



CHINA SPORTS INTERNATIONAL LIMITED
(Company Registration No: 39798)

Unaudited Results for the Fourth Quarter and the Year ended 31 December 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.

Our Group's operations 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 measurement currency of our Group.

CONSOLIDATED INCOME STATEMENT
FOR THE FOURTH QUARTER AND THE YEAR ENDED 31 DECEMBER 2014 (in RMB)

(RMB '000)	Fourth Quarter		Change %	Full Year		Change %
	Unaudited 2014	Unaudited 2013		Unaudited 2014	Audited 2013	
	Revenue	211,372	229,350	(7.8)	825,883	818,249
Cost of sales	(175,690)	(189,128)	(7.1)	(669,593)	(680,482)	(1.6)
Gross profit	35,682	40,222	(11.3)	156,290	137,767	13.4
Other operating income	781	5,901	(86.8)	3,728	9,124	(59.1)
Selling and distribution expenses	(12,080)	(132,561)	(90.9)	(45,274)	(321,736)	(85.9)
Administrative expenses	(74,186)	(8,817)	741.4	(91,252)	(22,711)	301.8
Finance costs	(2,054)	(2,256)	(9.0)	(7,892)	(8,263)	(4.5)
(Loss)/Profit before income tax	(51,857)	(97,511)	(46.8)	15,600	(205,819)	107.6
Taxation	12,523	49,245	(74.6)	(5,002)	48,938	(110.2)
(Loss)/Profit for the period/year	(39,334)	(48,266)	(18.5)	10,598	(156,881)	106.8
Gross profit margin	16.9%	17.5%		18.9%	16.8%	
(Loss)/Profit before income tax margin	(24.5%)	(42.5%)		1.9%	(25.2%)	
Net (loss)/profit margin	(18.6%)	(21.0%)		1.3%	(19.2%)	

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STATEMENT OF COMPREHENSIVE INCOME FOR THE FOURTH QUARTER AND THE YEAR
ENDED 31 DECEMBER 2014 (in RMB)

(RMB '000)	Fourth Quarter		Change	Full Year		Change
	Unaudited	Unaudited		Unaudited	Audited	
	2014	2013	%	2014	2013	%
(Loss)/Profit for the period/year	(39,334)	(48,266)	18.5	10,598	(156,881)	106.8
Other comprehensive income for the period/year	218	157	38.9	418	455	(8.1)
Total comprehensive income for the period/year	(39,116)	(48,109)	18.7	11,016	(156,426)	107.0

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1(a)(ii) Other Information

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

(RMB '000)	Fourth Quarter		Change %	Full Year		Change %
	2014	2013		2014	2013	
(a) Income statement includes the following:						
Interest paid on borrowings	(2,054)	(2,256)	(9.0)	(7,892)	(8,263)	(4.5)
Depreciation of property, plant and equipment	(2,724)	(3,724)	(26.9)	(11,735)	(30,709)	(61.8)
Amortisation of land use rights	(90)	(90)	-	(363)	(363)	-
Amortisation of intangible assets	(143)	(143)	-	(571)	(571)	-
Impairment loss on trade receivables	(61,397)	-	100.0	(61,397)	-	100.0
Impairment loss on interest receivables	(4,632)	-	100.0	(4,632)	-	100.0
Lease payments under operating lease for leasehold buildings	(240)	(240)	-	(960)	(720)	33.3
Salaries and related costs						
- Director remuneration	(582)	(390)	49.2	(2,333)	(2,141)	9.0
- Key personnel	(217)	(329)	(34.0)	(1,122)	(1,295)	(13.4)
Exchange gain/(loss)	194	(679)	128.6	469	(1,175)	139.9
(b) Other operating income comprises mainly:						
Interest income	587	5,901	(90.1)	3,208	8,764	(63.4)

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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 31/12/2014	Group Audited As at 31/12/2013	Company Unaudited As at 31/12/2014	Company Audited As at 31/12/2013
(RMB '000)				
Non-current assets				
Property, plant and equipment	113,749	125,352	13	58
Land use rights/Intangible assets	17,070	18,004	-	-
Prepayments	-	43,713	-	-
Deferred tax asset	44,244	49,245	-	-
Investment in subsidiary	-	-	459,986	459,986
	175,063	236,314	459,999	460,044
Current assets				
Inventories	26,111	20,172	-	-
Amount due from subsidiary	-	-	90,018	89,331
Trade receivables	429,904	270,565	-	-
Prepayments, other receivables and deposits	120,691	111,781	10	13
Pledged bank deposits	45,875	29,940	-	-
Cash and cash equivalents	532,506	694,301	19	5,327
	1,155,087	1,126,759	90,047	94,671
Less: Current liabilities				
Trade and bills payables	147,534	164,030	-	-
Amount owing to director	5,487	3,187	3,158	3,187
Accrued liabilities and other payables	62,517	57,224	3,969	2,573
Amount due to a subsidiary	-	-	22,854	22,881
Interest-bearing bank borrowings	74,700	108,900	-	-
	290,238	333,341	29,981	28,641
Net current assets	864,849	793,418	60,066	66,030
Non current liability				
Deferred tax liabilities	7,377	7,377	-	-
	7,377	7,377	-	-
Net assets	1,032,535	1,022,355	520,065	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	3,485	3,903	3,829	3,829
Retained earnings	343,502	332,904	(80,573)	(74,564)
Shareholders' equity	1,032,535	1,022,355	520,065	526,074

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	Unaudited RMB'000 31/12/2014	Audited RMB'000 31/12/2013
Inventory turnover (days)	15	11
Trade receivables turnover (days)	217	121

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

Amount repayable in one year or less, or on demand

	As at 31/12/2014		As at 31/12/2013	
	Secured	Unsecured	Secured	Unsecured
	RMB'000	RMB'000	RMB'000	RMB'000
Bills payable	91,750	-	89,730	-
Interest-bearing loans	74,700	-	108,900	-
	<u>166,450</u>	<u>-</u>	<u>198,630</u>	<u>-</u>

Amount repayable after one year

	As at 31/12/2014		As at 31/12/2013	
	Secured	Unsecured	Secured	Unsecured
	RMB'000	RMB'000	RMB'000	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 31 December 2014 are secured by the land use rights and buildings of Hengfa. The bills payable as at 31 December 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 December 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 December 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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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)	Fourth Quarter		Full Year	
	Unaudited 2014	Unaudited 2013	Unaudited 2014	Audited 2013
Cashflows from operating activities				
(Loss)/Profit before income tax	(51,857)	(97,511)	15,600	(205,819)
Adjustments for:				
Interest income	(587)	(5,901)	(3,208)	(8,764)
Depreciation of property, plant and equipment	2,724	3,724	11,735	30,709
Amortisation of land use rights/intangible assets	233	233	934	934
Impairment loss of trade receivables	61,397	-	61,397	-
Impairment loss of interest receivables	4,632	-	4,632	-
Interest expenses	2,054	2,256	7,892	8,263
Exchange difference in translation	(192)	238	(554)	1,018
Operating profit/ (loss) before working capital changes	18,404	(96,961)	98,428	(173,659)
(Increase) / decrease in inventories	(6,936)	(16)	(5,939)	2,614
Increase in trade receivables and other receivables	(204,326)	(39,109)	(234,280)	(80,112)
Increase/(decrease) in trade payables and bill payables	(27,807)	(6,487)	(16,496)	46,614
Increase/(decrease) in accrued liabilities and other payable	16,186	(61,500)	4,719	6,276
Cash (used in) from operations	(204,479)	(204,073)	(153,568)	(198,267)
Interest received	587	1,269	3,208	4,132
Interest paid	(2,054)	(2,256)	(7,892)	(8,263)
Income tax paid	-	-	-	(649)
Net cash used in operating activities	(205,946)	(205,060)	(158,252)	(203,047)
Cashflows from investing activities				
Acquisition of land use rights/intangible assets	-	-	-	(639)
Refunds of investments	-	-	43,713	-
Purchases of property, plant and equipment	-	(63)	(132)	(242)
Net cash (used in)/from investing activities	-	(63)	43,581	(881)
Cashflows from financing activities				
Increase in amount owing directors	2,686	242	2,859	823
Proceeds from bank loans	2,900	19,900	104,300	162,900
Repayment of bank loans	(35,900)	(25,000)	(138,500)	(148,000)
Decrease / (increase) in pledged deposits	18,935	14,050	(15,935)	12,925
Net cash (used in)/from financing activities	(11,379)	9,192	(47,276)	28,648
Net decrease in cash and cash equivalents	(217,325)	(195,931)	(161,947)	(175,280)
Cash and cash equivalents at beginning of period	749,831	890,323	694,301	870,168
Effects of exchange rate fluctuation	-	(91)	152	(587)
Cash and cash equivalents at end of period	532,506	694,301	532,506	694,301

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(RMB '000)	Fourth Quarter		Full Year	
	Unaudited 2014	Unaudited 2013	Unaudited 2014	Audited 2013
Analysis of the balances of cash and cash equivalents				
Cash and bank balances	532,506	694,301	532,506	694,301
Cash and cash equivalents per share (Cents)	<u>55.38</u>	<u>72.21</u>	<u>55.38</u>	<u>72.21</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.

(FIMB'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 period	-	-	-	-	-	(418)	-	10,598	10,180
Transfer to Statutory Reserve	-	-	-	-	-	-	-	-	-
At 31 December 2014	36,570	560,135	(226)	801	330	3,485	87,938	343,502	1,032,535
Company									
At 1 January 2013	36,570	560,135	(226)	-	330	-	-	(62,530)	534,279
Total comprehensive income for the period	-	-	-	-	-	-	-	(8,205)	(8,205)
At 31 December 2013	36,570	560,135	(226)	-	330	-	-	(70,735)	526,074
At 1 January 2014	36,570	560,135	(226)	-	330	-	-	(70,735)	526,074
Total comprehensive income for the period	-	-	-	-	-	-	-	(6,009)	(6,009)
At 31 December 2014	36,570	560,135	(226)	-	330	-	-	(76,744)	520,065

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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.

There were no new shares issued in the year ended 31 December 2014 and no outstanding convertibles held as at 31 December 2014.

Treasury shares

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

	Company		Company	
	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013
	Number of shares		RMB '000	
Issued and fully paid				
At beginning of year	587,000	587,000	226	226
Acquired during year	-	-	-	-
At end of year	<u>587,000</u>	<u>587,000</u>	<u>226</u>	<u>226</u>

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 31 December 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 was no sale, transfer, disposal, cancellation and use of treasury shares during the financial year ended 31 December 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.

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- 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 ended 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 is no change 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.**

	Fourth Quarter		Full Year	
	2014	2013	2014	2013
(Loss)/profit after income tax (RMB'000)	(39,334)	(48,266)	10,598	(156,881)
Basic (loss)/earnings per share (RMB cents)	(4.09)	(5.02)	1.10	(16.32)
Diluted (loss)/earnings per share (RMB cents)	(4.09)	(5.02)	1.10	(16.32)

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

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

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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 Dec 2014	As at 31 Dec 2013	As at 31 Dec 2014	As at 31 Dec 2013
Net asset value as at the end of the respective period (RMB'000)	1,032,535	1,022,355	520,065	526,074
Issued share capital at the end of financial year	961,538,000	961,538,000	961,538,000	961,538,000
Net asset value per share (RMB cents)	107.38	106.32	54.09	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 31 December 2014 ("**4Q 14**"), our Group recorded revenue of approximately RMB 211.4 million, a decrease of approximately RMB 18.0 million or 7.8% over revenue of approximately RMB 229.4 million for the previous corresponding period ("**4Q 13**"). For the year ended 31 December 2014, ("**FY 14**"), revenue increased by approximately RMB 7.7 million or 0.9% to approximately RMB 825.9 million from approximately RMB 818.2 million in the previous corresponding period ("**FY 13**").

The increase in revenue in FY 14 were mainly attributable to our Group focusing on high margin footwear products, being our YELI breathable shoes and orders from selected OEM customers.

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Although there was an increase in revenue for apparel products in 4Q 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 footwear products, which has affected the overall footwear revenue in 4Q 14. The increase in revenue from apparel and OEM footwear products in 4Q 14 cannot offset the decrease in revenue from YELI footwear (without enhanced features and functionality) products has resulted in the lower revenue in 4Q 14 as compared to 4Q 13.

Breakdown of Revenue by Business Lines:

(RMB million)	4Q 14	%	4Q 13	%	FY 14	%	FY 13	%
Footwear	192.9	91.2	213.3	93.0	766.6	92.8	742.1	90.7
Apparel	18.5	8.8	16.1	7.0	59.3	7.2	72.2	8.8
Accessories	-	-	-	-	-	-	3.9	0.5
Total Revenue	211.4	100.0	229.4	100.0	825.9	100.0	818.2	100.0

Breakdown of footwear revenue by segment:

(RMB million)	4Q 14	%	4Q 13	%	FY 14	%	FY 13	%
YELI footwear	125.4	65.0	153.2	71.8	555.7	72.5	572.6	77.2
OEM footwear	67.5	35.0	60.1	28.2	210.9	27.5	169.5	22.8
Total footwear	192.9	100.0	213.3	100.0	766.6	100.0	742.1	100.0

Footwear

In FY 14, footwear products recorded approximately RMB 766.6 million in sales, representing an increase of approximately RMB 24.5 million or approximately 3.3% over sales of footwear products of approximately RMB 742.1 million in FY 13. The increase in overall footwear revenue in FY 14 was mainly due to increase in OEM footwear revenue whereby there were more orders from new and existing OEM customers as result of consistent quality of our OEM footwear products. Our YELI 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 FY 14, our YELI footwear sales was approximately RMB 555.7 million which represented approximately 72.5% and 67.3% of our YELI revenue and of our total revenue respectively as compared to approximately 88.3% and 70.0% of our YELI revenue and our total revenue in FY 13.

In 4Q 14, revenue from footwear was approximately RMB 192.9 million, a decrease of approximately RMB 20.4 million or 9.6% as compared to RMB 213.3 million registered in 4Q 13. The decrease was mainly due to the decrease in revenue generated from YELI footwear in 4Q 14 as a result of intense competition in the sportswear industry as mentioned earlier.

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In FY 14, our Group recorded OEM footwear revenue of approximately RMB 210.9 million, an increase of approximately RMB 41.4 million or approximately 24.4% over revenue of approximately RMB 169.5 million in FY 13. In 4Q 14, our Group recorded OEM footwear revenue of approximately RMB 67.5 million, an increase of approximately RMB 7.4 million or approximately 12.3% over revenue of approximately RMB 60.1 million in 4Q 13.

The OEM footwear revenue continued to increase in FY 14 and 4Q 14 mainly attributable to the increase in 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 steadily improving the quality of our OEM products, we saw more orders from existing and new OEM customers. There is an increase in OEM footwear revenue contribution to total footwear revenue from approximately 22.8% in FY 13 to approximately 27.5% in FY 14. The portion of OEM footwear revenue over total footwear revenue in 4Q 14 had increased from approximately 28.2% in 4Q 13 to approximately 35.0%.

Apparel

In FY 14, our Group recorded apparel revenue of approximately RMB 59.3 million, a decrease of approximately RMB 12.9 million or 17.9% as compared to approximately RMB 72.2 million in FY 13. The apparel sales in FY 14 contributed to approximately 10.0% and 7.2% of our YELI revenue and our total revenue respectively, from approximately 11.1% and 8.8% in FY 13.

In 4Q 14, our YELI apparel sales increased from approximately RMB 16.1 million in 4Q 13 to approximately RMB 18.5 million which represented approximately 12.9% and 9.6% of our YELI revenue and of our total revenue respectively as compared to approximately 9.5% and 7.0% of our YELI revenue and our total revenue in 4Q 13.

The weaker consumer demand as well as our distributors being prudent when placing orders, coupled with the intensified price competition has led to the decrease of average selling price of YELI apparel, which has affected the overall revenue of YELI apparel in FY 14. The increase in revenue from YELI apparel in 4Q 14 as compared to 4Q 13 was mainly due to difference in sales mix as well as a marginal upturn in demand after the past few quarter of declining sales.

Accessories

Our Group has no accessories revenue recorded in FY 14 as compared to approximately RMB 3.9 million in FY 13. This was due to our strategic decision to discontinue our accessories business in 3Q 2014.

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

	FY 14	FY 13	Growth
Points-of-sale	Over 1,205*	Over 1,365*	(12)%
YELI specialty stores	Over 175	Over 265	(34)%

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

The distribution network for our YELI products in PRC decreased by approximately 12% from over 1,365 points-of-sale as at 31 December 2013 to over 1,205 points-of-sale as at 31 December 2014. Over the same period, the number of specialty stores decreased by 34% from over 265 to over 175. Our Group will continue to execute our strategy to improve the mix of our points of sale. In view of the rising costs in running a YELI speciality store, our Group has encouraged our distributors to reduce the number of YELI speciality stores so that they can preserve and focus their resources to work on changing the product positioning and vary the product line-up with greater emphasis on breathable shoes.

Cost of goods sold and gross profit margin

The cost of sales decreased by approximately RMB 10.9 million or 1.6% from approximately RMB 680.5 million in FY 13 to approximately RMB 669.6 million in FY 13.

The decrease is mainly due to better cost controls which were in place during the year. In addition, the production of apparels are completely outsourced and 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 decrease in revenue in 4Q 14, the cost of sales decreased by approximately RMB 13.4 million or 7.1% from approximately RMB 189.1 million in 4Q 13 to approximately RMB 175.7 million in 4Q 14.

Gross profit margin by product segment:

	4Q 14	4Q 13	Growth	FY 14	FY 13	Growth
Footwear	17.7%	18.2%	(0.5)%	19.7%	17.5%	2.2%
Apparel	8.6%	8.3%	0.3%	9.0%	11.1%	(2.1)%
Accessories	-	-	-	-	5.7%	(5.7)%
Overall GP margin	16.9%	17.5%	(0.6)%	18.9%	16.8%	2.1%

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Our gross profit increased by approximately RMB 18.5 million or 13.4% from approximately RMB 137.8 million in FY 13 to approximately RMB 156.3 million in FY 14 as an increase in gross profit contribution from footwear products exceeds reduction of gross profit contribution from apparel and accessories products. Our overall gross profit margin increased from approximately 16.8% in FY 13 to 18.9% in FY 14. The increase of overall gross profit margin was mainly due to higher margin derived from breathable shoes in FY 14 which were partially offset by the lower margin from apparel products. In 4Q 14, our overall gross profit margin decreased to 16.9% from 17.5% in 4Q 13 which was mainly due to lower margin derived from the footwear products in the current quarter due to tense competition.

The increase of the gross profit margin of our footwear in the FY 14 and the relatively stable margin recorded in 4Q 14 as compared to the corresponding periods last year were mainly attributable to the resilient gross profit margin registered by YELI breathable shoes.

The gross profit margin of YELI apparel in FY 14 has decreased 2.1% as compared to FY 13. The decrease in gross profit margin of YELI apparel was mainly attributed to higher subcontracting cost and higher 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 which has affected the margin from this business segment. Nonetheless, the gross profit margin of YELI apparel products has slightly improved by 0.3% in 4Q 14 as compared to 4Q 13 as our Group had optimised the specialty stores in our network.

Other operating income

Other operating income comprises interest income from bank deposits, government subsidies and exchange differences. The decrease in other operating income, mainly interest income, in FY 14 as the amount in 4Q 13 and FY 13 consisted of interest obtained from the deposit paid in relation to the acquisition of an equity stake in Jinjiang Guosheng Shoe Material Co., Ltd. of approximately RMB 4.6 million. In addition, the interest income from bank deposits reduced by approximately RMB 0.9 million in FY 14 as compared to FY 13 due to lower bank balances.

Operating expenses

In total, operating expenses which comprise selling and distribution expenses and administrative expenses decreased by approximately RMB 207.9 million or 60.4% from approximately RMB 344.4 million in FY 13 to approximately RMB 136.5 million in FY 14. As a percentage of revenue, operating expenses decreased to approximately 16.5% in FY 14 from approximately 42.3% in FY 13.

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The main reduction in total operating expenses came from selling and distribution costs which has decreased by approximately RMB 276.4 million or 86.0% from approximately RMB 321.7 million in FY 13 to approximately RMB 45.3 million in FY 14 and decreased by approximately RMB 120.5 million or 90.9% from approximately RMB 132.6 million in 4Q 13 to approximately RMB 12.1 million in 4Q 14. The decreases were due to no subsidy being provided in FY 14. We have provided subsidy of approximately RMB 252.3 million and RMB 112.9 million in FY 13 and 4Q 13, respectively, to our distributors 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 - spent RMB 33.5 million and RMB 8.8 million in FY 14 and 4Q 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 39.7 million and RMB 10.2 million in FY 13 and 4Q 13, respectively.

Administrative expenses has increased by approximately RMB 68.6 million from approximately RMB 22.7 million in FY 13 to approximately RMB 91.3 million in FY 14 and from approximately RMB 8.8 million in 4Q 13 to approximately RMB 74.2 million in 4Q 14. This was mainly due to impairment loss from trade receivables and interest receivables balances registered of approximately of RMB 61.4 million and RMB 4.6 million respectively, in view of the uncertainties encountered in the collection of certain long outstanding debts.

Finance costs

Finance costs has decreased by approximately RMB 0.4 million or 4.5% from approximately RMB 8.3 million in FY 13 to approximately RMB 7.9 million in FY 14 and decreased by approximately RMB 0.2 million or 9.0% from approximately RMB 2.3 million in 4Q 13 to approximately RMB 2.1 million in 4Q 14. The decrease was due to lower outstanding bank loans in 4Q 14 and FY 14 as compared to FY 13 and 4Q 13.

Income tax

Income tax expense FY 14 of approximately RMB 5.0 million was due to profit registered from our operating subsidiaries in PRC as compared to loss incurred in FY 13. In 4Q 14, there is tax credit of RMB 12.5 million due to the written back of income tax provided in the 9M 14 as a result of the losses incurred in this quarter.

- (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 11.6 million from approximately RMB 125.4 million as at 31 December 2013 to approximately RMB 113.8 million as at 31 December 2014. This was mainly attributed to depreciation of the property, plant and equipment during the year of approximately RMB 11.7 million which was partially offset by the purchase of office equipment of approximately RMB 0.1 million.

Land use rights and intangible assets as at 31 December 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 was in relation to the deposit paid for the acquisition of the equity interest in Jinjiang Guosheng Shoe Material Co., Ltd (“**Guosheng**”). The deposit 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 December 2014 was due to the utilisation of the deferred tax asset to offset the taxable profit recorded in the FY 14.

Current Assets

Inventories, which comprised mainly raw materials and finished goods, increased by approximately RMB 5.9 million from approximately RMB 20.2 million as at 31 December 2013 to approximately RMB 26.1 million as at 31 December 2014. The increase was as a result of more finished goods being produced for sales in anticipation of the festive seasons. As the Chinese New Year is in February 2015 as compared to January in 2014, much of the finished goods were due to be delivered to customers in early January 2015.

Trade receivables increased from approximately RMB 270.6 million as at 31 December 2013 to approximately RMB 429.9 million as at 31 December 2014 due mainly to extend longer credit period to certain customers to ease the pressure they faced on credit tightening by financial institutions.

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Aging of trade receivables is set out as follows:

	<u>(RMB million)</u>	
Current (less than 30 days) –	78.4	18.2%
31 to 60 days –	71.9	16.7%
61 to 90 days –	69.2	16.1%
Over 90 days –	210.4	49.0%
Total	<u>429.9</u>	<u>100.0%</u>

The outstanding debt of over 90 days have not been fully collected as at the date of the announcement. We have recognised an impairment loss of approximately RMB 61.4 million in FY 14 due to the uncertainties encountered in the collection of certain long outstanding debts. The trade receivables balance below 90 days is higher than the revenue registered in 4Q 14 as the revenue recorded in PRC for domestic sales exclude the amount of value-added tax. However, under the PRC tax law, a taxpayer is required to collect the value-added tax from its customers, if applicable, hence the higher trade receivables balance..

Other receivables and prepayment increased from approximately RMB 111.8 million as at 31 December 2013 to approximately RMB 120.7 million as at 31 December 2014. The balance consisted of mainly advance payments made to existing suppliers of approximately RMB 37.9 million to lock in raw materials prices as well as to the new suppliers for YELI apparel (the amount are the full consideration paid for the materials or products to be purchased), and advance payment made to marketing agency of approximately RMB 27.5 million. The advance payment made to the marketing agency covered online advertising and promotional (“A&P”) activities; outdoor and print media advertisements managed by the agency; and used 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 4Q 14, we have written off interest receivable of approximately RMB 4.6 million accrued in FY 13 from the deposit paid in relation to the acquisition of Guosheng on prudent ground. Despite the deposit has been refunded in March 2014, the interest receivable amount was past due for more than a year.

In addition, a RMB 55 million refundable deposit was paid to the Anhui government in relation to the Suzhou Project. Details of the new plant had been disclosed in our announcement dated 3 September 2013.

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. Our Company will release a detailed announcement regarding the Suzhou Project upon the completion of the negotiations with ACSETDZ.

As at 31 December 2014, we had cash and cash equivalents of approximately RMB 532.5 million. The decrease in cash and cash equivalents was due mainly to the net cash used in operation and net cash used in financing activities being higher than the net cash from investing activities. (Please refer to the statement of cash flow on pages 6 and 7 for further details).

The cash and cash equivalents were mainly bank deposits denominated in RMB and Singapore Dollars. As at 31 December 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 decreased from approximately RMB 164.0 million as at 31 December 2013 to approximately RMB 147.5 million as at 31 December 2014. This was due to prompt payment made to the suppliers to secure better trade terms.

Accrued liabilities, other payables (included wages payables, accrued utilities expenses) and amount owing to director increased from approximately RMB 60.4 million as at 31 December 2013 to approximately RMB 68.0 million as at 31 December 2014. The net increase was mainly attributed to the increase in the amount owing to director of approximately RMB 1.0 million, royalties payable of RMB 2.0 million calculated based on breathable shoes sold during the financial year payable to Mr Lin Yong Jian, who is a director of Hengfa and the provision for social security insurance of RMB 6 million.

As at 31 December 2014, we had bank borrowings of approximately RMB 74.7 million. The decrease in the bank loans as compared to 31 December 2013 was due to the repayment of bank loans of RMB 138.5 million in FY 14 which was offset by bank loans of approximately RMB 104.3 million obtained in FY 14,. In FY 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 91.8 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 Used In Operating Activities

Operating cashflow before working capital changes increased by approximately RMB 272.1 million from approximately RMB 173.7 million net outflow in FY 13 to approximately RMB 98.4 million net inflow in FY14. The increase is mainly due to operating profit generated in FY 14 as compared to operating loss incurred in the corresponding period in 2013.

Net cash used in operating activities in FY 14 of approximately RMB 158.3 million was mainly due to the increase in inventories, trade and other receivables and the decrease in trade and bills payables as well as other payables and accrued liabilities. The increase in inventories was approximately RMB 8.6 million, the increase in trade and other receivables were approximately of RMB 154.2 million, and the decrease in trade and bills payables and other payables and accrued liabilities were of approximately RMB 63.1 million and RMB 1.6 million, respectively.

Operating cashflow before working capital changes increased by approximately RMB 115.4 million from approximately RMB 97.0 million net outflow in 4Q 13 to approximately RMB 18.4 million net inflow in 4Q 14. The increase is mainly due to operating profit generated in 4Q 14 as compared to operating loss incurred in the corresponding period in 2013.

Net cash used in operating activities in 4Q 14 decreased by approximately RMB 0.9 million as compared 4Q 13 was mainly due to the increases in inventories, trade receivables and other receivables, accrued liabilities and other payables and the decrease in trade and bills payables. In 4Q 14, our Group recorded increase in inventories of approximately RMB 6.9 million, increase in trade and other receivables of approximately RMB 165.2 million, increase in accrued liabilities and other payables of approximately RMB 71.7 million, and a decrease in trade and bills payables of approximately RMB 21.3 million.

Net Cash used in Investing Activities

Net cash from investing activities was approximately RMB 43.6 million and Nil in FY 14 and 4Q 14, respectively. This 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.

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Net Cash from Financing Activities

Net cash used in financing activities was approximately RMB 47.3 million in FY 14. These were mainly due to the increase in pledged deposits of approximately RMB 15.9 million, net bank loans obtained of approximately RMB 34.2 million and an increase in amount owing to directors of approximately RMB 2.9 million.

Net cash used in financing activities was approximately RMB 11.4 million in 4Q 14. These were mainly due to the increase in amount owing to directors of approximately RMB 2.7 million and the decrease in pledged bank deposits of approximately RMB 18.9 million. The above was offset by net bank loans obtained of approximately RMB 33.0 million in 4Q 14.

9. Use of Rights Issue and Placement Proceeds

The following table sets out the details of the utilisation of placement proceeds up to 31 December 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

* During the financial year 2013, our Group relied on several websites to generate online sales. These online websites included T-mall, Tao Bao shop.qq.com, edingdong.com.cn and our own official website.

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") increased by 7.4% year-on-year to approximately RMB 63.646 billion during the first twelve months of 2014. At the same time, total retail sales of consumer goods for FY 14 rose 13.1% to RMB 23,780.9 billion.

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.

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 FY 2015 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/recommendeded, a statement to that effect.

Not applicable.

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PART II ADDITIONAL INFORMATION REQUIRED FOR FULL YEAR ANNOUNCEMENT

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.

Our Group is engaged in two business segments which are design, manufacture and sale of footwear and the design and sale of apparel and accessories which have identical risk and returns.

	Year ended 31 December 2014		
	Design, manufacture and sale of footwear RMB'000	Design, manufacture and sale of Apparel RMB'000	Total RMB'000
Revenue	766,566	59,317	825,883
Result			
Segment result	73,239	4,352	77,591
Interest income	2,978	230	3,208
Unallocated other income			520
Unallocated expenses			(57,827)
Finance cost			(7,892)
Profit before tax			15,600
Income taxes			(5,002)
Profit for the year			10,598
Segment assets	668,079	39,446	707,525
Segment liabilities	(200,057)	(15,481)	(215,538)
Capital expenditures			
Property, Plant and equipment	123	9	132
Depreciation of PPE	(11,667)	(68)	(11,735)
Amortisation of intangible assets & land use rights	(932)	(2)	(934)
Impairment loss on trade receivables	(61,397.27)	-	(61,397)
Impairment loss on interest receivables	(3,695)	(938)	(4,632)
Reported segment assets are reconciled to total assets as follow s:			
			RMB'000
Segment assets			707,525
Pledged fixed deposits			45,875
Cash and cash equivalent			532,506
Deferred tax asset			44,244
			<u>1,330,150</u>
Reported segment liabilities are reconciled to total liabilities as follow s:			
Segment liabilities			215,538
Short term borrow ings			74,700
Deferred tax liability			7,377
			<u>297,615</u>

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	Year ended 31 December 2013		Total RMB'000
	Design, manufacture and sale of footwear RMB'000	Design and sale of apparel and accessories RMB'000	
Revenue	742,111	76,138	818,249
Result			
Segment results	(138,350)	(7,851)	(146,201)
Interest income	3,748	384	4,132
Unallocated other income			360
Unallocated expenses			(62,479)
Finance costs			(8,263)
Loss before income tax			(212,451)
Income tax expenses			50,596
Loss for the year			(161,855)
Segment assets	502,317	36,925	539,242
Segment liabilities	(203,557)	(20,885)	(224,442)
Capital expenditures	64,972	6,666	71,638
Depreciation of property, plant and equipment	(28,816)	(1,892)	(30,708)
Amortisation of land use rights and in tangibles	(932)	(2)	(934)
Reported segment assets are reconciled to total assets as follows:			
Segment assets			539,353
Long-term prepayment			43,713
Deferred tax asset			50,903
Pledged fixed deposits			29,940
Cash and cash equivalents			694,301
			1,358,100
Reported segment liabilities are reconciled to total liabilities as follows:			
Segment liabilities			224,442
Interest-bearing bank borrowings			108,900
Provision for income tax			-
Non-current liabilities			7,377
			340,719

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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.

Please refer to section 8.

16. A breakdown of sales

Group	FY 14 RMB'000	FY 13 RMB'000	Change %
Sales reported for the first half year	428,925	368,253	16.5
Operating profit/(loss) after tax reported for first half year	30,754	(53,987)	NM
Sales reported for the second half year	396,958	449,996	(11.8)
Operating loss after tax reported for second half year	(20,156)	(107,868)	NM

NM – not meaningful

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.

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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 FY 2014, 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.

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 year ended 31 December 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	31.7 million	-

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18. Persons occupying managerial positions who are related to the Directors, Chief Executive Officer or substantial shareholders

Pursuant to Rule 704(13) of the Listing Manual of SGX-ST, we set out below the persons holding managerial positions in our Group who are related to the Directors, Chief Executive Officer or substantial shareholders of our Company or of any of our principal subsidiaries:

Name	Age	Family relationship with any director, chief executive officer and/or substantial shareholder	Current position and duties, and the year the position was held	Details of changes in duties and position held, if any, during the year
Lin Shaoxiong	37	Substantial shareholder, and brother of Lin Shaoqin and the son of Lin Yongjian	Chief Executive Officer, Executive Director, and Chairman of our Company (since 2007) Duties Responsible for strategic business direction and development	No change
Lin Shaoqin	32	Brother of Lin Shaoqin and the son of Lin Yongjian	Executive Director (since 2007) Duties Responsible for all aspects of sales and marketing	No change

BY ORDER OF THE BOARD

Lin Shaoxiong
Chief Executive Officer
1 March 2015