



**CHINA SPORTS INTERNATIONAL LIMITED**

Incorporated in Bermuda  
(Company Registration: 39798)

**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.

**STATEMENT OF PROFIT AND LOSS FOR THE SECOND QUARTER AND SIX MONTHS ENDED  
30 JUNE 2016 (in RMB)**

(RMB '000)	Second Quarter		Change %	Half Year		Change %
	Unaudited 2016	Unaudited 2015		Unaudited 2016	Unaudited 2015	
Revenue	47,743	55,342	(13.7)	98,753	158,843	(37.8)
Cost of sales	(37,941)	(46,909)	(19.1)	(78,938)	(127,827)	(38.2)
Gross profit	9,802	8,433	16.2	19,815	31,016	(36.1)
Other operating income	124	166	(25.5)	263	569	(53.8)
Selling and distribution expenses	(4,106)	(4,963)	(17.3)	(9,054)	(13,392)	(32.4)
Administrative expenses	(13,168)	(304,983)	(95.7)	(23,874)	(310,818)	(92.3)
Finance costs	-	(1,905)	(100.0)	-	(3,484)	(100.0)
(Loss)/Profit before income tax	(7,348)	(303,252)	97.6	(12,850)	(296,109)	95.7
Taxation	-	(1,725)	100.0	-	-	100.0
(Loss)/Profit for the period	(7,348)	(304,977)	97.6	(12,850)	(296,109)	95.7
Gross profit margin	20.5%	15.2%		20.1%	19.5%	
Profit before income tax margin	-15.4%	-548.0%		-13.0%	-186.4%	
Net profit margin	-15.4%	-551.1%		-13.0%	-186.4%	



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**STATEMENT OF COMPREHENSIVE INCOME FOR THE SECOND QUARTER AND SIX MONTHS ENDED 30 JUNE 2016 (in RMB)**

(RMB '000)	Second Quarter		Change	Half Year		Change
	Unaudited	Unaudited		Unaudited	Unaudited	
	2016	2015	%	2016	2015	%
(Loss)/Profit for the period	(7,348)	(304,977)	97.6	(12,850)	(296,109)	95.7
Other comprehensive (loss)/ income for the period	(180)	72	(350.0)	(280)	(126)	122.2
Total comprehensive loss for the period	(7,528)	(304,905)	97.5	(13,130)	(296,235)	95.6



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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)	Second Quarter		Change %	Half Year		Change %
	2016	2015		2016	2015	
(a) Income statement includes the following:						
Interest paid on borrowings	-	(1,905)	(100.0)	-	(3,484)	(100.0)
Depreciation of property, plant and equipment	(3,908)	(2,650)	47.5	(7,816)	(5,354)	46.0
Amortisation of land use rights	(91)	(91)	-	(182)	(182)	-
Amortisation of intangible assets	(133)	(142)	(6.3)	(266)	(285)	(6.7)
Impairment loss on trade receivables	-	299,000	100.0	-	299,000	100.0
Lease payments under operating lease for leasehold buildings	(240)	(480)	(50.0)	(480)	(480)	-
Salaries and related costs						
- Director remuneration	(313)	(390)	(19.7)	(656)	(1,169)	(43.9)
- Key personnel	(271)	(290)	(6.6)	(550)	(625)	(12.0)
Exchange (loss)/gain	(234)	(156)	50.0	(432)	29	(1,590)
(b) Other operating income comprises mainly						
Interest income	124	166	(25.3)	263	384	(31.5)



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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.**

(RMB '000)	Group	Group	Company	Company
	Unaudited	Audited	Unaudited	Audited
	As at	As at	As at	As at
	30/6/2016	31/12/2015	30/6/2016	31/12/2015
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Non-current assets</b>				
Property, plant and equipment	119,845	103,041	1	1
Land use rights/Intangible assets	15,697	16,146	-	-
Deferred tax asset	44,244	44,244	-	-
Investment in subsidiary	-	-	459,986	459,986
	<u>179,786</u>	<u>163,431</u>	<u>459,987</u>	<u>459,987</u>
<b>Current assets</b>				
Inventories	9,864	17,633	-	-
Amount due from subsidiary	-	-	97,323	90,047
Trade receivables	101,039	82,541	-	-
Prepayments, other receivables and deposits	106,201	139,316	11	9
Pledged bank deposits	-	-	-	-
Cash and cash equivalents	138,162	154,427	15	16
	<u>355,266</u>	<u>393,917</u>	<u>97,349</u>	<u>90,072</u>
<b>Less: Current liabilities</b>				
Trade and bills payables	13,469	19,537	-	-
Amount owing to director	8,860	8,014	4,668	3,822
Accrued liabilities and other payables	38,298	50,263	5,337	5,973
Amount due to a subsidiary	-	-	24,679	23,675
	<u>60,627</u>	<u>77,814</u>	<u>34,684</u>	<u>33,470</u>
<b>Net current assets</b>	<u>294,639</u>	<u>316,103</u>	<u>62,665</u>	<u>56,602</u>
<b>Non current liability</b>				
Deferred tax liabilities	7,377	7,377	-	-
	<u>7,377</u>	<u>7,377</u>	<u>-</u>	<u>-</u>
<b>Net assets</b>	<u>467,048</u>	<u>472,157</u>	<u>522,652</u>	<u>516,589</u>
<b>Share capital and reserves</b>				
Share capital	42,990	36,570	42,990	36,570
Share premium	561,736	560,135	561,736	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	2,581	2,861	2,653	2,892
Retained earnings	(229,102)	(216,252)	(84,831)	(83,112)
<b>Shareholders' equity</b>	<u>467,048</u>	<u>472,157</u>	<u>522,652</u>	<u>516,589</u>

**1(b)(ii) Aggregate amount of Group's borrowings and debt securities.**

Our Group have no outstanding interest-bearing loans and bill payables as at quarter ended 30/6/2016 and year ended 31/12/2015



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**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**

(RMB '000)	Second Quarter		Half Year	
	Unaudited 2016	Unaudited 2015	Unaudited 2016	Unaudited 2015
<b>Cashflows from operating activities</b>				
(Loss)/Profit before income tax	(7,348)	(303,252)	(12,850)	(296,109)
Adjustments for:				
Interest income	(124)	(166)	(263)	(384)
Depreciation of property, plant and equipment	3,908	2,650	7,816	5,354
Amortisation of land use rights/intangible assets	224	233	448	467
Impairment loss on trade receivables	-	299,000	-	299,000
Interest expenses	-	1,905	-	3,484
Write back of income tax	-	(3,450)	-	-
Exchange difference in translation	(234)	(254)	(432)	(352)
Operating profit before working capital changes	(3,574)	(3,334)	(5,281)	11,460
Decrease/ (increase) in inventories	3,148	719	7,769	7,358
(Increase) / decrease in trade receivables and other receivables, prepayment and deposits	13,511	(62,690)	14,618	(146,295)
Increase/(decrease) in trade payables and bill payables	(1,495)	1,468	(6,068)	(112,350)
Increase / (decrease) in accrued liabilities and other payable	(2,918)	402	(11,965)	297
Cash (used in) / from operations	8,672	(63,435)	(927)	(239,530)
Interest received	124	166	263	384
Interest paid	-	(1,905)	-	(3,484)
Income tax paid	-	-	-	-
<b>Net cash (used in) / from operating activities</b>	<b>8,796</b>	<b>(65,174)</b>	<b>(664)</b>	<b>(242,630)</b>
<b>Cashflows from investing activities</b>				
Purchases of property, plant and equipment	-	-	(24,620)	-
<b>Net cash (used in) / from investing activities</b>	<b>-</b>	<b>-</b>	<b>(24,620)</b>	<b>-</b>
<b>Cashflows from financing activities</b>				
Increase / (decrease) in amount owing to director	626	925	846	1,552
Proceeds from placement of shares	8,286	-	8,286	-
Shares issue expenses	(265)	-	(265)	-
Proceeds from bank loans	-	22,500	-	22,500
Repayment of bank loans	-	(22,900)	-	(74,700)
Increase / (decrease) in pledged deposits	-	4,424	-	10,712
<b>Net cash from / (used in) financing activities</b>	<b>8,647</b>	<b>4,949</b>	<b>8,867</b>	<b>(39,936.00)</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>	<b>17,443</b>	<b>(60,225)</b>	<b>(16,417)</b>	<b>(282,566)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>120,665</b>	<b>310,270</b>	<b>154,427</b>	<b>532,506</b>
<b>Effects of exchange rate fluctuation</b>	<b>54</b>	<b>121</b>	<b>152</b>	<b>226</b>
<b>Cash and cash equivalents at end of period</b>	<b>138,162</b>	<b>250,166</b>	<b>138,162</b>	<b>250,166</b>



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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
<b>Group</b>									
At 1 January 2015	36,570	560,135	(226)	801	330	3,484	87,998	343,508	1,032,535
Total comprehensive loss for the period	-	-	-	-	-	(623)	-	(559,755)	(560,378)
Transfer to statutory reserve	-	-	-	-	-	-	-	-	-
At 31 December 2015	<u>36,570</u>	<u>560,135</u>	<u>(226)</u>	<u>801</u>	<u>330</u>	<u>2,861</u>	<u>87,998</u>	<u>(216,252)</u>	<u>472,157</u>
At 1 January 2016	36,570	560,135	(226)	801	330	2,861	87,998	(216,252)	472,157
Issuance of new shares	6,420	1,866	-	-	-	-	-	-	8,286
Shares issue expenses	-	(265)	-	-	-	-	-	-	(265)
Total comprehensive loss for the year	-	-	-	-	-	(280)	-	(12,850)	(13,130)
At 30 June 2016	<u>42,990</u>	<u>561,736</u>	<u>(226)</u>	<u>801</u>	<u>330</u>	<u>2,581</u>	<u>87,998</u>	<u>(229,102)</u>	<u>467,048</u>
<b>Company</b>									
At 1 January 2015	36,570	560,135	(226)	-	330	-	-	(76,744)	520,065
Total comprehensive loss for the period	-	-	-	-	-	-	-	(3,476)	(3,476)
At 31 December 2015	<u>36,570</u>	<u>560,135</u>	<u>(226)</u>	<u>-</u>	<u>330</u>	<u>-</u>	<u>-</u>	<u>(80,220)</u>	<u>516,589</u>
At 1 January 2016	36,570	560,135	(226)	-	330	-	-	(80,220)	516,589
Issuance of new shares	6,420	1,866	-	-	-	-	-	-	8,286
Shares issue expenses	-	(265)	-	-	-	-	-	-	(265)
Total comprehensive loss for the period	-	-	-	-	-	-	-	(1,958)	(1,958)
At 30 June 2016	<u>42,990</u>	<u>561,736</u>	<u>(226)</u>	<u>-</u>	<u>330</u>	<u>-</u>	<u>-</u>	<u>(82,178)</u>	<u>522,652</u>



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**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.**

On 27 April 2016, the Company completed a private placement in which the Company issued and allotted 192,000,000 new ordinary shares in the capital of the Company at S\$0.009 for each new share.

Consequent to the completion of the private placement, the issued share capital of the Company had increased from 961,538,000 ordinary shares (excluding 587,000 treasury shares) 1,153,538,000 Shares (excluding 587,000 treasury shares), which can be summarized in the table below:

	Number of shares	Share Capital RMB
As at 1 April 2016	961,538,000	36,344
Issuance of new shares pursuant to a private placement	192,000,000	6,420
As at 30 June 2016	1,153,538,000	42,764

There were no outstanding convertibles held as at 30 June 2016 and 30 June 2015.

**Treasury shares**

Our Company did not make any purchase of our shares during the second quarter ended 30 June 2016. As at 30 June 2016, our Company holds 587,000 treasury shares (30 June 2015: 587,000).

	Company 30 June 2016 Number of shares	30 June 2015	Company 30 June 2016 RMB '000	30 June 2015
<b>Issued and fully paid</b>				
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 June 2016 and as at 31 December 2015 are 1,153,538,000 and 961,538,000 respectively 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 2016.

**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 2015.

**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.





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**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.**

	Second Quarter		Half Year	
	2016	2015	2016	2015
(Loss)/Profit after income tax (RMB'000)	(7,348)	(303,252)	(12,850)	(296,109)
Basic (loss)/ earnings per share (RMB cents)	(0.71)	(31.54)	(1.25)	(30.80)
Diluted (loss)/earnings per share (RMB cents)	(0.71)	(31.54)	(1.25)	(30.80)

The basic (loss)/ earnings per share is calculated based on profit after income tax divided by the weighted average ordinary shares during second quarter ended 30 June 2016 and the six months ended 30 June 2016, which were 1,030,109,429 shares. The weighted average ordinary shares for the second quarter ended 30 June 2015 and half year ended 30 June 2015, which were 961,538,000 shares.

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 June 2016	As at 31 Dec 2015	As at 30 June 2016	As at 31 Dec 2014
Net asset value as at the end of the respective period (RMB'000)	467,047	472,157	522,652	516,589
Total number of issued ordinary share at the end of financial period/year	1,153,538,000	961,538,000	1,153,538,000	961,538,000
Net asset value per share (RMB cents)	40.48	49.10	45.31	53.72



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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 June 2016 ("2Q 16"), our Group recorded revenue of approximately RMB 47.7 million, a decrease of approximately RMB 7.6 million or 13.7% over revenue of approximately RMB 55.3 million for the previous corresponding period ("2Q 15"). For the six months ended 30 June 2016, ("1H 16"), revenue decreased by approximately RMB 60 million or 37.8% to approximately RMB 98.8 million from approximately RMB 158.8 million in the previous corresponding period ("1H 15").

The decrease in revenue in 1H 16 and 2Q 16 were mainly attributable to the persistent and increasing competition in the sportswear industry. Our distributors continued to be weary of the intensified competition and became even more prudent in placing their orders for footwear and apparel products, which has affected the overall footwear revenue in 1H 16 and 2Q 16. Moreover, there is no enhanced features and functionality of our products, thus making it harder to entice the distributors.

#### *Breakdown of revenue by business lines*

(RMB million)	2Q 16	%	2Q 15	%	1H 16	%	1H 15	%
Footwear	44.8	94	55.3	100	93.0	94	158.8	100
Apparel	2.9	6	-	-	5.8	6	-	-
Total Revenue	47.7	100	55.3	100.0	98.8	100.0	158.8	100.0

#### *Breakdown of footwear revenue by segment*

(RMB million)	2Q 16	%	2Q 15	%	1H 16	%	1H 15	%
YELI footwear	21.3	47.5	33.9	61.3	47.0	50.5	99.7	62.8
OEM footwear	23.5	52.5	21.4	38.7	46.0	49.5	59.1	37.2
Total footwear	44.8	100.0	55.3	100.0	93.0	100.0	158.8	100.0

#### Footwear

In 1H 16, footwear products recorded approximately RMB 93 million in sales, representing a decrease of approximately RMB 65.8 million or approximately 41% over sales of footwear products of approximately RMB 158.8 million in 1H 15.



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The decreases in revenue in 1H 16 and 2Q 16 were mainly attributable to the decrease in both Yeli and OEM footwear revenue. The poor economic outlook and no enhanced features and functionality of our products resulted in lesser orders being placed by our distributors. In view of the persistent weakening retail sportswear market and of intensified price competition, our distributors have also closed down the sales outlet by more than half in FY2015.

In 1H 16, our Yeli footwear sales was approximately RMB 47 million which represented 50.5% and 47.5% of our footwear revenue and of our total revenue as compared to 62.8% of our footwear revenue and of our total revenue in 1H 15.

In 2Q 16, our Group recorded Yeli footwear revenue of approximately RMB 21.3 million, a decrease of approximately RMB 12.6 million or 37.2% over revenue of approximately RMB 33.9 million in 2Q 15.

The decrease in OEM footwear revenue in 1H 16 was mainly attributable to decreased orders from our existing customers. We continued to pursue our strategy of selectively accepting higher margin orders from our existing OEM customers. Despite of us consistently maintaining the quality of our OEM products, we saw lesser orders from existing OEM customers due to the intensified competition in the sportswear industry and we have placed more tightening credit control on the orders place by existing customers and new customers to reduce the risk of bad debt. There was a decrease in OEM footwear revenue contribution in 1H16 from approximately 59.1 million to 46 million but the contribution from OEM footwear was slightly increased by RMB 2.1 million from approximately RMB 21.4 million in 2Q 15 to RMB 23.5 million in 2Q 16.

### Apparel

In 1H 16 and 2Q 16, our Group recorded RMB 5.8 million and RMB 2.9 million as compared to no apparel business in 1H 15 and 2Q 15. This resulted from our existing distributors have placed orders on apparel of sport wear and kid wear due to the market demand during Chinese New Year and promotion campaign in 2Q 16.

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

	1H 16	1H 15	Growth
Points-of-sale	Over 330*	Over 675*	(51)%
YELI specialty stores	Over 35	Over 120	(71)%

\* 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 had decreased by approximately 51% from over 675 points of sale as at 30 June 2015 to over 330 point of sale as at 30 June 2016. Over the same period, the number of specialty stores decreased by 71% from over 120 to over 35. Our Group will continue to execute our strategy to improve the mix of our points of sale.



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Due to the poor market economic outlook and weak response to our YELI breathable shoes, our Group's distributors have since closed down majority 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. Decreased presence of our brand in first- and second-tier cities has eroded 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 and vary the product line-up with greater emphasis on breathable shoes.

### Cost of goods sold and gross profit margin

In line with the decrease in revenue, our cost of sales decreased by approximately RMB 48.9 million or 38.3% from approximately RMB 127.8 million in 1H 15 to approximately RMB 78.9 million in 1H 16.

In line with the revenue decrease in 2Q 16 from 2Q 15, our cost of sales decreased by approximately RMB 9 million or 19.2% from approximately RMB 46.9 million in 1H 15 to approximately RMB 37.9 million in 1H 16.

#### *Gross profit margin by product segment:*

	2Q 16	2Q 15	Growth	1H 16	1H 15	Growth
Footwear	18.9%	15.2%	(2%)	19.3%	19.5%	(1%)
Apparel	10.4%	-	100%	10.3%	-	100%
Overall GP margin	20.5%	15.2%	(34.8%)	20.1%	19.5%	3%

Our gross profit decreased by approximately RMB 11.2 million or 36.1% from approximately RMB 31 million in 1H 15 to approximately RMB 19.8 million in 1H 16 as a result of lower volume of footwear products being sold and. Our overall gross profit margin has maintained consistently the same in 1H 16 and 15 despite the lower volume of footwear products in 2015.

In 2Q 16, our gross profit margin increased to 20.5% from approximately 15.2% in 2Q 15 to 20.5% in 2Q 16. Quarter-on-quarter, our overall gross profit margin increased from 19.6% in 1Q 16 to 20.5% in 2Q 16. The increase of overall gross profit margin was mainly due to trade discount given by suppliers in the 1H 16.

### Other operating income

Other operating income comprises interest income from bank deposits and exchange differences. The decrease in interest income in 1H 16 and 2Q 16 was mainly due to lower bank balances as compared to its corresponding quarter in 2015



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### **Operating expenses**

In total, operating expenses which comprise selling and distribution expenses and administrative expenses decreased by approximately RMB 291.3 million or 89.9% from approximately RMB 309.9 million in 1H 15 to approximately RMB 32.9 million in 1H 16. As a percentage of revenue, operating expenses increase to approximately 33.3 % in 1H 16 from approximately 204% in 1H 15.

The main decrease in total operating expenses came from administrative expenses which decrease by approximately RMB 299.3 million or 92.3% from approximately RMB 310.8 million in 1H 15 to approximately RMB 23.8 million in 1H 16 while administrative expenses in 2Q 16 decreased by approximately RMB 291.8 million or 95.7% from approximately RMB 305 million to approximately RMB 13.2 million in 2Q 16. The decrease for both 1H 16 and 2Q 16 are due to the impairment loss on trade receivables of approximately RMB 299.0 million being recognised in corresponding period in 1H 15 and 2Q 15. We have put continuing efforts to try all ways of collecting our trade receivables back but the collection has been slow due to the poor economic outlook since year 2015.

Selling and distribution expenses decreased by approximately RMB 4.3 million or 32.4% from approximately RMB 13.4 million in 1H 15 to approximately RMB 9.1 million in 1H 16 while selling and distribution expenses in 2Q 16 decreased by approximately RMB 0.9 million or 18% from approximately RMB 5 million to approximately RMB 4.1 million in 2Q 16. The Group had only spent RMB 1.2 million and RMB 3.6 million in 2Q 16 and 1H 16 respectively, in advertising on the internet to create and promote the awareness of the YELI brand and functionality of YELI breathable shoes on various e-commerce platforms as compared to approximately RMB 0.5 million and RMB 5.8 million in 1H 15 and 2Q 15, respectively. The decrease in spending is due to poor economic outlook and no enhanced features of the footwear products being produced.

### **Finance costs**

Finance costs in 1H 16 and 2Q 16 decreased by approximately RMB 3.5 million and RMB 1.9 million or 100% compared to 1H 15 and 2Q 15 respectively. The decrease was due to no outstanding bank loans in 1H 16 and 2Q 16 as compared to 1H 15 and 2Q 15 respectively.

### **Income tax**

Income tax expense in 1H 16 and 2Q 16 of approximately RMB Nil reported respectively, were due to loss incurred in 1H 16 from our operating subsidiaries in PRC.



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- (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 had increased by approximately RMB 16.8 million from approximately RMB 103 million as at 31 December 2015 to approximately RMB 119.8 million as at 30 June 2016. This was mainly attributed to the purchases of plant and machinery amounting to RMB 15.3 million to upgrade existing production line and RMB 9.3 million spent on building enhancement for fire safety which enforced by local authority in order to achieve the national level fire safety. Total Depreciation charge of the property, plant and equipment during the 1H 16 was approximately RMB 7.8 million.

Land use rights and intangible assets as at 30 June 2016 decreased marginally when compared to 31 December 2015. This was mainly attributed to the amortisation of land use rights and other intangible assets.

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. There is no utilisation of deferred tax asset for 2Q 16 due to the loss incurred and no additional recognition of deferred tax asset due to the gloomy future economic outlook in the sportswear industry.

#### **Current Assets**

Inventories, comprised mainly raw materials and finished goods, decreased by approximately RMB 7.7 million from approximately RMB 17.6 million as at 31 December 2015 to approximately RMB 9.8 million as at 30 June 2016. The Group tried to maintain a lower level of inventories due to uncertain economic outlook.

Trade receivables increased from approximately RMB 82.5 million as at 31 December 2015 to approximately RMB 101 million as at 30 June 2016 mainly due to slow collection from customers. Our trade receivables turnover days were in the range of 30-120 days. The Group has decided to stop selling to the existing distributors who have not been paying on time from 3Q 15 onwards and also to implement a more tightening credit control to both new and existing distributors in the collection. Aging of trade receivables is set out as follows:

	(RMB million)	%
Current (less than 30 days) –	24.9	24.7
31 to 60 days –	18.1	17.9
61 to 90 days –	12.9	12.8
Over 90 days	45.1	44.6
Total	101.0	100.0



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Other receivables and prepayment decreased from approximately RMB 139.3 million as at 31 December 2015 to approximately RMB 106.2 million as at 30 June 2016.

The balance consisted mainly of advance payments made to existing suppliers of approximately RMB 18.1 million to lock in raw materials prices and the advance payment to a marketing agency of approximately RMB 15.1 million and RMB 18 million prepayment made to an academic researcher to conduct a long term strategic course for key management and main distributors which included an on-going monitoring programme. 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 June 2016, we had cash and cash equivalents of approximately RMB 138.2 million. The net decrease in cash and cash equivalents was due mainly to the net cash used in operation and share placements proceeds from 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 June 2016, 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 decreased from approximately 19.5 million as at 31 December 2015 to approximately RMB 13.5 million as at 30 June 2016. This was due to prompt payment made to suppliers to secure better trade terms and lesser purchases during 1H 16 in view of the reduction in overall business activities.



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Accrued liabilities, other payables (included wages payables, accrued utilities expenses) and amount owing to a director decreased from approximately RMB 58.2 million as at 31 December 2015 to approximately RMB 47.1 million as at 30 June 2016. The net decrease was mainly due to VAT payables reduced correspondingly to revenue drop in 1H 2016 but slightly offsetting by increase in amount due to the director which helping to make payment of certain professional expenses for the group.

### **Commentary on Statement of Cash Flows**

#### **Net Cash from Operating Activities**

Operating cashflow before working capital changes decreased by approximately RMB 16.7 million from approximately RMB 11.4 million net inflow in 1H 15 to approximately RMB 5.3 million net outflow million in 1H 16. The decrease was mainly due to the operating loss generated in 1H 16 as compared to the operating profit incurred in the corresponding period in 2015 and offset by the recognition of the non-cash adjustment of impairment loss on trade receivable. The operating cashflow before working capital changes decreased marginally by approximately RMB 0.2 million from approximately RMB 3.3 million net outflow in 2Q 15 to approximately RMB 3.5 net outflow million in 2Q 16. The minor decrease was mainly due to the operating loss generated in 2Q 16 as compared to the operating profit incurred in the corresponding period in 2015 before impairment loss on trade receivable.

Net cash used in operating activities in 1H 16 increased significantly by approximately RMB 238.6 million as compared to 1H 15 mainly due to the huge loss generated of approximately RMB 296.1 million in 1H 15, increase in trade receivables of approximately RMB 146.1 million, decrease in trade payables and bills payables of approximately RMB 112 million, respectively and this is offset by the huge impairment loss on trade receivables recognised of approximately RMB 299.0 million and inventories of approximately RMB 7.4 million in 1H 15 as compared with 1H 16 with less fluctuation.

Net cash used in operating activities in 2Q 16 increased by approximately RMB 72 million as compared to 2Q 15 was mainly due to huge loss generated of approximately RMB 303.3 million, increase in trade receivables of approximately RMB 62.7 million which is offset by the huge impairment loss on trade receivables recognised of approximately RMB 299.0 million as compared with 2Q 16 with less fluctuation in use of working capital.

#### **Net Cash used in Investing Activities**

In 1H 16, there is a purchase of property, plant and equipment of RMB 24.6 million, whereas in 1H 15, no net cash used in investing activities.





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### **Net Cash from/(used in) Financing Activities**

Net cash used in financing activities was approximately RMB 8.9 million in 1H 16. This was due mainly to net proceeds raised from a private placement of new shares of RMB 8 million and an increase in amount owing to a director (Mr Lin Shaoxiong) of approximately RMB 0.8 million in 1H 16.

Net cash from financing activities was approximately RMB 8.6 million in 2Q 16. This was due mainly to net proceeds raised from a private placement of new shares of RMB 8 million and an increase in amount owing to a director (Mr Lin Shaoxiong) of approximately RMB 0.6 million in 2Q 16.

### **9. Use of Rights Issue and Placement Proceeds**

The following table sets out the details of the utilisation of placement proceeds up to 30 June 2016:

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	50.0	-
2.	Penetrate kids-wear market in the PRC: Advertising and promotional expenses for YELI kids-wear	20.0	20.0	-
3.	Development of online shopping platform	27.9	27.9	-
		97.9	97.9	-

### **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") maintained at 6.7%\* quarter-on-quarter to ("2Q 16"). The China sportswear industry, which has been facing challenges stemming from excessive inventory and over-expanded retail channels over the past few years has not shown much improvement. Measures have been taken by Industry players in destocking and network consolidation.



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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. Due to the global economic uncertainties had also dampened the sales performance of our OEM segment, but the Group is still able to secure contracts due to our ability to deliver quality products.

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 FY2016 through cost control measures and reducing subsidies given to distributors and tighten the credit control over collection from 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**

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.



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**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.

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”).



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During the 2014 Extended Term, the royalty fee will continue to be 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.

The term of the License had been extended further by another agreement (the “2015 Extension Agreement”) for another 12 months in which the License will conclude on 31 December 2015 (the “2015 Extended Term”). All other terms and conditions remain unchanged for the 2015 Extended Term.

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 June 2016:

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 payable to Lin Yongjian	2.97 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 June 2016 to be false or misleading in any material aspect.

**19. Confirmation that the issuer has procured undertakings from all its directors and executive officers (in the format set out in Appendix 7.7) under Rule 720(1).**

The Company hereby confirms that it has procured undertakings from all its directors and executive officers under Rule 720(1) of the Listing Manual.

On behalf of the Board of Directors

Lin Shaoxiong  
Chief Executive Officer  
Singapore

Lin Shaoqin  
Executive Director

**BY ORDER OF THE BOARD**

**Lin Shaoqin**  
**Executive Director**  
**15 August 2016**