



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 FIRST QUARTER ENDED 31 MARCH 2016 (in RMB)

(RMB '000)	First Quarter		Change %
	Unaudited 2016	Unaudited 2015	
Revenue	51,010	103,501	(50.7)
Cost of sales	(40,997)	(80,918)	(49.3)
Gross profit	10,013	22,583	(55.7)
Other operating income	139	403	(65.5)
Selling and distribution expenses	(4,948)	(8,429)	(41.3)
Administrative expenses	(10,706)	(5,835)	83.5
Finance costs	-	(1,579)	(100.0)
(Loss)/Profit before income tax	(5,502)	7,143	177.0
Taxation	-	1,725	(100.0)
(Loss)/Profit for the period	(5,502)	8,868	162.0
Gross profit margin	19.6%	21.8%	
Profit before income tax margin	-10.8%	6.9%	
Net profit margin	-10.8%	8.6%	

STATEMENT OF COMPREHENSIVE INCOME FOR THE FIRST QUARTER ENDED 31 MARCH 2016 (in RMB)

(RMB '000)	First Quarter		Change
	Unaudited 2016	Unaudited 2015	%
(Loss)/Profit for the period	(5,502)	8,868	162.0
Other comprehensive income for the period	(100)	(198)	(49.5)
Total comprehensive income for the period	(5,602)	8,670	164.6

1(a)(ii) Other Information

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

(RMB '000)	First Quarter		Change %
	2016	2015	
(a) Income statement includes the following:			
Interest paid on borrowings	-	(1,579)	(100.0)
Depreciation of property, plant and equipment	(3,908)	(2,704)	44.5
Amortisation of land use rights	(91)	(91)	-
Amortisation of intangible assets	(133)	(143)	(7.0)
Lease payments under operating lease for leasehold buildings	(240)	(240)	-
Salaries and related costs			
- Director remuneration	(343)	(582)	(41.1)
- Key personnel	(279)	(217)	28.6
Exchange (loss)/gain	(198)	185	(207.0)
(b) Other operating income comprises mainly			
Interest income	139	218	(36.2)

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 31/3/2016 RMB'000	Group Unaudited As at 31/12/2015 RMB'000	Company Unaudited As at 31/3/2016 RMB'000	Company Unaudited As at 31/12/2015 RMB'000
(RMB '000)				
Non-current assets				
Property, plant and equipment	123,753	103,041	1	1
Land use rights/Intangible assets	15,922	16,146	-	-
Deferred tax asset	44,244	44,244	-	-
Investment in subsidiary	-	-	459,986	459,986
	<u>183,919</u>	<u>163,431</u>	<u>459,987</u>	<u>459,987</u>
Current assets				
Inventories	13,012	17,633	-	-
Amount due from subsidiary	-	-	90,047	90,047
Trade receivables	99,940	82,541	-	-
Prepayments, other receivables and deposits	120,810	139,316	9	9
Pledged bank deposits	-	-	-	-
Cash and cash equivalents	120,665	154,427	16	16
	<u>354,427</u>	<u>393,917</u>	<u>90,072</u>	<u>90,072</u>
Less: Current liabilities				
Trade and bills payables	14,964	19,537	-	-
Amount owing to director	8,234	8,014	4,042	3,822
Accrued liabilities and other payables	41,216	50,263	5,934	5,973
Amount due to a subsidiary	-	-	23,675	23,675
	<u>64,414</u>	<u>77,814</u>	<u>33,651</u>	<u>33,470</u>
Net current assets	<u>290,013</u>	<u>316,103</u>	<u>56,421</u>	<u>56,602</u>
Non current liability				
Deferred tax liabilities	<u>7,377</u>	<u>7,377</u>	<u>-</u>	<u>-</u>
Net assets	<u>466,555</u>	<u>472,157</u>	<u>516,408</u>	<u>516,589</u>
Share capital and reserves				
Share capital	36,570	36,570	36,570	36,570
Share premium	560,135	560,135	560,135	560,135
Treasury shares	(226)	(226)	(226)	(226)
Merger reserves	801	801	-	-
Statutory reserves	87,938	87,938	-	-
Paid-in capital from exchange differences	330	330	330	330
Exchange reserves	2,762	2,862	2,891	2,892
Retained earnings	(221,755)	(216,253)	(83,292)	(83,112)
Shareholders' equity	<u>466,555</u>	<u>472,157</u>	<u>516,408</u>	<u>516,589</u>
Total equity	<u>466,555</u>	<u>472,157</u>	<u>516,408</u>	<u>516,589</u>

	Unaudited RMB'000 31/3/2016	Unaudited RMB'000 31/12/2015
Inventory turnover (days)	29	27
Trade receivable (days)	162	123

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 31/3/2016 and year ended 31/12/2015

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)	First Quarter	
	Unaudited 2016	Unaudited 2015
Cashflows from operating activities		
(Loss)/Profit before income tax	(5,502)	7,143
Adjustments for:		
Interest income	(139)	(218)
Depreciation of property, plant and equipment	3,908	2,704
Amortisation of land use rights/intangible assets	224	234
Interest expenses	-	1,579
Exchange difference in translation	(198)	(98)
Operating profit before working capital changes	(1,707)	11,344
Decrease/ (increase) in inventories	4,621	(6,639)
Decrease /(increase) in trade receivables and other receivables, prepayment and deposits	1,107	(54,571)
Decrease in trade payables and bill payables	(4,573)	(113,818)
Decrease in accrued liabilities and other payable	(9,046)	(135)
Cash used in operations	(9,598)	(163,819)
Interest received	139	218
Interest paid	-	(1,579)
Income tax paid	-	-
Net cash used in operating activities	(9,459)	(165,180)
Cashflows from investing activities		
Purchases of property, plant and equipment	(24,620)	-
Net cash used in investing activities	(24,620)	-
Cashflows from financing activities		
Increase in amount owing to director	220	927
Proceeds from bank loans	-	22,900
Repayment of bank loans	-	(74,700)
Decrease in pledged deposits	-	(6,288)
Net cash from / (used in) financing activities	220	(57,161)
Net decrease in cash and cash equivalents	(33,859)	(222,341)
Cash and cash equivalents at beginning of period	154,427	532,506
Effects of exchange rate fluctuation	97	105
Cash and cash equivalents at end of period	120,665	310,270

(RMB '000)	First Quarter	
	Unaudited 2016	Unaudited 2015

Analysis of the balances of cash and cash equivalents

Cash and bank balances	120,665	310,270
Cash and cash equivalents per share (Cents)	12.55	32.27
Number of shares at balance sheet date	961,538,000	961,538,000

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

(RMB '000)	Share Capital	Share Premium	Treasury Shares	Merger Reserves	Paid-in capital from exchange differences	Currency translation reserve	Statutory Reserve	Retained Profits/ (Accumulated Loss)	Total
Group									
At 1 January 2015	36,570	560,135	(226)	801	330	3,485	87,938	343,502	1,032,535
Total comprehensive income for the period	-	-	-	-	-	(623)	-	(559,755)	(560,378)
Transfer to statutory reserve	-	-	-	-	-	-	-	-	-
At 31 December 2015	36,570	560,135	(226)	801	330	2,862	87,938	(216,253)	472,157
At 1 January 2016	36,570	560,135	(226)	801	330	2,862	87,938	(216,253)	472,157
Total comprehensive income for the year	-	-	-	-	-	(100)	-	(5,502)	(5,602)
At 31 March 2016	36,570	560,135	(226)	801	330	2,762	87,938	(221,755)	466,555
Company									
At 1 January 2015	36,570	560,135	(226)	-	330	-	-	(76,744)	520,065
Total comprehensive income for the period	-	-	-	-	-	-	-	(3,476)	(3,476)
At 31 December 2015	36,570	560,135	(226)	-	330	-	-	(80,220)	516,589
At 1 January 2016	36,570	560,135	(226)	-	330	-	-	(80,220)	516,589
Total comprehensive income for the period	-	-	-	-	-	-	-	(181)	(181)
At 31 March 2016	36,570	560,135	(226)	-	330	-	-	(80,401)	516,408

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 March 2016 and no outstanding convertibles held as at 31 March 2016.

Treasury shares

Our Company did not make any purchase of our shares during the first quarter ended 31 March 2016. As at 31 March 2016, our Company holds 587,000 treasury shares (31 March 2015: 587,000).

	Company 31 March 2016	Company 31 March 2015	Company 31 March 2016	Company 31 March 2015
	Number of shares		RMB '000	
Issued and fully paid				
At beginning of period	587,000	587,000	226	226
Acquired during period	-	-	-	-
At end of period	587,000	587,000	226	226

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

The total number of issued shares (excluding treasury shares) as at 31 March 2016 and as at 31 December 2015 is 961,538,000 fully-paid ordinary shares of par value HK\$0.04 each.

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

There were no sales, transfers, disposal, cancellation and use of treasury shares during the three month ended 31 March 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 30 September 2015.

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 three month ended 31 March 2016.

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

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

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

	First Quarter	
	2016	2015
(Loss)/Profit after income tax (RMB'000)	(5,502)	8,670
Basic (loss)/ earnings per share (RMB cents)	(0.58)	0.90
Diluted (loss)/earnings per share (RMB cents)	(0.58)	0.90

The basic (loss)/ earnings per share is calculated based on profit after income tax divided by the weighted average ordinary shares during three months ended 31 March 2016 and the three months ended 31 March 2015, which were 961,538,000 and 961,538,000 shares, respectively. The weighted average ordinary shares for the three months ended 31 March 2016 and three months ended 31 March 2015 were 961,538,000 and 961,538,000 shares, respectively.

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

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

(a) current financial period reported on; and

(b) immediately preceding financial year.

	Group		Company	
	Unaudited	Unaudited	Unaudited	Unaudited
	As at 31 March 2016	As at 31 Dec 2015	As at 31 March 2016	As at 31 Dec 2014
Net asset value as at the end of the respective period (RMB'000)	466,555	472,157	516,408	516,589
Total number of issued ordinary share at the end of financial period/year	961,538,000	961,538,000	961,538,000	961,538,000
Net asset value per share (RMB cents)	48.52	49.10	53.71	53.72

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 March 2015 ("1Q 16"), our Group recorded revenue of approximately RMB 51 million, a decrease of approximately RMB 52.5 million or 50.7% over revenue of approximately RMB 103.5 million for the previous corresponding period ("1Q 15").

The decrease in revenue in 1Q 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 1Q 16. Moreover, there is no enhanced features and functionality of our products, thus making it harder to secure more orders from our distributors.

Breakdown of revenue by business lines

(RMB million)	1Q 16	%	1Q 15	%
Footwear	48.07	94.2	103.5	100
Apparel	2.93	5.8	-	-
Total Revenue	51.00	100.0	103.5	100.0

Breakdown of footwear revenue by segment

(RMB million)	1Q 16	%	1Q 15	%
YELI footwear	25.55	53.2	65.8	63.6
OEM footwear	22.52	46.8	37.7	36.4
Total footwear	48.07	100.0	103.5	100.0

Footwear

In 1Q 16, footwear products recorded approximately RMB 48.07 million in sales, representing a decrease of approximately RMB 55.4 million or approximately 54% over sales of footwear products of approximately RMB 103.5 million in 1Q 15.

The decreases in revenue in 1Q 16 was 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 second half of FY2015.

In 1Q 16, our Group recorded Yeli footwear revenue of approximately RMB 25.55 million, a decrease of approximately RMB 40.3 million or 61% over revenue of approximately RMB 65.8 million in 1Q 15.

The decrease in OEM footwear revenue in 1Q 16 was mainly attributable to decreased orders from our existing customers and weaker consumer demand in oversea market. 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 1Q 16 from approximately RMB 37.7 million in 1Q 15 to RMB 22.5 million.

Apparel

In 1Q 16, our Group recorded RMB 2.93 million as compared to no apparel business in 1Q 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.

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

	1Q 16	1Q 15	Growth
Points-of-sale	Over 330*	Over 1,035*	(68)%
YELI specialty stores	Over 35	Over 155	(77)%

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

The distribution network for our YELI products in PRC decreased by approximately 68% from over 1,035 points of sale as at 31 March 2015 to over 330 point of sale as at 31 March 2016. Over the same period, the number of specialty stores decreased by 77% from over 155 to over 35. Our Group will continue to execute our strategy to improve the mix of our points of sale.

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 39.9 million or 49.3% from approximately RMB 80.9 million in 1Q 15 to approximately RMB 40.9 million in 1Q 16.

Gross profit margin by product segment:

	1Q 16	1Q 15	Growth	4Q 15	Growth
Footwear	18.9%	16.9%	1.3%	18.5%	0.4%
Apparel	10.1%	8.6%	10.1%	-	-
Overall GP margin	19.6%	16.9%	2.7%	18.5%	0.4%

Our gross profit decreased by approximately RMB 12.57 million or 55% from approximately RMB 22.5 million in 1Q 15 to approximately RMB 10 million in 1Q 16 as a result of lower volume of footwear products being sold. Our overall gross profit margin slightly increased by 2.7% in 1Q 16 despite the lower volume of footwear products but we have obtained 5% of trade discounts in general from our suppliers due to prompt payment made to them which inevitably increase the overall GP margin as compared to 1Q 15

Quarter-on-quarter, our overall gross profit margin increased from 18.5% in 4Q 15 to 19.6% in 1Q 16. The increase of overall gross profit margin was mainly due to the increase in volume of OEM footwear products being sold in 1Q 16 as well as gross profit contributed by apparels business.

Other operating income

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

Operating expenses

In total, operating expenses which comprise selling and distribution expenses and administrative expenses increased by approximately RMB 1.4 million or 9.7% from approximately RMB 14.3 million in 1Q 15 to approximately RMB 15.7 million in 1Q 16. As a percentage of revenue, operating expenses increase to approximately 30 % in 1Q 16 from approximately 13.8% in 1Q 15.

The main increase in total operating expenses came from administrative expenses which increase by approximately RMB 4.9 million or 84% from approximately RMB 5.8 million in 1Q 15 to approximately RMB 10.7 million in 1Q 16. The increase for FY 15 is due to the prepayment of strategic course for key management and main distributors expenses off to profit and loss amounting to RMB 9 million for first quarter 2016.

Selling and distribution expenses decreased by approximately RMB 3.5 million or 41% from approximately RMB 8.4 million in 1Q 15 to approximately RMB 4.9 million in 1Q 16. The Group had only spent RMB 2.4 million in 1Q 16 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 5.3 million in 1Q 15. The decrease in spending in advertising is due to poor economic outlook and no enhanced features of the footwear products being produced.

Finance costs

Finance costs in 1Q 16 decreased by approximately RMB 1.6 million or 100% as compared to 1Q 15. The decrease was due to no outstanding bank loans during the three months ended 1Q 16.

Income tax

Income tax expense in 1Q 16 of approximately RMB Nil was due to loss incurred in 1Q 16 from our operating subsidiaries in PRC as compared to income tax credit of approximately RMB 1.7 million was written back in 1Q 15 due to deferred tax asset has been recognised in FY 2014.

- (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 increased by approximately RMB 20.7 million from approximately RMB 103 million as at 31 December 2015 to approximately RMB 123.7 million as at 31 March 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. Depreciation charge of the property, plant and equipment during the period of approximately RMB 3.9 million.

Land use rights and intangible assets as at 31 March 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 1Q 2016 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 4.6 million from approximately RMB 17.6 million as at 31 December 2015 to approximately RMB 13 million as at 31 March 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 99.9 million as at 31 March 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) –	14.0	14.1
31 to 60 days –	17.6	17.6
61 to 90 days –	28.1	28.1
Over 90 days	40.2	40.2
Total	99.9	100.0

Other receivables and prepayment decreased from approximately RMB 139.3 million as at 31 December 2015 to approximately RMB 120.8 million as at 31 March 2016.

The balance consisted mainly of advance payments made to existing suppliers of approximately RMB 21.2 million to lock in raw materials prices and the advance payment to a marketing agency of approximately RMB 17.6 million and RMB 27 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 31 March 2016, we had cash and cash equivalents of approximately RMB 120.7 million. The decrease in cash and cash equivalents was due mainly to the net cash used in operation and investing activities. (Please refer to the statement of cash flow in this announcement for further details).

The cash and cash equivalents were mainly bank deposits denominated in RMB and Singapore Dollars. As at 31 March 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 14.9 million as at 31 March 2016. This was due to prompt payment made to suppliers to secure better trade terms and lesser purchases during 1Q 16 in view of the reduction in overall business activities.

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 49.4 million as at 31 March 2016. The net decrease was mainly due to VAT payables reduced correspondingly to revenue drop in 1Q 2016.

Commentary on Statement of Cash Flows

Net Cash from Operating Activities

The operating cashflow before working capital changes decreased by approximately RMB 13 million from approximately RMB 11.3 million net inflow in 1Q 15 to approximately RMB 1.7 net outflow million in 1Q 16. The decrease was mainly due to the loss resulted in 1Q 16 as compared to the operating profit incurred in the corresponding quarter in 2015.

Net cash used in operating activities in 1Q 16 decreased significantly by approximately RMB 154.2 million as compared to 1Q 15 mainly due to decrease in trade receivables of approximately RMB 55.7 million, increase in trade payables and bills payables of approximately RMB 109.2 million and decrease in inventories of approximately RMB 11.2 million.

Net Cash used in Investing Activities

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

Net Cash from/(used in) Financing Activities

Net cash from financing activities was approximately RMB 0.2 million in 1Q 16. These was mainly due to increase in amount owing to a director (Mr. Lin Shaoxiong)

9. Use of Rights Issue and Placement Proceeds

The following table sets out the details of the utilisation of placement proceeds up to 31 March 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	-
		<u>97.9</u>	<u>97.9</u>	<u>-</u>

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

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

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

China's Gross Domestic Product ("GDP") growth decreased to 6.7% in first quarter of FY 2016 from 6.8% in fourth quarter of FY2015 and the rate was slowest since first quarter of 2009. At the same time, total retail sales of consumer goods for 1Q 16 drop to 10.3% with retail sales in rural area rising 11.1% while retail sales in urban area rising at a relatively slower pace of 9.2%*.

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. 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.

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

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

None.

(c) Date payable

Not applicable.

(d) Books closure date

Not applicable.

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

Not applicable.

**PART II ADDITIONAL INFORMATION REQUIRED FOR FULL YEAR ANNOUNCEMENT
(This part is not applicable to Q1, Q2, Q3 or Half Year Results)**

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

Not applicable.

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

Not applicable

16. A breakdown of sales.

Not applicable

PART III OTHER INFORMATION

17. Interested Person Transactions

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

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

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

The royalty fee payable for the License was calculated as a percentage of the revenue generated from the sale of breathable shoes; being 5% from 1 January 2012. The licence fee (including the sign-on fee and the royalty fee for the term of the License) was capped at RMB 55,865,721, being the amount equivalent to 5% of the net asset value of our Group, based on 2010 audited accounts.

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

During the 2014 Extended Term, the royalty fee will continue to be on computed in the same manner. However, the aggregate royalty fee for the 2014 Extended Term together with other transactions entered into with Mr Lin Yongjian during FY2014, is subject to a cap of RMB50,217,550, equivalent to 5% of the net tangible asset value of our Group, based on our latest audited financial statements for the financial year ended 31 December 2013. The royalty fee for the 2014 Extended Term will be computed and paid only after our audited accounts for the 2014 Extended Term had been issued. All other terms and conditions remain unchanged for the 2014 Extended Term.

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.

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

The following is the aggregate value of all transactions with interested persons (as defined in Chapter 9 of the Listing Manual) (“**IPT**”) for the financial period ended 31 March 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	1.65 million	-

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 first quarter ended 31 March 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
14 May 2016

Lin Shaoqin
Executive Director

BY ORDER OF THE BOARD

Lin Shaoxiong
Chief Executive Officer
14 May 2016