CHINA SPORTS INTERNATIONAL LIMITED
(Company Registration No: 39798)

Unaudited Results for the First Quarter ended 31 March 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, the consolidated financial statements have been prepared in Chinese Renminbi ("**RMB**"), being the functional currency of our Company and our operating subsidiaries.

STATEMENT OF PROFIT AND LOSS FOR THE FIRST QUARTER ENDED 31 MARCH 2014 (in RMB)

	First Quarter		Change
	Unaudited	Unaudited	
(RMB '000)	2014	2013	%
Revenue	183,466	170,823	7.4
Cost of sales	(149,225)	(143,588)	3.9
Gross profit	34,241	27,235	25.7
Other operating income	1,206	893	35.1
Selling and distribution expenses	(11,045)	(41,050)	(73.1)
Administrative expenses	(5,323)	(4,297)	23.9
Finance costs	(1,864)	(1,707)	9.2
Profit/(Loss) before income tax	17,215	(18,926)	191.0
Income tax expenses	(4,439)	-	100.0
Profit/(Loss) for the period	12,776	(18,926)	167.5
Gross profit margin	18.7%	15.9%	
Profit before income tax margin	9.4%	-11.1%	
Net profit margin	7.0%	-11.1%	

STATEMENT OF COMPREHENSIVE INCOME FOR THE FIRST QUARTER ENDED 31 MARCH 2014 (in RMB)

	First Quarter		Change
	Unaudited	**Unaudited**	
(RMB '000)	**2014**	**2013**	**%**
Profit/(Loss) for the period	12,776	(18,926)	167.5
Other comprehensive income for the period	(416)	(60)	593.3
Total comprehensive income for the period	12,360	(18,986)	165.1

1(a)(ii) Other Information

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

	First Quarter		Change
(RMB '000)	**2014**	**2013**	**%**
(a) Income statement includes the following:			
Interest paid on borrowings	(1,864)	(1,707)	9.2
Depreciation of property, plant and equipment	(3,160)	(11,223)	(71.8)
Amortisation of land use rights	(91)	(91)	-
Amortisation of intangible assets	(143)	(143)	-
Salaries and related costs			
- Director remuneration	(582)	(587)	(0.9)
- Key personnel	(376)	(354)	6.2
Exchange gain / (loss)	507	(218)	N.A.
(b) Other operating income comprises mainly:			
Interest income	699	893	(21.7)

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

(RMB '000)	Group Unaudited As at 31/3/2014	Group Audited As at 31/12/2013	Company Unaudited As at 31/3/2014	Company Audited As at 31/12/2013
Non-current assets				
Property, plant and equipment	122,214	125,352	62	58
Land use rights/Intangible assets	17,772	18,004	-	-
Prepayment	-	43,713	-	-
Deferred tax asset	44,807	49,245	-	-
Investment in subsidiary	-	-	459,986	459,986
	184,793	236,314	460,048	460,044
Current assets				
Inventories	20,527	20,172	-	-
Amount due from subsidiary	-	-	90,046	89,331
Trade receivables	211,285	270,565	-	-
Prepayments, other receivables and deposits	170,945	111,781	10	13
Pledged bank deposits	67,000	29,940	-	-
Cash and cash equivalents	748,044	694,301	10,791	5,327
	1,217,801	1,126,759	100,847	94,671
Less: Current liabilities				
Trade and bills payables	188,709	164,030	-	-
Amount owing to director	3,774	2,629	2,652	2,629
Accrued liabilities and other payables	59,519	57,782	2,947	3,131
Amount due to a subsidiary	-	-	22,950	22,881
Interest-bearing bank borrowings	108,500	108,900	-	-
	360,502	333,341	28,549	28,641
Net current assets	857,299	793,418	72,298	66,030
Non-current liabilities				
Deferred tax liability	7,377	7,377	-	-
Net assets	1,034,715	1,022,355	532,346	526,074
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	3,487	3,903	-	3,829
Retained earnings	345,680	332,904	(64,463)	(74,564)
Shareholders' equity	1,034,715	1,022,355	532,346	526,074

	Unaudited RMB'000 31/3/2014	Audited RMB'000 31/12/2013
Inventory turnover (days)	12	**14**
Trade receivable (days)	86	**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 31/3/2014		As at 31/12/2013	
	Secured RMB'000	Unsecured RMB'000	Secured RMB'000	Unsecured RMB'000
Bills payable	134,000	-	89,730	-
Interest-bearing loans	108,500	-	108,900	-
	242,500	-	198,630	-

Amount repayable after one year

	As at 31/3/2014		As at 31/12/2013	
	Secured RMB'000	Unsecured RMB'000	Secured RMB'000	Unsecured RMB'000
Bills payable	-	-	-	-
Interest-bearing loans	-	-	-	-
	-	-	-	-

Details of any collateral

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

1(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

	First Quarter	
	Unaudited	Unaudited
(RMB '000)	2014	2013
Cashflows from operating activities		
Profit/(Loss) before income tax	17,215	(18,926)
Adjustments for:		
Interest income	(699)	(893)
Depreciation of property, plant and equipment	3,160	11,223
Amortisation of land use rights/intangible assets	234	234
Interest expenses	1,864	1,707
Unrealized exchange difference	(478)	275
Operating profit/(loss) before working capital changes	21,296	(6,380)
(Increase)/decrease in inventories	(355)	391
Decrease in trade receivables and other receivables	115	12,423
Increase/(decrease)in trade payables and bill payables	24,678	(830)
Increase in accrued liabilities and other payables	2,273	21,121
Cash generated from operations	48,007	26,725
Interest received	699	893
Interest paid	(1,864)	(1,707)
Income tax paid	-	(342)
Net cash from operating activities	**46,842**	**25,569**
Cashflows from investing activities		
Repayment of investments	43,713	-
Purchases of property, plant and equipment	(22)	(108)
Net cash from / (used in) investing activities	**43,691**	**(108)**
Cashflows from financing activities		
Increase in amount owing to director	586	287
Proceeds from bank loans	23,600	54,000
Repayment of bank loans	(24,000)	(58,000)
Increase in pledged deposits	(37,060)	(3,660)
Net cash used in financing activities	**(36,874)**	**(7,373)**
Net increase in cash and cash equivalents	**53,659**	**18,088**
Cash and cash equivalents at beginning of period	**694,301**	**870,168**
Effects of exchange rate fluctuation	84	(219)
Cash and cash equivalents at end of period	**748,044**	**888,037**

	First Quarter	
	Unaudited	Unaudited
(RMB '000)	2014	2013
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	748,044	888,037
Cash and cash equivalents per share (Cents)	77.80	92.36
Number of shares at balance sheet date	961,538,000	961,538,000

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 1January 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 statutoy 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	-	-	-	-	-	(416)	-	12,776	12,360
At 31 March 2014	36,570	560,135	(226)	801	330	3,487	87,938	345,680	1,034,715
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	-	-	-	-	-	-	-	(1,604)	(1,604)
At 31 March 2014	36,570	560,135	(226)	-	330	3,829	-	(76,168)	524,470

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 3 months ended 31 March 2014 and no outstanding convertibles held as at 31 March 2014.

Treasury shares

Our Company did not make any purchase of our shares during the first quarter ended 31 March 2013. As at 31 March 2014, our Company holds 587,000 treasury shares (31 March 2013: 587,000).

	Company		Company	
	31 Mar 2014	31 Mar 2013	31 Mar 2014	31 Mar2013
	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

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 proceeding year.

The total number of issued shares (excluding treasury shares) as at 31 March 2014 and as at 31 December 2013 was 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 sale, transfer, disposal, cancellation and use of treasury shares during the 3 months ended 31 March 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.

	First Quarter	
	2014	**2013**
Profit / (loss) after income tax (RMB'000)	12,776	(18,926)
Basic earning / (loss) per share (RMB cents)	1.33	(1.97)
Diluted earning / (loss) per share (RMB cents)	1.33	(1.97)

The basic earnings / (loss) per share is calculated based on profit after income tax divided by the weighted average ordinary shares during 3 months ended 31 March 2014 and the 3 months ended 31 March 2013 of 961,538,000 shares.

There is no difference between the basic and diluted earnings / (loss) 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	**Group**	**Company**	**Company**
	Unaudited	**Audited**	**Unaudited**	**Audited**
	As at 31 Mar2014	**As at 31 Dec2013**	**As at 31 Mar2014**	**As at 31 Dec2013**
Net asset value as at the end of the respective period (RMB'000)	1,034,715	1,017,381	523,199	526,074
Issued share capital 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)	107.61	105.81	54.41	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 3 months ended 31 March 2014 ("**1Q 14**"), our Group recorded revenue of approximately RMB 183.5 million, an increase of approximately RMB 12.7 million or 7.4% over revenue of approximately RMB 170.8 million for the previous corresponding period ("**1Q 13**").

The increase in revenue in 1Q 14 was mainly attributable to our Group focusing on higher margin footwear products with enhanced features and functionality, including the YELI breathable shoes.

Breakdown of Sales by Business Lines:

(RMB million)	1Q 14	%	1Q 13	%
Footwear	171.8	93.6	142.3	83.3
Apparel	11.7	6.4	25.6	15.0
Accessories	-	-	2.9	1.7
Total Sales	183.5	100.0	170.8	100.0

Breakdown of Footwear Sales by Segment:

(RMB million)	1Q 14	%	1Q 13	%
YELI footwear	123.5	71.9	121.9	85.7
OEM footwear	48.3	28.1	20.4	14.3
Total footwear	171.8	100.0	142.3	100.0

Footwear

In 1Q 14, footwear products recorded approximately RMB 171.8 million in sales, representing an increase of approximately RMB 29.5 million or approximately 20.7% over sales of footwear products of approximately RMB 142.3 million in 1Q 13. The increase in 1Q 14 footwear revenue was mainly due to the sale of more YELI breathable shoes. Our breathable shoes continue to allow us to differentiate our footwear products from others, and pull away from lower margin products in the highly competitive footwear industry in the PRC. In 1Q 14, our YELI footwear sales was approximately RMB 123.5 million which represented approximately 91.3% and 67.3% of our YELI revenue and of our total revenue respectively as compared to approximately 69.1% and 57.8% of our YELI revenue and our total revenue in 1Q 13.

The increase in OEM footwear revenue in 1Q 14 was mainly attributable to increase orders from our existing and new OEM customers. We continued to pursue our new 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 1Q 14 from approximately 14.3% to approximately 28.1%.

Apparel

In 1Q 14, our Group recorded apparel revenue of approximately RMB 11.7 million, a decrease of approximately RMB 13.9 million or approximately 54.3% as compared to approximately RMB 25.6 million in 1Q 13. The apparel sales in 1Q 14 contributed to approximately 8.7% and 6.4% of our YELI revenue and our total revenue respectively, from approximately 17.0% and 15.0% in 1Q 13.

The weaker consumer demand as well as our distributors being prudent when placing orders, coupled with the intensified price competition have led to the decrease of average selling price of YELI apparel, which affected the overall revenue of YELI apparel in 1Q 14.

Accessories

Our Group recorded no accessories revenue in 1Q 14 as compared to 1Q 13 of approximately RMB 2.9 million. 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:

	1Q 14	**1Q 13**	**Growth**
Point of Sales	Over 1,365*	Over 1,590*	(14)%
YELI specialty stores	Over 250	Over 360	(32)%

* The above number of points of sale was compiled by aggregating the number of sales outlets provided to us by each of our distributors. The number of points of sale includes YELI specialty stores.

The distribution network for our YELI products in PRC decreased by approximately 14% from over 1,590 points of sale as at 31 March 2013 to over 1,365 point of sale as at 31 March 2014. Over the same period, the number of specialty stores decreased by 32% from over 360 to over 245. 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 5.6 million or 3.9% from approximately RMB 143.6 million in 1Q 13 to approximately RMB 149.2 million in 1Q 14.

Despite the higher revenue, subcontracting cost (including raw materials) of the footwear products and apparel decreased by approximately RMB 1.9 million or 3.9% from approximately RMB 48.7 million in 1Q 13 to approximately RMB 46.8 million in 1Q 14. This was mainly due to the reduction in subcontracting cost (including raw materials) of apparel outweighing the increase of subcontracting cost of footwear. 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.

Gross profit margin by product segment:

	1Q 14	1Q 13	Growth	4Q 13	Growth
Footwear	23.7%	21.1%	2.6%	18.2%	5.5%
Apparel	9.5%	14.5%	(5.0)%	8.3%	1.2%
Accessories	-	5.7%	(5.7)%	-	-
Overall GP margin	18.7%	15.9%	2.8%	17.5%	1.2%

Our gross profit increased by approximately RMB 7.0 million or 25.7% from approximately RMB 27.2 million in 1Q 13 to approximately RMB 34.2 million in 1Q 14 as an increase in gross profit contribution from footwear products exceeds reduction of gross profit contribution from apparel. Our overall gross profit margin increased from approximately 15.9% in 1Q 13 to 18.7% in 1Q 14. The increase of overall gross profit margin was mainly due to higher margin derived from breathable shoes in 1Q 14 which were partially offset by the decrease from apparel products.

Quarter-on-quarter, our overall gross profit margin increased from 17.5% in 4Q 13 to 18.7% in 1Q 14.

The increase of the gross profit margin of our footwear in 1Q 14 as compared to the corresponding period in 2013 was mainly attributable to better gross profit margin registered for YELI breathable shoes.

The gross profit margin of YELI apparel in 1Q 14 decreased 5.0% as compared to 1Q 13. The decrease in gross profit margin of YELI apparel was mainly attributable to higher subcontracting cost and higher unit raw material costs compounded by the intensified price competition from various market players clearing the excess inventory. Our Group has lowered the selling price of our apparel products in response to the current competitive market environment.

Other operating income

Other operating income comprises interest income from bank deposits and exchange differences. Without considering the realised exchange gain of approximately RMB 0.5 million recorded in 1Q 14, there is a decrease in interest income in 1Q 14 which was due to lower bank balances during the period as compared to corresponding period in 2013.

Operating expenses

In total, operating expenses which comprise selling and distribution expenses and administrative expenses decreased by approximately RMB 28.9 million or 63.8% from approximately RMB 45.3 million in 1Q 13 to approximately RMB 16.4 million in 1Q 14. As a percentage of revenue, operating expenses decreased to approximately 8.9% in 1Q 14 from approximately 26.5% in 1Q 13.

The main decrease in total operating expenses came from selling and distribution costs which decreased by approximately RMB 30.1 million or 75.1% from approximately RMB 41.1 million in 1Q 13 to approximately RMB 11.0 million in 1Q 14. The decrease was due to no subsidies being provided in 1Q 14. We provided our distributors of approximately RMB 19.4 million in 1Q 13 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 8.2 million in advertising on the internet to create and promote the awareness of YELI brand and the functionality of YELI breathable shoes on various e-commerce platforms, as compared to approximately RMB 10.4 million spent in 1Q 13.

Significant progress has been made to change to the YELI outlets inline 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 0.5 million in 1Q 14, as compared to approximately RMB 9.0 million in 1Q 13.

Administrative expenses increased by approximately RMB 1.0 million or 23.3% from approximately RMB 4.3 million in 1Q 13 to approximately RMB 5.3 million in 1Q 14 due to 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.

Finance costs

Finance costs in FY 13 increased by approximately RMB 0.2 million or 11.8% from approximately RMB 1.7 million in 1Q 13 to approximately RMB 1.9 million in 1Q 14. The increase was due to higher outstanding bills payable (including bank loans).

Income tax

Income tax expense in 1Q 14 was recorded of approximately RMB 4.4 million due to profit registered from our operating subsidiaries in PRC as compared to loss incurred in 1Q 13.

(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 3.2 million from approximately RMB 125.4 million as at 31 December 2013 to approximately RMB 122.2 million as at 31 March 2014. This was mainly attributed to the depreciation charge of the property, plant and equipment during the period of approximately RMB 3.2 million.

Land use rights and intangible assets as at 31 March 2014 decreased marginally as 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 31 March 2014 was due to the utlilisation of the deferred tax asset to offset the taxable profit recorded in the 1Q 14.

Current Assets

Inventories, comprised mainly raw materials and finished goods, as at 31 March 2014 was comparable to the balances as at 31 December 2013. The level of raw materials was sufficient to cope with the demand from customers in the coming quarter and to hedge against the increase in the prices of raw materials.

Trade receivables decreased from approximately RMB 270.6 million as at 31 December 2013 to approximately RMB 211.3 million as at 31 January 2014 due mainly to closer monitoring of collections from our customers. Our trade receivables turnover days were in the range of 75 to 86 days.

Aging of trade receivables is set out as follows:

	(RMB million)	
Current (less than 30 days) –	76.1	36.0%
31 to 60 days –	60.7	28.7%
61 to 90 days –	74.5	35.3%
Total	211.3	100.0%

Other receivables and prepayment increased from approximately RMB 111.8 million as at 31 December 2013 to approximately RMB 170.9 million as at 31 March 2014. The balance consisted mainly of advance payments made to existing suppliers of approximately RMB 86.4 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 marketing agency of approximately RMB 24.6 million. The advance payment to the agency covered online advertising and promotional ("**A&P**") 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 31 March 2014, we had cash and cash equivalents of approximately RMB 748.0 million. The increase in cash and cash equivalents was due mainly to the net cash generated from operation and investing activities being higher than 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 31 March 2014, we did not enter 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 188.7 million as at 31 March 2014. This was due to longer credit term secured from suppliers.

Accrued liabilities, other payables (included wages payables, accrued utilities expenses) and amount owing to a director increased from approximately RMB 60.4 million as at 31 December 2013 to approximately RMB 63.3 million as at 31 March 2014. The net increase was mainly attributed to the royalties accrued of approximately RMB 7.2 million calculated balsed on the breathable shoes sold duing the current financial period payable to Mr Lin Yongjian, who is the father of our excutive directors Mr Lin Shaoxiong and Mr Lin Shaoqin RMB 7.2 million.

As at 31 March 2014, we had bank borrowings of approximately RMB 108.5 million. The decrease in the bank loans as compared to 31 December 2013 was due to the repayment of bank loans of RMB 24 million in 1Q 14 which was offset by bank loans of approximately RMB 23.6 million obtained in 1Q 14,. In 1Q 14, PRC economy continued to experience credit tightening from financial institutions. Balancing our financial flexibility in these uncertain times and to 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 RMB 134 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 our Group paid by bills payable to our suppliers, 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 27.7 million from approximately RMB 6.4 million net outflow in 1Q 13 to approximately RMB 21.3 net inflow million in 1Q 14. The increase was mainly due to the operating profit generated in 1Q 14 as compared to the operating loss incurred in the corresponding period in 2013.

Net cash from operating activities in 1Q 14 increased by approximately RMB 21.2 million as compared to 1Q 13 mainly due to the decrease in account receivables and increases in trade payables and bills payables and other payables and accrued liabilities was sufficient to cover the increases in prepayment and other receivables and inventories.

In 1Q 14, the decreases in account receivables were approximately RMB 59.3 million and the increases in trade payables and bill payables and other payables and accrued liabilities were approximately RMB 24.7 million and RMB 2.3 million, respectively. In 1Q 14, our Group recorded increases in prepayment and other receivables and inventories of approximately RMB 59.2 million and RMB 0.4 million, respectively.

Net Cash from Investing Activities

In 1Q 14, net cash from in 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 22,000.

Net Cash used in Financing Activities

Net cash used in financing activities was approximately RMB 36.9 million in 1Q 14. This was mainly due to net repayment of bank loans of RMB 0.4 million and the increase in pledged deposits of approximately RMB 37.1 million which was offset by an increase in amount owing to a director (Mr Lin Shaoxiong) of approximately RMB 0.6 million in 1Q 13.

9. Use of Placement Proceeds

As previously announced, with the termination of our distribution rights for the Federation Internationale de Football Association's collection of football, lifestyle clothing and accessories, our Directors had changed the use of the balance proceeds from the placement exercise.

The following table sets out the details of the utilisation of placement proceeds up to 31 March 2014:

No	Planned Usage	Placement Proceeds (RMB million)	Cumulative amount used (RMB million)	Balance (RMB million)
1.	Penetrate kids-wear market in the PRC: Research & Development ("**R&D**") 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
		97.9	49.8	48.1

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 prospects statements 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**") growth slowed to 7.4% year-on-year ("**y-o-y**") in the 1Q 14. This is the weakest in 6 quarters as the PRC government tried to curb a credit boom while sustaining enough expansion to support employment (urban unemployment rate was 4.05% at the end of 2013). Meanwhile, China's Consumer Price Index ("**CPI**") remained stable at 2.3% in 1Q 14. The per capita income of rural and urban households of China continued to increase by 12.3 % and 9.8% y-o-y, respectively. Total retail sales of consumer goods rose 12.0% y-o-y, reflecting sustained growth in consumer spending in the domestic economy.*

China's sportswear industry as a whole 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 and some of our Group's peers have also seen improving inventories and stabilisation of same-store-sales growth ("**SSSG**") in recent quarters.

Despite this, challenges remain as competition stays intense. Footwear and apparel brands that are more differentiated, more responsive to market trends and capable of delivering value for money and innovation to consumers will benefit from the industry consolidation.

In response to such market conditions, our Group has taken the following measures and initiatives:

1. Change in product positioning

In 3Q 2013, our Group made a strategic decision to exit from the sportswear accessories market due to persistent low profit margin. At the same time, our Group has gradually reduced our exposure in the apparel segment whereby gross profit margin has been experiencing a declining trend (35% in FY08 to 11% in FY13) and put more focus on our footwear segment.

Our Group has noticed that our enlarged customer base, comprising both kids and adults, increasingly prefers casual fashion wear over sportswear. As a result, our Group has accelerated our pace to transform and reposition the range of YELI footwear with added emphasis towards the casual fashion wear market. Furthermore, our Group has been putting in effort to differentiate YELI footwear by leveraging on our licensed breathable shoes technology.

2. Streamline distribution network

In order to streamline our Group's distribution network, we have encouraged our distributors to close down inefficient specialty stores and set up more shops and counters within departmental stores in first, second and third-tier cities. Consequently, specialty store count has been reduced by about 64% from 730 stores in 2010 to 250 stores in 1Q 14. Besides, our Group has engaged in initiatives to upgrade our points-of-sale to better reflect the change in YELI's product positioning with added emphasis on casual fashion wear.

3. Setting up production facility in Anhui Province, PRC

In view of rising labour costs and persistent labour shortage owing to the tight labour market in coastal cities of China, our Group is planning to expand our production footprint beyond Fujian Province. Our Group intends to set up a new production facility in Anhui Province, China. Anhui Province occupies a strategic location in China as it is surrounded by provinces that enjoy strong economic growth and have relatively high population, like Shanghai City and, Jiangsu, Zhejiang, Fujian, Jiangxi, Henan and Hubei Provinces.

4. Planning to acquire technology for breathable-shoes

In view of the increasing amount of royalty fee incurred each year in line with the increase in the sales of breathable shoes, our Group announced on 29 April 2014 that we are looking into acquiring the technology for breathable-shoes. Besides cost savings, this strategic move will remove the uncertainty of licensing not being extended in the future.

Our Group will make strategic moves to enlarge our market share and will 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.

**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.

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.

By agreement (the "**Extension Agreement**"), the term of the License has since been extended again. With the extended term (i.e., from 1 July 2013 till 30 June 2014), the License will conclude on 30 June 2014 (the "**Extended Term**").

During the Extended Term, the royalty fee continues to be on computed in the same manner, however, the aggregate royalty fee for the Extended Term is subject to a cap of equivalent to 5% of the net tangible asset value of our Group of RMB 57,992,105, based on our latest audited financial statements for the financial year ended 31 December 2012. The royalty fee for the extended term will be computed and paid only after our audited accounts for the Extended Term had been issued. All other terms and conditions remain unchanged for the 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.

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 31 March 2014:

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	-	-
Royalties fees paid to Lin Yongjian	7.2 million	-

18. Negative Assurance

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

The Directors of the Company hereby confirm that to the best of their knowledge, nothing has come to the attention of the Board of Directors of the Company which may render the unaudited interim financial results of the Company and of the Group for the first quarter ended 31 March 2014 to be false or misleading in any material aspect.

On behalf of the Board of Directors

Lin Shaoxiong Chief Executive Officer	Lin Shaoqin Executive Director

Singapore
15 May 2014

BY ORDER OF THE BOARD

Lin Shaoxiong
Chief Executive Officer
15 May 2014