

New Sports (0299.HK): Bright Prospects Upon Transformation

New Sports Group Limited ("New Sports" or the "Company") was established in 1995 and listed in 2004 on the Main Board of The Stock Exchange of Hong Kong (stock code: 0299.HK). Formerly known as SinoCom Software Group Limited, the Company started as a software developer and IT technology service provider before renamed to "New Sports Group" in 2015. Currently, the Company has grown into a sports and culture conglomerate with three pillars namely sports and health, culture and tourism, property investment and development, and operates through five segments i.e. sports venues operation, sports training, sports event management, sports tourism and sports property development.

On 28 June 2017, New Sports announced an agreement to acquire through a wholly-owned subsidiary the entire equity interest in Shenzhen Borui Enterprise Management Company Limited at total consideration of RMB950 million. Upon completion of the acquisition, New Sports will indirectly own approximately 56.8% equity interest in Chaoshang Joint Investment and hence an indirect interest in its three subsidiaries. As announced, Chaoshang Joint Investment and its subsidiaries own a land parcel of approximately 40,000 sq.m. at Zhongshan East Road, Shantou for intended commercial, retail, catering and hotel uses, and a land parcel of approximately 70,000 sq.m. in Chaoyang District, Shantou for intended residential, commercial, hotel and apartment uses. In addition, Chaoshang Joint Investment through its subsidiary owns an in-progress BT project in cooperation with local government.

The successive moves of New Sports, including the said RMB950 million acquisition of property assets in the Chaoshan region and its HK\$1 billion acquisition of two marine sport assets of Shenzhen Dapeng Yacht Club and a sailing school at the end of last year or just not more than a half year ago, mirrored the Company's commitment to strategic transformation and upgrades.

Divestiture of the Existing Operations - Shrugging off the Burden to Reload

As disclosed in its 2016 annual report, since its rename in 2015 New Sports has been engaged primarily in network operation including live streaming of large sports events as well as mobile web games. However, the great uncertainty in mobile game market and tremendous upfront investment in network operation resulted in working capital shortage and difficulties in collecting receivables. Addressing the challenges, the new board of directors inaugurated in April 2016 introduced radical changes in strategic presence and vision of New Sports. The initiatives include the divestiture of the existing operations such as P2P Internet finance platform, mobile web games, software development and IT-related subsidiaries which performed unprofitably, and the strategic moves into sports venues and investment properties with a vision to grow property development and investment into a key business arm.

Based on the valuation of fair value changes in relevant businesses, New Sports made a substantial provision for impairment for intangible assets and goodwill of its existing operations at the end of 2016, a prompt and resolute decision resulting in significant loss for 2016. As disclosed in its 2016 annual report and announcements, New Sports disposed of the P2P Internet lending platform Key Rich Corporation Limited and its subsidiaries related to the Group's businesses in March 2017, in view of its failure to achieve synergy with other businesses and its HK\$142 million impairment loss of goodwill recognised in 2016.

Also in May 2017, New Sports disposed of the entire interest in equities and shareholder loans of Beijing Kaixin Jiu hao Technology Company Limited, a mobile web game joint venture operator, in view of the impairment losses of HK\$175 million and HK\$86 million recognised respectively in goodwill and other intangible assets of the Group's online game services due to a significant loss in 2016. As advised, New Sports further completed divestiture and disposal of certain discontinued entities of its software development and IT segment in the first half of this year.

In addition to the decisive restructuring on a well-planned and prudent basis, the new board of directors helped to recover a large-value prepayment by New Sports equivalent to HK\$300 million, which greatly mitigated the working capital crunch and consolidated its war chest for subsequent acquisitions.

So far, New Sports has substantially completed its asset restructuring, shrugging off the burden of obsolete operation to position itself for sustainable development under a strategic vision towards "sports and health + culture and tourism + property investment and development".

Major Acquisitions - A String of Transformation Initiatives

As announced on 28 December 2016, New Sports acquired the entire interest in total issued share capital of Yue Jin Asia Limited for HK\$1 billion and thus obtained the operating right for its sea sports base and sailing school in Dapeng New District, which were renamed to the "New Sports Marine Sport Centre" and the New Sports Marine Training Centre", respectively. As advised, the New Sports Marine Sport Centre is the only venue for the "China Cup International Regatta", a well-known sports event, and will enter into a 10-year cooperation agreement with the organising committee of the event. The New Sports Marine Training Centre has entered into in-depth cooperation with a number of large organisations including Shenzhen Emergency Response Office.

The marine attribute of sea sports helps to build a close tie between mass sports and tourism which are naturally correlated. The acquisition of Yue Jin Asia allows the Company to acquire two attractive assets of scarcity value, namely a sea sports venues near sand beach and a training facility with mountain and sea view, and hence take a commanding height for "**sports + tourism**" to benefit from the new strategic positioning of Shenzhen Dapeng New Area towards a "full-spectrum tourism model area".

On 28 June 2017, New Sports announced an agreement to acquire the entire equity interest in Shenzhen Borui Enterprise Management Company Limited at total consideration of RMB950 million. The major target assets to be acquired include two undeveloped land parcels totalling 110,000 sq.m. in core area of the Chaoshan region, as well as a large BT project under construction with profit margin of 12% - 15%. Borui through its subsidiary also entered into the Primary Land Development Agreement with government for an area of approximately 1,600 Mu in Chaoyang District, which stipulates a return on investment for the developer at 40% of the premium over the land transfer price upon completion of primary development.

As the Guangdong-Hong Kong-Macao Bay Area becomes one of China's strategic priorities, New Sports has defined a clear vision to extend its on-the-ground presence in the Pearl River Delta. According to the announcement, New Sports believes that the synergy from future development of the Guangdong-Hong Kong-Macao Bay Area and the Shenzhen-Shantou Economic Cooperation Zone will function as a positive driver to prospects of the real estate and investment market in Guangdong Province, especially the Chaoshan region.

Reportedly, on 20 June 2017, Logan Property acquired a land lot in Chaoyang District with usable site area of 28,976.5 sq.m. for a high price of RMB421 million in an auction, with an overbidding rate of 184% and land cost per GFA of RMB3,229/sq.m.. The land lot is just about one hundred meters away from the Chaoyang project of Borui. Based on land market price in the district, the total acquisition consideration payable by Borui is fair and reasonable and provides attractive appreciation potential in the future.

According to the acquisition announcement, "the property development project of Borui involves construction of sports stadiums and ancillary facilities in the community, which will bring opportunities to the sport stadium management business of the Group as well as enhance and enrich the operational experience in managing sports venues, laying a solid foundation for the Group to initiate long-term strategic planning on this business segment". From the operational perspective, property development and investment will allow the Company to broaden the recurring cash streams and achieve a positive capital circle, and the "community sports" concept will help to promote the property value and public health. Through property management and operation, the Company will be able to accumulate experience for construction and operation of larger sports stadiums, thus consolidating its key business arm "sports venues operation" while continuously contributing to stable cash flows and public consumer stickiness. This is but one rationale of the strong driving force of the Company's on-the-ground "sports + property development" model.

**Sports, Tourism and Property Development - Sound Visibility
under a Clear Strategy**

Upon completion of the acquisition of Borui, New Sports will be well

positioned to open a new chapter under its strategic focuses on "sports and health, culture and tourism, property investment and development". The business model combines New Sports Marine Sport Centre and New Sports Marine Training Centre featuring the "sports + tourism" concept, as well as property investment and development projects in the Chaoshan region incorporating the "sports + property development" concept. Moreover, New Sports made property investment in certain regions including Shenyang and Hefei as well as securities investment in certain local listed companies in the past year. These initiatives helped New Sports to shift its focus from the "speculative" mobile Internet entertainment industry and the risky sectors such as software and IT industries known for "high investment and low return", to a sound model leveraging on-the-ground operations to step into a fast track of diversification and sustainable cash flows.

By introducing the "asset-heavy" property investment and development, New Sports aims to underpin its sustainable growth with strong financial supports generated through ample and recurring cash flows from general property leases and sales, or sports stadiums in the properties to be acquired, or mortgage over the self-owned assets. Compared with the "asset-light" pure-players in the sports industry, the on-the-ground operations will help the Company to boost its risk resistance capacity and financing ability.

The high stickiness of sports and health as well as culture and tourism, together with the natural tie between tourism and properties, enables the three segments namely Sports, Tourism and Property Development to support each other and create long-established, sustainable, stable and forward-looking synergy for a closed-end healthy cycle of the whole industry chain. Thanks to the natural ties among the three segments, New Sports will be poised to navigate through the potential market difficulties and challenges, and gain resilience amid market fluctuations and recessions.

As advised, New Sports will publish its 2017 interim business results in mid-August. This will be the second corporate governance deliverables of the new board of directors. In recent months, New Sports saw its stock price frustrated by its losses for the past years in a row. The new business model under a new strategy will be put to market scrutiny, hopefully ushering New Sports to a jumpstart or a long bull run.

