



CHINA SPORTS INTERNATIONAL LIMITED

(Company Registration No: 39798)

Unaudited Results for the Third Quarter and Nine Months ended 30 September 2014

PART I INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2 & Q3), HALF-YEAR AND FULL YEAR RESULTS

1(a)(i) An income statement (for the Group) together with a comparative statement for the corresponding period of the immediately preceding financial year.

The operations of our Company and our subsidiaries (“our Group”) are principally conducted in the People’s Republic of China (“PRC”). Accordingly, our consolidated financial statements have been prepared in Chinese Renminbi (“RMB”), being the functional currency of our Group.

(RMB '000)	Third Quarter		Change %	Nine Months		Change %
	Unaudited 2014	Unaudited 2013		Unaudited 2014	Unaudited 2013	
Revenue	217,553	220,646	(1.4)	614,511	588,899	4.3
Cost of sales	(174,281)	(182,495)	(4.5)	(493,903)	(491,354)	0.5
Gross profit	43,272	38,151	13.4	120,608	97,545	23.6
Other operating income	950	1,412	(32.7)	2,947	3,223	(8.6)
Selling and distribution expenses	(10,842)	(87,236)	(87.6)	(33,194)	(189,175)	(82.5)
Administrative expenses	(5,585)	(4,722)	18.3	(17,066)	(13,894)	22.8
Finance costs	(1,995)	(2,233)	(10.7)	(5,838)	(6,007)	(2.8)
Profit/(Loss) before income tax	25,800	(54,628)	147.2	67,457	(108,308)	162.3
Taxation	(6,622)	-	100.0	(17,525)	(307)	5,608.5
Profit/(Loss) for the period	19,178	(54,628)	135.1	49,932	(108,615)	146.0
Gross profit margin	19.9%	17.3%		19.6%	16.6%	
Profit before income tax margin	11.9%	-24.8%		11.0%	-18.4%	
Net profit margin	8.8%	-24.8%		8.1%	-18.4%	

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(RMB '000)	Third Quarter		Change %	Nine Months		Change %
	Unaudited 2014	Unaudited 2013		Unaudited 2014	Unaudited 2013	
Profit/(Loss) for the period	19,178	(54,628)	135.1	49,932	(108,615)	146.0
Other comprehensive income for the period	200	49	308.2	(216)	298	(172.5)
Total comprehensive income for the period	19,378	(54,579)	135.5	49,716	(108,317)	145.9

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1(a)(ii) Other Information

Our Group's profit before income tax is arrived at after (charging)/crediting the following:

(RMB '000)	Third Quarter		Change %	Nine Months		Change %
	2014	2013		2014	2013	
(a) Income statement includes the following:						
Interest paid on borrowings	(1,995)	(2,233)	(10.7)	(5,838)	(6,007)	(2.8)
Depreciation of property, plant and equipment	(2,630)	(5,604)	(52.0)	(9,011)	(26,985)	(66.6)
Amortisation of land use rights	(91)	(91)	-	(273)	(273)	-
Amortisation of intangible assets	(143)	(143)	-	(428)	(428)	-
Lease payments under operating lease for leasehold buildings	-	(240)	(100.0)	(480)	(720)	(33.3)
Salaries and related costs						
-Director remuneration	(582)	(774)	(24.8)	(1,751)	(1,751)	-
-Key personnel	(280)	(322)	(13.0)	(905)	(966)	(6.3)
Exchange gain / (loss)	(234)	48	(587.5)	275	(496)	(155.4)
(b) Other operating income comprises mainly						
Interest income	1,133	1,102	2.8	2,621	2,863	(8.5)

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1(b)(i) A balance sheet (for the issuer and Group), together with a comparative statement as at the end of the immediately preceding financial year.

Statement of Financial Position

	Group Unaudited As at 30/9/2014 RMB'000	Group Audited As at 31/12/2013 RMB'000	Company Unaudited As at 30/9/2014 RMB'000	Company Audited As at 31/12/2013 RMB'000
(RMB '000)				
Non-current assets				
Property, plant and equipment	116,473	125,352	53	58
Land use rights/Intangible assets	17,304	18,004	-	-
Prepayments	-	43,713	-	-
Deferred tax asset	31,721	49,245	-	-
Investment in subsidiary	-	-	459,986	459,986
	<u>165,498</u>	<u>236,314</u>	<u>460,039</u>	<u>460,044</u>
Current assets				
Inventories	19,175	20,172	-	-
Amount due from subsidiary	-	-	90,018	89,331
Trade receivables	243,997	270,565	-	-
Prepayments, other receivables and deposits	168,303	111,781	10	13
Pledged bank deposits	64,810	29,940	-	-
Cash and cash equivalents	749,831	694,301	55	5,327
	<u>1,246,116</u>	<u>1,126,759</u>	<u>90,083</u>	<u>94,671</u>
Less: Current liabilities				
Trade and bills payables	175,341	164,030	-	-
Amount owing to director	2,802	2,629	2,802	2,629
Accrued liabilities and other payables	46,323	57,782	3,218	3,131
Amount due to a subsidiary	-	-	22,854	22,881
Interest-bearing bank borrowings	107,700	108,900	-	-
	<u>332,166</u>	<u>333,341</u>	<u>28,874</u>	<u>28,641</u>
Net current assets	<u>913,950</u>	<u>793,418</u>	<u>61,209</u>	<u>66,030</u>
Non current liability				
Deferred tax liabilities	7,377	7,377	-	-
	<u>7,377</u>	<u>7,377</u>	<u>-</u>	<u>-</u>
Net assets	<u>1,072,071</u>	<u>1,022,355</u>	<u>521,248</u>	<u>526,074</u>
Share capital and reserves				
Share capital	36,570	36,570	36,570	36,570
Share premium	560,135	560,135	560,135	560,135
Treasury shares	(226)	(226)	(226)	(226)
Merger reserves	801	801	-	-
Statutory reserves	87,938	87,938	-	-
Paid-in capital from exchange differences	330	330	330	330
Exchange reserves	3,687	3,903	3,829	3,829
Retained earnings	382,836	332,904	(79,390)	(74,564)
Shareholders' equity	<u>1,072,071</u>	<u>1,022,355</u>	<u>521,248</u>	<u>526,074</u>

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	Unaudited RMB'000 30/9/2014	Audited RMB'000 31/12/2013
Inventory turnover (days)	10	14
Trade receivable (days)	92	86

1(b)(ii) Aggregate amount of Group's borrowings and debt securities.**Amount repayable in one year or less, or on demand**

	As at 30/9/2014		As at 31/12/2013	
	Secured RMB'000	Unsecured RMB'000	Secured RMB'000	Unsecured RMB'000
Bills payable	122,120	-	89,730	-
Interest-bearing loans	107,700	-	108,900	-
	<u>229,820</u>	<u>-</u>	<u>198,630</u>	<u>-</u>

Amount repayable after one year

	As at 30/9/2014		As at 31/12/2013	
	Secured RMB'000	Unsecured RMB'000	Secured RMB'000	Unsecured RMB'000
Bills payable	-	-	-	-
Interest-bearing loans	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Details of any collateral

The bills payable and interest-bearing loan for our subsidiary, Hengfa (Fujian) Light Industry Development Co., Ltd. ("**Hengfa**"), as at 30 September 2014 are secured by the land use rights and buildings of Hengfa. The bills payable as at 30 September 2014 and as at 31 December 2013 are also guaranteed by bank deposits.

The bills payable and interest-bearing loan for our subsidiary, YELI Sports (China) Co., Ltd. ("**YELI China**"), as at 30 June 2014 and as at 31 December 2013 are also secured by the land use rights and buildings of Hengfa. The bills payable as at 30 September 2014 and as at 31 December 2013 are also guaranteed by bank deposits.

Mr Lin Shaoxiong and Mr Lin Yongjian (Mr Lin Shaoxiong's and Mr Lin Shaoqin's father, and a director of Hengfa) have jointly provided a personal guarantee to secure our banking facility. We have not paid either of them any form of consideration for the provision of the personal guarantee.

Mr Lin Shaoxiong has provided a personal guarantee to secure the banking facility of YELI China. We have not paid him any form of consideration for the provision of the personal guarantee.

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21(c) A cash flow statement (for the Group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

Statement of Cash Flows

(RMB '000)	Third Quarter		Nine Months	
	Unaudited 2014	Unaudited 2013	Unaudited 2014	Unaudited 2013
Cashflows from operating activities				
Profit/(Loss) before income tax	25,800	(54,628)	67,457	(108,308)
Adjustments for:				
Interest income	(1,133)	(1,102)	(2,621)	(2,863)
Depreciation of property, plant and equipment	2,690	5,604	9,011	26,985
Amortisation of land use rights/intangible assets	234	234	701	701
Interest expenses	1,995	2,233	5,838	6,007
Exchange difference in translation	208	(1)	(362)	780
Operating profit before working capital changes	29,794	(47,660)	80,024	(76,698)
Increase in inventories	1,565	3,939	997	2,630
(Increase) / decrease in trade receivables and other receivables, prepayment and deposits	(45,750)	2,997	(29,954)	(41,003)
(Decrease) / increase in trade payables and bill payables	(27,288)	(3,541)	11,311	53,101
Increase / (decrease) in accrued liabilities and other payable	8,953	32,017	(11,467)	67,776
Cash (used in) / from operations	(32,726)	(12,248)	50,911	5,806
Interest received	1,133	1,102	2,621	2,863
Interest paid	(1,995)	(2,233)	(5,838)	(6,007)
Income tax paid	-	-	-	(649)
Net cash (used in) / from operating activities	(33,588)	(13,379)	47,694	2,013
Cashflows from investing activities				
Refund of Investments	-	-	43,713	-
Acquisitions of intangible assets	-	(639)	-	(639)
Purchases of property, plant and equipment	(107)	(3)	(132)	(179)
Net cash (used in) / from investing activities	(107)	(642)	43,581	(818)
Cashflows from financing activities				
Increase / (decrease) in amount owing to director	289	(569)	173	581
Proceeds from bank loans	37,800	64,000	101,400	143,000
Repayment of bank loans	(38,600)	(57,000)	(102,600)	(123,000)
Increase / (decrease) in pledged deposits	5,190	14,925	(34,870)	(1,125)
Net cash from / (used in) financing activities	4,679	21,356	(35,897)	19,456
Net increase (decrease) / in cash and cash equivalents	(29,016)	7,335	55,378	20,651
Cash and cash equivalents at beginning of period	778,868	882,301	694,301	870,168
Effects of exchange rate fluctuation	(21)	48	152	(496)
Cash and cash equivalents at end of period	749,831	889,684	749,831	890,323

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(RMB '000)	Third Quarter		Nine Months	
	Unaudited 2014	Unaudited 2013	Unaudited 2014	Unaudited 2013
Analysis of the balances of cash and cash equivalents				
Cash and bank balances	749,831	890,323	749,831	890,323
Cash and cash equivalents per share (Cents)	<u>77.98</u>	<u>92.59</u>	<u>77.98</u>	<u>92.59</u>
Number of shares at balance sheet date	961,538,000	961,538,000	961,538,000	961,538,000

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1(d)(i) A statement (for the Group and Company) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

(RMB '000)	Share Capital	Share Premium	Treasury Shares	Merger Reserves	Paid-in capital from exchange differences	Currency translation reserve	Statutory Reserve	Retained Profits/ (Accumulated Loss)	Total
Group									
At 1 January 2013	36,570	560,135	(226)	801	330	3,448	86,173	491,550	1,178,781
Total comprehensive income for the period	-	-	-	-	-	455	-	(156,881)	(156,426)
Transfer to statutory reserve	-	-	-	-	-	-	1,765	(1,765)	-
At 31 December 2013	36,570	560,135	(226)	801	330	3,903	87,938	332,904	1,022,355
At 1 January 2014	36,570	560,135	(226)	801	330	3,903	87,938	332,904	1,022,355
Total comprehensive income for the year	-	-	-	-	-	(216)	-	49,932	49,716
At 30 September 2014	36,570	560,135	(226)	801	330	3,687	87,938	382,836	1,072,071
Company									
At 1 January 2013	36,570	560,135	(226)	-	330	-	-	(62,530)	534,279
Total comprehensive income for the period	-	-	-	-	-	3,829	-	(12,034)	(8,205)
At 31 December 2013	36,570	560,135	(226)	-	330	3,829	-	(74,564)	526,074
At 1 January 2014	36,570	560,135	(226)	-	330	3,829	-	(74,564)	526,074
Total comprehensive income for the period	-	-	-	-	-	-	-	(4,826)	(4,826)
At 30 September 2014	36,570	560,135	(226)	-	330	3,829	-	(79,390)	521,248

1(d)(ii) Details of any changes in the Company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles as well as the number of shares held as treasury shares, if any, against the total number of issued shares excluding treasury shares of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.

There were no new shares issued in the nine months ended 30 September 2014 and no outstanding convertibles held as at 30 September 2014.

Treasury shares

Our Company did not make any purchase of our shares during the third quarter ended 30 September 2014. As at 30 September 2014, our Company holds 587,000 treasury shares (30 September 2013: 587,000).

	Company 30 Sept 2014	Company 30 Sept 2013	Company 30 Sept 2014	Company 30 Sept 2013
	Number of shares		RMB '000	
Issued and fully paid				
At beginning of period	587,000	587,000	226	226
Acquired during period	-	-	-	-
At end of period	587,000	587,000	226	226

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1(d)(iii) To show the total number of issued shares (excluding treasury shares) as at the end of the current financial period and as at the end of the immediately preceding year.

The total number of issued shares (excluding treasury shares) as at 30 September 2014 and as at 31 December 2013 is 961,538,000 fully-paid ordinary shares of par value HK\$0.04 each.

1(d)(iv) A statement showing all sales, transfers disposal, cancellation and/or use of treasury shares as at the end of the current financial period reported on.

There were no sales, transfers, disposal, cancellation and use of treasury shares during the six months ended 30 June 2014.

2. Whether the figures have been audited or reviewed and in accordance with which auditing standard or practice.

These figures have not been audited or reviewed by our Company's auditors.

3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of a matter).

Not applicable.

4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.

Our Group has applied the same accounting policies and methods of computations for the current reporting period consistent with those of the most recent audited financial statement as at 31 December 2013.

The new and revised Financial Reporting Standards which took effect from the current financial year are now assessed to have no material impact to the results or the opening balances of the accumulated profit of our Group and of our Company for the year ending 31 December 2014.

5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.

There are no changes in accounting policies and methods of computation.

6. Earnings per ordinary share of the Group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.

	Third Quarter		Nine Months	
	2014	2013	2014	2013
Profit / (loss) after income tax (RMB'000)	19,178	(54,628)	49,932	(108,615)
Basic earnings / (loss) per share (RMB cents)	1.99	(5.68)	5.19	(11.3)
Diluted earnings / (loss) per share (RMB cents)	1.99	(5.68)	5.19	(11.3)

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The basic earnings / (loss) per share is calculated based on profit after income tax divided by the weighted average ordinary shares during the three months ended 30 September 2014 and the nine months ended 30 September 2014, which were 961,538,000 and 961,538,000 shares, respectively. The weighted average ordinary shares for the three months ended 30 September 2013 and nine months ended 30 September 2013 were 961,538,000 and 961,538,000 shares, respectively.

There is no difference between the basic and diluted earnings per share.

7. Net asset value (for the Group and the Company) per ordinary share based on the total number of issued shares excluding treasury shares of the issuer at the end of the:

(a) current financial period reported on; and

(b) immediately preceding financial year.

	Group		Company	
	Unaudited	Audited	Unaudited	Audited
	As at 30 Sept 2014	As at 31 Dec 2013	As at 30 Sept 2014	As at 31 Dec 2013
Net asset value as at the end of the respective period (RMB'000)	1,072,071	1,017,381	521,248	526,074
Total number of issued ordinary share at the end of financial period/year	961,538,000	961,538,000	961,538,000	961,538,000
Net asset value per share (RMB cents)	111.50	105.81	54.23	54.71

8. A review of the performance of the Group, to the extent necessary for a reasonable understanding of the Group's business. It must include a discussion of the following:

(a) any significant factors that affected the turnover, costs, and earnings of the Group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and

Commentary on Financial Results

Revenue

For the three months ended 30 September 2014 ("**3Q 14**"), our Group recorded revenue of approximately RMB 217.6 million, a decrease of approximately RMB 3.0 million or 1.4% over revenue of approximately RMB 220.6 million for the previous corresponding period ("**3Q 13**"). For the nine months ended 30 September 2014, ("**9M 14**"), revenue increased by approximately RMB 25.6 million or 4.3% to approximately RMB 614.5 million from approximately RMB 588.9 million in the previous corresponding period ("**9M 13**").

The increase in revenue in 9M 14 was mainly attributable to our Group focusing on high margin footwear products, being our YELI breathable shoes and orders from select OEM customers.

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Although revenue registered an increase for apparel products in 3Q 14, the persistent and increasing competition shows no signs of abating in the sportswear industry. Our distributors continued to be weary of the intensified competition and became even more prudent in placing their orders for apparel and footwear (without enhanced features and functionality) products. The increases in revenue from YELI (primarily breathable shoes) and apparel products in 3Q 14 cannot offset the decrease in revenue of OEM footwear products in 3Q 14 which resulted to the decrease in revenue in 3Q 14.

Breakdown of revenue by business lines

(RMB million)	3Q 14	%	3Q 13	%	9M 14	%	9M 13	%
Footwear	203.0	93.3	208.1	94.3	573.7	93.4	528.7	89.8
Apparel	14.6	6.7	12.5	5.7	40.8	6.6	56.3	9.5
Accessories	-	-	-	-	-	-	3.9	0.7
Total Revenue	217.6	100.0	220.6	100.0	614.5	100.0	588.9	100.0

Breakdown of footwear revenue by segment

(RMB million)	3Q 14	%	3Q 13	%	9M 14	%	9M 13	%
YELI footwear	147.4	72.6	144.3	69.3	424.5	74.0	419.3	79.3
OEM footwear	55.6	27.4	63.8	30.7	149.2	26.0	109.4	20.7
Total footwear	203.0	100.0	208.1	100.0	573.7	100.0	528.7	100.0

Footwear

In 9M 14, footwear products recorded approximately RMB 573.7 million in sales, representing an increase of approximately RMB 45.0 million or approximately 8.5% over sales of footwear products of approximately RMB 528.7 million in 9M 13. The increases in revenue in 9M 14 were mainly attributable to our Group focusing on high margin footwear products, being our YELI breathable shoes and orders from select OEM customers. The increase in 9M 14 footwear revenue was mainly due to our strategy of focusing on breathable shoes which gave high margins in 9M 14. Our breathable shoes continued to allow us to differentiate our footwear products from others, and allowed us to pull away from lower margin, high volume products in the highly competitive footwear industry in the PRC. Although YELI footwear revenue registered an increase in 3Q 14, it was offset by the decrease of OEM footwear revenue in 3Q 14.

In 9M 14, revenue from our YELI footwear products was approximately RMB 424.5 million, which represented approximately 91.4% and 69.1% of our YELI revenue and of our total revenue, respectively, as compared to approximately 87.4% and 71.2% of our YELI revenue and our total revenue, respectively, in 9M 13.

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In 9M 14 and 3Q 14, revenue from our YELI footwear products recorded approximately RMB 424.5 million and RMB 147.4 million in sales, respectively, representing a slight increase of approximately RMB 5.2 million or approximately 1.2% and RMB 3.1 million or approximately 2.1%, respectively, over sales of YELI footwear products of approximately RMB 419.3 million and approximately RMB 144.3 million in 9M 13 and 3Q 13, respectively. However, our Group took a more conservative approach in managing the business risks of a persistent weakening retail sportswear market and of intensified price competition. This approach was brought about by the previous problems of our over-expanding our retail channels. We have since been focused on developing niche markets in a conservative manner.

The increase in OEM footwear revenue in 9M 14 was mainly attributable to increased orders from our existing and new OEM customers. We continued to pursue our strategy of selectively accepting higher margin orders from our existing and new OEM customers. By consistently maintaining the quality of our OEM products, we saw more orders from existing and new OEM customers. There was an increase in OEM footwear revenue contribution to total footwear revenue in 9M 14 from approximately 20.7% to approximately 26.0%.

The decrease in OEM footwear revenue in 3Q 14 was mainly attributable to weaker consumer demand in overseas market. In 3Q 14, the OEM footwear revenue recorded approximately RMB 55.6 million in sales, representing a decrease of approximately RMB 8.2 million or approximately 12.9% over sales of footwear products of approximately RMB 63.8 million in 3Q 13.

Apparel

In 9M 14, our Group recorded apparel revenue of approximately RMB 40.8 million, a decrease of approximately RMB 15.5 million or approximately 27.5% as compared to approximately RMB 56.3 million in 9M 13. The apparel sales in 9M 14 contributed approximately 8.8% and 6.6% to our YELI revenue and our total revenue respectively, from approximately 11.7% and 9.5% in 9M 13.

In 3Q 14, our YELI apparel sales increased from approximately RMB 12.5 million in 3Q 13 to approximately RMB 14.6 million which represented approximately 9.0% and 6.7% of our YELI revenue and of our total revenue respectively as compared to approximately 8.0% and 5.7% of our YELI revenue and our total revenue in 3Q 13.

The weaker consumer demand as well as our distributors being prudent when placing orders, coupled with the intensified price competition led to the decrease of average selling price on YELI apparel which affected the revenue from YELI apparel in 9M 14.

The revenue from YELI apparel in 3Q 14 was comparable to 2Q 14. The increase of YELI apparel in 3Q 14 was mainly attributed to the base of the comparable period in last year was too low.

Accessories

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Our Group recorded no accessories revenue in 3Q 14 and 9M 14 as compared to 3Q 13 and 9M 13 of approximately nil and RMB 3.9 million, respectively. This resulted from our strategic decision to discontinue our YELI accessories business in 3Q 2013..

Number of sales outlets for our YELI products in the PRC:

	9M 14	9M 13	Growth
Points-of-sale	Over 1,135*	Over 1,380*	(18)%
YELI specialty stores	Over 180	Over 280	(36)%

* The above numbers of points-of-sale were compiled by aggregating the number of sales outlets provided to us by each of our distributors. The points-of-sale include YELI specialty stores.

The distribution network for our YELI products in PRC decreased by approximately 18% from over 1,380 points of sale as at 30 September 2013 to over 1,135 point of sale as at 30 September 2014. Over the same period, the number of specialty stores decreased by 36% from over 280 to over 180. Our Group will continue to execute our strategy to improve the mix of our points of sale.

Due to the positive response to our YELI breathable shoes, our Group's distributors have since opened more sales counters and shops-in-shops in various first-tier and second-tier cities. At the same time, points of sales in third- and fourth-tier cities have also decreased. Increased presence of our brand in first- and second-tier cities has built up brand awareness of YELI. In view of the rising costs in running a YELI specialty store, our Group has encouraged our distributors to reduce the number of YELI specialty stores so that they can preserve and focus their resources to work with our Group in the change in the product positioning (as described below in **paragraph 11**) and vary the product line-up with greater emphasis on breathable shoes.

Cost of goods sold and gross profit margin

In line with the increase in revenue, our cost of sales increased by approximately RMB 2.5 million or 0.5% from approximately RMB 491.4 million in 9M 13 to approximately RMB 493.9 million in 9M 14.

With the higher revenue, subcontracting cost (including raw materials) of the footwear products and apparel increased by RMB 3.0 million or 1.8% from approximately RMB 165.4 million in 9M 13 to approximately RMB 168.4 million in 9M 14. The production of apparel are completely outsourced while more of the production of footwear products is being shifted back from subcontractors to our factories for better quality and cost control and in order to achieve better gross margin.

In line with the revenue decrease in 3Q 14 from 3Q 13, our cost of sales decreased by approximately RMB 8.2 million or 4.4% from approximately RMB 182.5 million in 3Q 13 to approximately RMB 174.3 million in 3Q 14.

Gross profit margin by product segment:

	3Q 14	3Q 13	Growth	9M 14	9M 13	Growth
Footwear	20.7%	19.1%	1.6%	20.4%	18.1%	2.3%

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Apparel	8.9%	8.7%	0.2%	9.2%	11.9%	(2.7)%
Accessories	-	-	-	-	5.7%	(5.7)%
Overall GP margin	19.9%	17.3%	2.6%	19.5%	16.6%	2.9%

Our gross profit increased by approximately RMB 23.1 million or 23.7% from approximately RMB 97.5 million in 9M 13 to approximately RMB 120.6 million in 9M 14 as a result of higher margin from footwear products which outweighed the significant reduction in gross profit contributed by the apparel and accessories products. Our overall gross profit margin increased from approximately 19.1% in 9M 13 to 20.4% in 9M 14. The increase of overall gross profit margin was mainly due to higher margin derived from breathable shoes in 9M 14 which were partially offset by the decrease from apparel products. In 3Q 14 our gross profit margin increased to 19.9% from approximately 17.3% in 2Q 13. Quarter-on-quarter, our overall gross profit margin increased from 19.5% in 2Q 14 to 19.9% in 3Q 14. The increase of overall gross profit margin was mainly due to higher margin derived from the breathable shoes.

The increase of the gross profit margin of our footwear in the 9M 14 and 3Q 14 as compared to the corresponding periods last year were mainly attributable to the higher gross profit margin registered by YELI breathable shoes.

The gross profit margin of YELI apparel in 9M 14 has decreased 2.7% as compared to 9M 13. The decrease in gross profit margin of YELI apparel was mainly attributed to higher subcontracting cost and higher unit raw material costs compounded by the intensified price competition from various market players clearing excess inventory. Our Group has lowered the selling price of our apparel products in response to the current market environment. The gross profit margin of YELI apparel products in 3Q 14 had a slight increase of 0.2% as compared to 3Q 13 as our Group had optimised the specialty stores in our network and subsidies had been provided to our distributors to assist them in clearing excess inventory.

Other operating income

Other operating income comprises interest income from bank deposits and exchange differences. Without considering the realised exchange gain of approximately RMB 0.3 million recorded in 9M 14, there is a decrease in interest income in 9M 14 which was due to lower bank balances during the period as compared to corresponding period in 2013 and the interest income in 3Q 14 was comparable to 3Q 13 due to privileged interest rate offered by the bank on attracting deposit.

Operating expenses

In total, operating expenses which comprise selling and distribution expenses and administrative expenses decreased by approximately RMB 152.8 million or 75.2% from approximately RMB 203.1 million in 9M 13 to approximately RMB 50.3 million in 9M 14. As a percentage of revenue, operating expenses decreased to approximately 8.2 % in 9M 14 from approximately 34.5% in 9M 13.

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The main decrease in total operating expenses came from selling and distribution costs which decreased by approximately RMB 156.0 million or 82.5% from approximately RMB 189.2 million in 9M 13 to approximately RMB 33.2 million in 9M 14 while selling and distribution costs in 3Q 14 decreased by approximately RMB 76.4 million or 87.6% from approximately RMB 87.2 million to approximately RMB 10.8 million in 3Q 14. The decreases were due to no subsidy being provided in 9M 14 and 3Q 14. We provided our distributors of approximately RMB 80.0 million and RMB 139.4 million in 3Q 13 and 9M 13, respectively, to transform certain specialty stores at good locations to ensure alignment with our new product position and to clear off the excess and possibly obsolete inventory. In addition, our Group had spent RMB 24.7 million and RMB 8.2 million in 9M 14 and 3Q 14, respectively, in advertising on the internet to create and promote the awareness of the YELI brand and the functionality of YELI breathable shoes on various e-commerce platforms, as compared to approximately RMB 29.5 million and RMB 8.2 million in 9M 13 and 3Q 13, respectively.

Significant progress has been made to change to the YELI outlets in line with the change in our product position which resulted in a significant decrease in the depreciation charge to the sales fixtures of the new outlets, which amounted to approximately RMB 2.3 million and RMB 1.4 million in 9M 14 and 3Q 14, respectively, as compared to approximately RMB 19.3 million and RMB 3.9 million in 9M 13 and 3Q 13, respectively.

Administrative expenses increased by approximately RMB 3.2 million or 23.0% from approximately RMB 13.9 million in 9M 13 to approximately RMB 17.1 million in 9M 14 due to higher depreciation of approximately RMB 2.8 million from our multi-complex building and higher professional fees of approximately RMB 0.2 million incurred in relation to various corporate projects and the change of the auditors for FY 2013 (completed in 1Q 14). In addition, higher salaries and wages and social security costs from our PRC subsidiaries has contributed to the increase in administrative expenses.

Administrative expenses in 3Q 14 increased by approximately RMB 0.9 million or 19.1% from approximately RMB 4.7 million in 3Q 13 to approximately RMB 5.6 million in 3Q 14. The increase was mainly attributable to higher depreciation charge of approximately RMB 0.9 million incurred from our multi-complex building.

Finance costs

Finance costs in 9M 14 and 3Q 14 decreased slightly by approximately RMB 0.2 million. The decrease was approximately 3.3% from approximately RMB 6.0 million in 9M 13 to approximately RMB 5.8 million in 9M 13 and approximately 9.1% from approximately RMB 2.2 million in 3Q 13 to approximately RMB 2.0 million in 3Q 14. Our Group adjusted the current level of bank loans (including bills payable) so as to preserve the financial flexibility as the credit environment in PRC has been challenging.

Income tax

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Income tax expense in 3Q 14 and 9M 14 of approximately RMB 6.6 million and RMB 17.5 million reported respectively, were due to profit registered from our operating subsidiaries in PRC as compared to loss incurred in 3Q 13 and 9M 13, respectively.

- (b) **any material factors that affected the cash flow, working capital, assets or liabilities of the Group during the current financial period reported on.**

Commentary on Financial Position

Non-Current Assets

Net book value of property, plant and equipment decreased by approximately RMB 8.9 million from approximately RMB 125.4 million as at 31 December 2013 to approximately RMB 116.5 million as at 30 September 2014. This was mainly attributed to the depreciation charge of the property, plant and equipment during the period of approximately RMB 8.9 million.

Land use rights and intangible assets as at 30 September 2014 decreased marginally when compared to 31 December 2013. This was mainly attributed to the amortisation of land use rights and other intangible assets.

Prepayment as at 31 December 2013 related to the acquisition of the equity interest in Jinjiang Guosheng Shoe Material Co., Ltd (“Guosheng”). The prepayment was refunded in March 2014 with the termination of the acquisition.

Under PRC laws, tax losses incurred in the year ended 31 December 2013 can be utilised to off-set taxable profit of our Group in the following 5 financial years. The off-set gives rise to the deferred tax asset. The decrease in balance as at 30 September 2014 was due to the utilisation of the deferred tax asset to offset the taxable profit recorded in the 9M 14.

Current Assets

Inventories, comprised mainly raw materials and finished goods, decreased slightly by approximately RMB 1.0 million from approximately RMB 20.2 million as at 31 December 2013 to approximately RMB 19.2 million as at 30 September 2014. The decrease was due to more finished goods being delivered to customers towards the end of 3Q 14.

Trade receivables decreased from approximately RMB 270.6 million as at 31 December 2013 to approximately RMB 244.0 million as at 30 September 2014 due mainly to closer monitoring of collections from our customers. Our trade receivables turnover days were in the range of 75 to 92 days.

Aging of trade receivables is set out as follows:

	(RMB million)	%
Current (less than 30 days) –	86.1	35.3
31 to 60 days –	84.5	34.6
61 to 90 days –	73.4	30.1
Total	244.0	100.0

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Other receivables and prepayment increased from approximately RMB 111.8 million as at 31 December 2013 to approximately RMB 168.3 million as at 30 September 2014. The balance consisted mainly of advance payments made to existing suppliers of approximately RMB 99.5 million to lock in raw materials prices as well as to the new suppliers for YELI apparel (the amount was the full consideration paid for materials or products to be purchased), interest obtained from deposit paid in relation to the acquisition of Guosheng of approximately RMB 4.6 million and the advance payment to a marketing agency of approximately RMB 6.8 million. The advance payment to the agency covered online advertising and promotional activities; and outdoor and print media advertisements managed by the agency to create and increase awareness of our Group's electronic commerce ("e-commerce") platform. The outdoor advertisements included billboards on highways and buildings while the print media advertisements included advertisements on magazines highlighting our Group's e-commerce platform. Expenses for the internet marketing activities included planning and the production of the advertisements and setup for internet sales over the various e-commerce platforms (including T-mall, Tao Bao, shop.qq.com etc.).

In addition, a RMB 55 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 our new plant. We are still in negotiations with the Administrative Committee of the SETDZ (宿州经济技术开发区管委会) ("ACSETDZ") on the Suzhou Project and will release a detailed announcement regarding the Suzhou Project upon the completion of the negotiations with ACSETDZ.

As at 30 September 2014, we had cash and cash equivalents of approximately RMB 749.8 million. The increase in cash and cash equivalents was due mainly to the net cash generated from operation and net cash from investing activities being higher than the net cash used in financing activities. (Please refer to the statement of cash flow in this announcement for further details).

The cash and cash equivalents were mainly bank deposits denominated in RMB and Singapore Dollars. As at 30 September 2014, we have not entered into any financial derivative arrangements because our operations are mainly in PRC and the main operational currency is RMB.

Current Liabilities

Trade payables and bills payable increased from approximately 164.0 million as at 31 December 2013 to approximately RMB 175.3 million as at 30 September 2014. This was due to longer credit term secured from suppliers.

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Accrued liabilities, other payables (included wages payables, accrued utilities expenses) and amount owing to a director decreased from approximately RMB 60.4 million as at 31 December 2013 to approximately RMB 49.1 million as at 30 September 2014. The net decrease was mainly attributed to the payment of royalties incurred for the financial year 2013 of approximately RMB 30.1 million which was partially offset by the royalties accrued of approximately RMB 23.9 million calculated based on the breathable shoes sold during the current financial period payable to Mr Lin Yongjian, who is the father of our executive directors Mr Lin Shaoxiong and Mr Lin Shaoqin.

As at 30 September 2014, we had bank borrowings of approximately RMB 107.7 million. The decrease in the bank loans as compared to 31 December 2013 was due to the repayment of bank loans of RMB 102.6 million in 9M 14 which was offset by bank loans of approximately RMB 101.4 million obtained in 9M 14. In 9M 14, PRC economy continued to experience credit tightening from financial institutions. In order to maintain financial flexibility in these uncertain times and also optimise the leverage for our Group, our Group reduced bank loans and varied our banking facilities by increasing the limits for bills payable (increased from approximately RMB 89.7 million in 2013 to approximately RMB 122.1 million in 2014). Our Group issues bills payable to our suppliers in order to get longer credit terms from the suppliers. Normally, the credit terms offered by our Group's suppliers are 30 days with payments to be made in cash or cheque. If the bills payable to our suppliers were paid earlier, our Group would be able to get longer credit terms ranging from 60 to 90 days due to better credit-worthiness of the bank.

Commentary on Statement of Cash Flows

Net Cash from Operating Activities

Operating cashflow before working capital changes increased by approximately RMB 156.7 million from approximately RMB 76.7 million net outflow in 9M 13 to approximately RMB 80.0 net inflow million in 9M 14. The increase was mainly due to the operating profit generated in 9M 14 as compared to the operating loss incurred in the corresponding period in 2013. While the operating cashflow before working capital changes increased by approximately RMB 77.5 million from approximately RMB 47.7 million net outflow in 3Q 13 to approximately RMB 29.8 net inflow million in 3Q 14. The increase was mainly due to the operating profit generated in 3Q 14 as compared to the operating loss incurred in the corresponding period in 2013.

Net cash from operating activities in 9M 14 increased by approximately RMB 45.7 million as compared to 9M 13 mainly due to the decrease in trade receivables of approximately RMB 12.6 million which was insufficient to cover the increase in prepayment and other receivables and inventories of approximately RMB 3.2 million and the decrease in other payables and accrued liabilities and trade payables and bills payables of approximately RMB 79.2 million and RMB 41.8 million, respectively.

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In 9M 14, the decreases in account receivables and inventories were approximately RMB 26.6 million and RMB 1.0 million, respectively, and the increase in trade payables and bill payables was approximately RMB 11.3 million. In 1H 14, our Group recorded increases in prepayment and other receivables of approximately RMB 56.6 million and decreases in other payables and accrued liabilities of approximately RMB 11.5 million.

Net cash used in operating activities in 3Q 14 increased by approximately RMB 20.2 million as compared to 3Q 13 was mainly due to the decreases in the trade payables and bills payables and other payables and accrued liabilities of approximately RMB 23.7 million and RMB 21.7 million, respectively, and together with the increases in trade receivables, prepayment and other receivables and inventories of approximately RMB 5.8 million, RMB 42.9 million and RMB 2.4 million, respectively.

In 3Q 14, the increases in account receivables and prepayment and other receivables were approximately RMB 10.1 million and RMB 35.6 million, respectively, and the decreases in trade payables and bill payables were approximately RMB 27.3 million. In 3Q 14, our Group recorded a decrease in inventories of approximately RMB 1.6 million and an increase in other payables and accrued liabilities of approximately RMB 9.5 million was recorded.

Net Cash used in Investing Activities

In 9M 14, net cash from investing activities was mainly attributable to the refund of the prepayment to Guosheng in March 2014 which was partially offset by the purchase of property, plant and equipment of RMB 132,000.

In 3Q 14, net cash used in investing activities was mainly attributable to the purchase of property, plant and equipment of approximately RMB 0.1 million.

Net Cash from in Financing Activities

Net cash used in financing activities was approximately RMB 35.9 million in 9M 14. This was due mainly to net repayment of bank loans of RMB 1.2 million and the decrease in pledged deposits of approximately RMB 34.9 million which was offset by an increase in amount owing to a director (Mr Lin Shaoxiong) of approximately RMB 0.2 million in 9M 14.

Net cash from financing activities was approximately RMB 4.8 million in 3Q 14. These were mainly due to the increase in pledged deposits of approximately RMB 5.2 million and an increase in the amount owing to a director (Mr Lin Shaoxiong) of approximately RMB 0.3 million which was offset by the net repayment of bank loans of RMB 0.8 million.

9. Use of Rights Issue and Placement Proceeds

The following table sets out the details of the utilisation of placement proceeds up to 30 September 2014:

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No	Planned Usage	Placement Proceeds (RMB million)	Cumulative amount used (RMB million)	Balance (RMB million)
1.	Penetrate kids-wear market in the PRC: Research and development and setting up distribution network, including setting up YELI kids-wear specialty stores	50.0	11.9	38.1
2.	Penetrate kids-wear market in the PRC: Advertising and promotional expenses for YELI kids-wear	20.0	10.0	10.0
3.	Development of online shopping platform	27.9	27.9	0.0
		<u>97.9</u>	<u>49.8</u>	<u>48.1</u>

10. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.

There is no variance from the prospect statement as compared to the actual results.

11. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the Group operates and any known factors or events that may affect the Group in the next reporting period and the next 12 months.

China's Gross Domestic Product ("GDP") increased by 7.4% year-on-year to approximately RMB 41,990.8 billion during the first nine months of 2014 ("9M14"). At the same time, total retail sales of consumer goods for 9M14 rose 12.0% to RMB18,915.1 billion with retail sales in rural area rising 13.0% while retail sales in urban area rising at a relatively slower pace of 11.9%*.

The double-digit growth for retail sales in the domestic economy augurs well for the China sportswear industry, which has been facing challenges stemming from excessive inventory and over-expanded retail channels over the past few years. With measures taken by Industry players in destocking and network consolidation, the worst may be over for the industry as some peers have also seen improving inventories and stabilising same-store-sales growth (SSSG) in recent quarters.

Despite this, there remains uncertainty arising from the lack of product differentiation but intense competition amongst the market players. Footwear and apparel brands that are more differentiated, more responsive to market trends and more capable of delivering value for money and innovative products to consumers will benefit from the industry consolidation.

In response to such market conditions, our Group has taken various measures and initiatives to develop better differentiated products, improve our retail channel management and operational efficiency. Such measures include the change in product positioning with added emphasis on casual fashion wear as well as streamlining of distribution network through reduction of inefficient stores and setting up more shops and counters within departmental stores.

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Henceforth, our Group will strategically move to sustain our market share and continue to invest in product design and development in response to market trends as well as to better differentiate our products from our competitors. Operationally, our Group will endeavour to improve our financial performance in FY2014 through cost control measures and reducing subsidies given to distributors.

**Based on the statistics provided by China National Bureau of Statistics ("NBS")*

12. Dividend

(a) Current Financial Period Reported On

Any dividend declared for the current financial period reported on?

None.

(b) Corresponding Period of the Immediately Preceding Financial Year

Any dividend declared for the corresponding period of the immediately preceding financial year?

None.

(c) Date payable

Not applicable.

(d) Books closure date

Not applicable.

13. If no dividend has been declared/recommended, a statement to that effect.

Not applicable.

PART II ADDITIONAL INFORMATION REQUIRED FOR FULL YEAR ANNOUNCEMENT

(This part is not applicable to Q1, Q2, Q3 or Half Year Results)

14. Segmented revenue and results for business or geographical segments (of the Group) in the form presented in the issuer's most recently audited annual financial statements, with comparative information for the immediately preceding year.

Not applicable.

15. In the review of performance, the factors leading to any material changes in contributions to turnover and earnings by the business or geographical segments.

Not applicable.

16. A breakdown of sales.

Not applicable.

PART III OTHER INFORMATION

17. Interested Person Transactions

As stated in **paragraph 1(b)(ii)**, Mr Lin Shaoxiong and Mr Lin Yongjian have jointly provided a personal guarantee to secure Hengfa's banking facility. We have not paid either of them any form of consideration for the provision of the personal guarantee.

Mr Lin Shaoxiong has provided a personal guarantee to secure the banking facility of YELI China. We have not paid him any form of consideration for the provision of the personal guarantee.

On 12 December 2011, our Group entered into a licensing agreement with Mr Lin Yongjian under which our Group was licensed to utilise the technology relating to breathable shoes (the "**License**").

The royalty fee payable for the License was calculated as a percentage of the revenue generated from the sale of breathable shoes; being 5% from 1 January 2012. 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 our Group, based on 2010 audited accounts.

On 26 February 2013, our Company announced that we had signed an agreement with Mr Lin Yongjian to extend the term of the License for 6 months (1 January 2013 till 30 June 2013). The royalty fee to be paid during the extended period continued to be on the same terms as set out in the License. However, our Group was licensed to use the technology for an enlarged range of products.

In August 2013, we announced that the term of the License had been extended for 12 months commencing from 1 July 2013 based on an agreement in August 2013 (the "**2013 Extension Agreement**"). Under the 2013 Extension Agreement, the royalty fees continued to be computed on the same terms as set out in the License.

The term of the License had since been extended further by another agreement (the "**2014 Extension Agreement**"). With the extended term, the License will conclude on 31 December 2014 (the "**2014 Extended Term**").

During the 2014 Extended Term, the royalty fee will continue to be on computed in the same manner. However, 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 RMB50,217,550, equivalent 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 2013. The royalty fee for the 2014 Extended Term will be computed and paid only after our audited accounts for the 2014 Extended Term had been issued. All other terms and conditions remain unchanged for the 2014 Extended Term.

As stated in our announcement on 14 August 2013 and 3 September 2013, our Audit Committee was of the view that the Extension Agreement was on normal commercial terms and was not prejudicial to the interests of our Company and our minority shareholders.

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The following is the aggregate value of all transactions with interested persons (as defined in Chapter 9 of the Listing Manual) (“IPT”) for the financial period ended 30 September 2014:

Name of interested person	Aggregate value of all IPTs during the financial period under review	
	excluding transactions less than S\$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920	under shareholders' mandate pursuant to Rule 920 (excluding transactions less than S\$100,000)
	RMB	RMB
Lin Shaoxiong	-	-
Royalty fees paid to Lin Yongjian	23.9 million	-

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18. Negative Assurance

Statement Pursuant to SGX Listing Rule 705(5) of the Listing Manual

Our Directors of our Company hereby confirm that to the best of their knowledge, nothing has come to the attention of the Board of Directors of our Company which may render the unaudited interim financial results of our Company and of our Group for the third quarter and nine months ended 30 September 2014 to be false or misleading in any material aspect.

On behalf of the Board of Directors

Lin Shaoxiong
Chief Executive Officer
Singapore
14 November 2014

Lin Shaoqin
Executive Director

BY ORDER OF THE BOARD

Lin Shaoxiong
Chief Executive Officer
14 November 2014