using theses platforms. The services agreement was signed on October 2014 and valid until October 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 till December 2016.

### **SGX Query 3**

We refer to page 15 of the Results Announcement. We note that a RMB55 million refundable deposit was paid to the Anhui government in relation to the proposed acquisition of land in Suzhou, Anhui Province (the "Suzhou Project") to construct the Company's new plant and the Company is still in negotiations with the Administrative Committee of the SETDZ on the Suzhou Project. Please provide the following information:-

- (a) When was the deposit paid.
- (b) What is the status of the negotiation and what is negotiation timeline to completion.
- (c) What is the reason for delay in obtaining the land use right.
- (d) What will happen if negotiations are unsuccessful.
- (e) Why is the Company still trying to obtain the land use right, in view of its business prospects and current capacity.
- (f) What is the current value of the land compared to the acquisition price of the land.

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

- (a) The refundable deposit was paid in 31 January 2013 and was first announced on 14 August 2013, when we released our announcement, Unaudited Results for Second Quarter and the Six Months ended 30 June 2013.
- (b) As stated in our Results Announcement, we had formed the view that the Suzhou Project might be too aggressive and that we would negotiate with ACSETDZ for the repayment of the deposit. We have commenced such negotiations in year 2015 but no conclusion for the repayment to-date.
- (c) The acquisition of the land is subject to a tender process. The tender not having been called to-date.
- (d) As indicated in our Results Announcement, 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.
- (e) We are in the midst of negotiation with ACSETDZ for the repayment of the deposit with no intention to obtain the land use right due to weak economic outlook for the industry.
- (f) The sale and purchase agreement has yet to be executed thus we are unable to make a comparison on acquisition price with current market value of the land.

#### **SGX Query 4**

We refer to page 15 of the Results Announcement. We note that Trade payables and bills payables decreased from approximately RMB19.5 million to approximately RMB13.5 million due to prompt payment made to suppliers to secure better trade terms. Why is Company not similarly seeing this for its account receivables due from its customers?

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

We have implement more tighten collection policy on trade receivables instead of sacrifice our margin to the customers.

#### **SGX 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 decreased from approximately RMB 58.2 million as at 31 December 2015 to approximately RMB 47.1 million as at 30 June 2016 and the statement that "net decrease was mainly due to VAT payables reduced correspondingly to revenue drop in 1H 2016 but slightly offsetting by increase in amount due to the director which helping to make payment of certain professional expenses for the group". Please provide the following information:-

- (a) Who is the director in which the amount was owing to. Quantify amount due.
- (b) What expenses are paid and provide breakdown.
- (c) Disclose what these "professional expenses" refer to.

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

- (a) CEO Mr. Lin Shaoxiong and Director Mr. Lin Shaoqin amounting to RMB 8.86 million
- (b) The amount owing to director amounting to RMB 8.8 million as at 30 June 2015 comprise of approximately RMB 8.151 million due to the directors for their emoluments and RMB 0.709 for the professional fee paid on behalf of the Group.
- (c) Professional expenses related to payment made to corporate secretary, audit fee, corporate advisory and share issue expenses.

#### **SGX Query 6**

We refer to page 19 of the Results Announcement. We note that the licence fee (including the sign-on fee and the royalty fee for the term of the License) was capped at RMB 55,865,721, being the amount equivalent to 5% of the net asset value of the Group. Please provide the basis for this amount for calculation of the royalty fee and demonstrate how the percentage is in line with industry and conducted on arm's length basis and not prejudicial to the interest of minority shareholders.

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

The basis for the amount was 5% of the net tangible asset value of our Group, based on our audited financial statements for the financial year ended 31 December 2013. In accordance with the terms of the License, the amount of royalties is 5% percent of the revenue generated from the sale of breathable shoes and there is no other similar technology in the industry available for us to do the sourcing and comparison. The audit committee of our Company is of the view that the Agreement is on normal commercial terms and is not prejudicial to the interests of our Company and its minority shareholders.

### **SGX Query 7**

We refer to page 19 of the Results Announcement. We note that the term of the License has since been extended further by another agreement (the “2014 Extension Agreement”) and with the extended term, the License will conclude on 31 December 2014 (the “2014 Extended Term”). Please provide the following information:-

- (a) Were any payments/accruals made in FY2015 and FY2016 under the 2014 Extended Term
- (b) How long is the patent held by Mr Lin Yongjian. To provide details of the patent and has the patent terminated? If so, why is the Company still paying royalty fees? Please explain.

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

- (a) We have made the accruals amounting to RMB 8.2 million and RMB 2.9 million respectively for FY2015 and HY2016 and no payment made since FY2015. As a result, 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.
- (b) Mr. Lin Yongjian (林永建), Mr Lin Shaoxiong’s father, is the owner of certain intellectual property utilised in our breathable shoes and relevant details of the patent was first announced on 14 May 2011 and we are still using the technology in our products to-date.

### **SGX Query 8**

We refer to page 20 of the Results Announcement. We note that the 2014 Extended Term together with other transactions entered into with Mr Lin Yongjian during FY2014 is subject to a cap of RMB50,217,550 equivalent to 5% of the net tangible asset value of the Group. Please explain why is it not necessary to reduce the cap?

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

We will review the cap for the related party transaction in next board meeting to adjust the cap to 5% of the net tangible asset value of our Group, based on our latest audited financial statements for the financial year ended 31 December 2015.

**SGX Query 9**

We refer to page 20 of the Results Announcement. We note that the License will conclude on 31 December 2015 (the “2015 Extended Term”). Since the License has expired so why is the Company still paying royalties?

**Company’s Response to SGX Query**

The 2015 Extended Term is still valid and shall be automatically extended for next subsequent year if neither Party announces termination of this Agreement.

**BY ORDER OF THE BOARD**

Lin Shaoqin  
Executive Director  
6 September 2016