



Unaudited Results for the Second Quarter and Six Months ended 30 June 2015

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 2015 (in RMB)

(RMB '000)	Second Quarter		Change %	Half Year		Change %
	Unaudited 2015	Unaudited 2014		Unaudited 2015	Unaudited 2014	
Revenue	55,342	213,492	(74.1)	158,843	396,958	(60.0)
Cost of sales	(46,909)	(170,397)	(72.5)	(127,827)	(319,622)	(60.0)
Gross profit	8,433	43,095	(80.4)	31,016	77,336	(59.9)
Other operating income	166	791	(79.0)	569	1,997	(71.5)
Selling and distribution expenses	(4,963)	(11,307)	(56.1)	(13,392)	(22,352)	(40.1)
Administrative expenses	(304,983)	(6,158)	4,852.6	(310,818)	(11,481)	2,607.2
Finance costs	(1,905)	(1,979)	(3.7)	(3,484)	(3,843)	(9.3)
(Loss)/Profit before income tax	(303,252)	24,442	1,340.7	(296,109)	41,657	810.8
Taxation	(1,725)	(6,464)	100.0	-	(10,903)	(100.0)
(Loss)/Profit for the period	(304,977)	17,978	1,796.4	(296,109)	30,754	1,062.8
Gross profit margin	15.2%	20.2%		19.5%	19.5%	
Profit before income tax margin	-548.0%	11.4%		-186.4%	10.5%	
Net profit margin	-551.1%	8.4%		-186.4%	7.7%	



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STATEMENT OF COMPREHENSIVE INCOME FOR THE SECOND QUARTER AND SIX MONTHS ENDED 30 JUNE 2015 (in RMB)

(RMB '000)	Second Quarter		Change	Half Year		Change
	Unaudited	Unaudited		Unaudited	Unaudited	
	2015	2014	%	2015	2014	%
(Loss)/Profit for the period	(304,977)	17,978	1,796.4	(297,834)	30,754	1,068.4
Other comprehensive income for the period	72	-	100	(126)	(416)	(69.7)
Total comprehensive income for the period	(304,905)	17,978	1,796.0	(297,960)	30,338	1,082.1



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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 %
	2015	2014		2015	2014	
(a) Income statement includes the following:						
Interest paid on borrowings	(1,905)	(1,979)	(3.7)	(3,484)	(3,843)	(9.3)
Depreciation of property, plant and equipment	(2,650)	(3,161)	(16.2)	(5,354)	(6,321)	(15.3)
Amortisation of land use rights	(91)	(91)	-	(182)	(182)	-
Amortisation of intangible assets	(142)	(142)	-	(285)	(285)	-
Impairment loss on trade receivables	299	-	100.0	299	-	100.0
Lease payments under operating lease for leasehold buildings	(480)	(480)	-	(480)	(480)	-
Salaries and related costs						
- Director remuneration	(390)	(390)	-	(1,169)	(1,169)	-
- Key personnel	(290)	(290)	-	(625)	(625)	-
Exchange (loss)/gain	(156)	(325)	(52.0)	29	509	(94.3)
(b) Other operating income comprises mainly						
Interest income	166	868	(80.9)	384	1,488	(74.2)



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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

(RMB '000)	Group	Group	Company	Company
	Unaudited	Audited	Unaudited	Audited
	As at	As at	As at	As at
	30/6/2015	31/12/2014	30/6/2015	31/12/2014
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets				
Property, plant and equipment	108,395	113,749	4	13
Land use rights/Intangible assets	16,603	17,070	-	-
Deferred tax asset	44,244	44,244	-	-
Investment in subsidiary	-	-	459,986	459,986
	<u>169,242</u>	<u>175,063</u>	<u>459,990</u>	<u>459,999</u>
Current assets				
Inventories	18,753	26,111	-	-
Amount due from subsidiary	-	-	89,154	90,018
Trade receivables	296,155	429,904	-	-
Prepayments, other receivables and deposits	101,735	120,691	11	10
Pledged bank deposits	35,163	45,875	-	-
Cash and cash equivalents	250,166	532,506	18	19
	<u>701,972</u>	<u>1,155,087</u>	<u>89,183</u>	<u>90,047</u>
Less: Current liabilities				
Trade and bills payables	35,184	147,534	-	-
Amount owing to director	7,039	5,487	3,586	3,158
Accrued liabilities and other payables	62,814	62,517	4,356	3,969
Amount due to a subsidiary	-	-	23,053	22,854
Interest-bearing bank borrowings	22,500	74,700	-	-
	<u>127,537</u>	<u>290,238</u>	<u>30,995</u>	<u>29,981</u>
Net current assets	<u>574,435</u>	<u>864,849</u>	<u>58,188</u>	<u>60,066</u>
Non current liability				
Deferred tax liabilities	7,377	7,377	-	-
	<u>7,377</u>	<u>7,377</u>	<u>-</u>	<u>-</u>
Net assets	<u>736,300</u>	<u>1,032,535</u>	<u>518,178</u>	<u>520,065</u>
Share capital and reserves				
Share capital	36,570	36,570	36,570	36,570
Share premium	560,135	560,135	560,135	560,135
Treasury shares	(226)	(226)	(226)	(226)
Merger reserves	801	801	-	-
Statutory reserves	87,938	87,938	-	-
Paid-in capital from exchange differences	330	330	330	330
Exchange reserves	3,359	3,485	3,829	3,829
Retained earnings	47,393	343,502	(82,460)	(80,573)
Shareholders' equity	<u>736,300</u>	<u>1,032,535</u>	<u>518,178</u>	<u>520,065</u>
Total equity	<u>736,300</u>	<u>1,032,535</u>	<u>518,178</u>	<u>520,065</u>



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	Unaudited RMB'000 30/6/2015	Audited RMB'000 31/12/2014
Inventory turnover (days)	27	15
Trade receivable (days)	226	217

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

Amount repayable in one year or less, or on demand

	As at 30/6/2015		As at 31/12/2014	
	Secured RMB'000	Unsecured RMB'000	Secured RMB'000	Unsecured RMB'000
Bills payable	-	-	91,750	-
Interest-bearing loans	22,500	-	74,700	-
	22,500	-	166,450	-

Amount repayable after one year

	As at 30/6/2015		As at 31/12/2014	
	Secured RMB'000	Unsecured RMB'000	Secured RMB'000	Unsecured RMB'000
Bills payable	-	-	-	-
Interest-bearing loans	-	-	-	-
	-	-	-	-

Details of any collateral

The interest-bearing loan for our subsidiary, Hengfa (Fujian) Light Industry Development Co., Ltd. ("**Hengfa**"), as at 30 June 2015 and 31 December 2014 are secured by the land use rights and buildings of Hengfa. The bills payable as at 31 December 2014 are also guaranteed by bank deposits.

The interest-bearing loan for our subsidiary, YELI Sports (China) Co., Ltd. ("**YELI China**"), as at 30 June 2015 and as at 31 December 2014 are also secured by the land use rights and buildings of Hengfa. The bills payable as at 31 December 2014 are also guaranteed by bank deposits.

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

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



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

Statement of Cash Flows

(RMB '000)	Second Quarter		Half Year	
	Unaudited 2015	Unaudited 2014	Unaudited 2015	Unaudited 2014
Cashflows from operating activities				
(Loss)/Profit before income tax	(303,252)	24,466	(296,109)	41,681
Adjustments for:				
Interest income	(166)	(789)	(384)	(1,488)
Depreciation of property, plant and equipment	2,650	3,161	5,354	6,321
Amortisation of land use rights/intangible assets	233	233	467	467
Impairment loss on trade receivables	299,000	-	299,000	-
Interest expenses	1,905	1,979	3,484	3,843
Write back of income tax	(3,450)	-	-	-
Exchange difference in translation	(254)	(116)	(352)	(594)
Operating profit before working capital changes	(3,334)	28,934	11,460	50,230
Decrease/ (increase) in inventories	719	(213)	7,358	(568)
(Increase) / decrease in trade receivables and other receivables, prepayment and deposits	(62,690)	15,681	(146,295)	15,796
Increase/(decrease) in trade payables and bill payables	1,468	13,921	(112,350)	38,599
Increase / (decrease) in accrued liabilities and other payable	402	(22,693)	297	(20,420)
Cash (used in) / from operations	(63,435)	35,630	(239,530)	83,637
Interest received	166	789	384	1,488
Interest paid	(1,905)	(1,979)	(3,484)	(3,843)
Income tax paid	-	-	-	-
Net cash (used in) / from operating activities	(65,174)	34,440	(242,630)	81,282
Cashflows from investing activities				
Refund of Investments	-	-	-	43,713
Purchases of property, plant and equipment	-	(3)	-	(25)
Net cash (used in) / from investing activities	-	(3)	-	43,688
Cashflows from financing activities				
Increase / (decrease) in amount owing to director	925	(702)	1,552	(116)
Proceeds from bank loans	22,500	40,000	22,500	63,600
Repayment of bank loans	(22,900)	(40,000)	(74,700)	(64,000)
Increase / (decrease) in pledged deposits	4,424	(3,000)	10,712	(40,060)
Net cash from / (used in) financing activities	4,949	(3,702)	(39,936)	(40,576)
Net (decrease) / increase in cash and cash equivalents	(60,225)	30,735	(282,566)	84,394
Cash and cash equivalents at beginning of period	310,270	748,044	532,506	694,301
Effects of exchange rate fluctuation	121	89	226	173
Cash and cash equivalents at end of period	250,166	778,868	250,166	778,868



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(RMB '000)	Second Quarter		Half Year	
	Unaudited 2015	Unaudited 2014	Unaudited 2015	Unaudited 2014

Analysis of the balances of cash and cash equivalents

Cash and bank balances	250,166	778,868	250,166	778,868
Cash and cash equivalents per share (Cents)	<u>26.02</u>	<u>81.00</u>	<u>26.02</u>	<u>81.00</u>
Number of shares at balance sheet date	961,538,000	961,538,000	961,538,000	961,538,000



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

(RMB '000)	Share Capital	Share Premium	Treasury Shares	Merger Reserves	Paid-in capital from exchange differences	Currency translation reserve	Statutory Reserve	Retained Profits/ (Accumulated Loss)	Total
Group									
At 1 January 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
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 year	-	-	-	-	-	(126)	-	(296,109)	(296,235)
At 30 June 2015	36,570	560,135	(226)	801	330	3,359	87,938	47,393	736,300
Company									
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
At 1 January 2015	36,570	560,135	(226)	-	330	-	-	(76,744)	520,065
Total comprehensive income for the period	-	-	-	-	-	-	-	(1,887)	(1,887)
At 30 June 2015	36,570	560,135	(226)	-	330	-	-	(78,631)	518,178

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 six months ended 30 June 2015 and no outstanding convertibles held as at 30 June 2015.



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Treasury shares

Our Company did not make any purchase of our shares during the second quarter ended 30 June 2015. As at 30 June 2015, our Company holds 587,000 treasury shares (30 June 2014: 587,000).

	Company 30 June 2015	30 June 2014	Company 30 June 2015	30 June 2014
	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 30 June 2015 and as at 31 December 2014 is 961,538,000 fully-paid ordinary shares of par value HK\$0.04 each.

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

There were no sales, transfers, disposal, cancellation and use of treasury shares during the six months ended 30 June 2015.

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 2014.

The new and revised Financial Reporting Standards which took effect from the current financial year are now assessed to have no material impact to the results or the opening balances of the accumulated profit of our Group and of our Company for the year ending 31 December 2015.



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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.**

	Second Quarter		Half Year	
	2015	2014	2015	2014
(Loss)/Profit after income tax (RMB'000)	(303,252)	17,978	(296,109)	30,754
Basic (loss)/ earnings per share (RMB cents)	(31.54)	1.87	(30.80)	3.20
Diluted (loss)/earnings per share (RMB cents)	(31.54)	1.87	(30.80)	3.20

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 2015 and the six months ended 30 June 2015, which were 961,538,000 and 961,538,000 shares, respectively. The weighted average ordinary shares for the second quarter ended 30 June 2014 and half year ended 30 June 2014 were 961,538,000 and 961,538,000 shares, respectively.

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

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

- (a) **current financial period reported on; and**
 (b) **immediately preceding financial year.**

	Group		Company	
	Unaudited	Audited	Unaudited	Audited
	As at 30 June 2015	As at 31 Dec 2014	As at 30 June 2015	As at 31 Dec 2014
Net asset value as at the end of the respective period (RMB'000)	736,300	1,032,535	518,178	520,065
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)	76.58	107.38	53.89	54.71



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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 2015 ("2Q 15"), our Group recorded revenue of approximately RMB 55.3 million, a decrease of approximately RMB 158.2 million or 74.1% over revenue of approximately RMB 213.5 million for the previous corresponding period ("2Q 14"). For the six months ended 30 June 2015, ("1H 15"), revenue decreased by approximately RMB 238.1 million or 60.0% to approximately RMB 158.8 million from approximately RMB 396.9 million in the previous corresponding period ("1H 14").

The decrease in revenue in 1H 15 and 2Q 15 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 15 and 2Q 15.

Breakdown of revenue by business lines

(RMB million)	2Q 15	%	2Q 14	%	1H 15	%	1H 14	%
Footwear	55.3	100	198.9	93.2	158.8	100.0	370.7	93.4
Apparel	-	-	14.6	6.8	-	-	26.3	6.6
Total Revenue	55.3	100	213.5	100.0	158.8	100.0	397.0	100.0

Breakdown of footwear revenue by segment

(RMB million)	2Q 15	%	2Q 14	%	1H 15	%	1H 14	%
YELI footwear	33.9	61.3	153.6	77.2	99.7	62.8	277.1	74.8
OEM footwear	21.4	38.7	45.3	22.8	59.1	37.2	93.6	25.2
Total footwear	55.3	100.0	198.9	100.0	158.8	100.0	370.7	100.0



Footwear

In 1H 15, footwear products recorded approximately RMB 158.8 million in sales, representing a decrease of approximately RMB 211.9 million or approximately 57.2% over sales of footwear products of approximately RMB 370.7 million in 1H 14.

The decreases in revenue in 1H 15 and 2Q 15 were mainly attributable to the decrease in both Yeli and OEM footwear revenue. The poor economic outlook resulted in less 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 half as compared to 1H 14.

In 1H 15, our Yeli footwear sales was approximately RMB 99.7 million which represented 62.8% of our Yeli revenue and of our total revenue as compared to 74.8% and 93.4% of our YELI revenue and of our total revenue in 1H 14.

In 2Q 15, our Group recorded Yeli footwear revenue of approximately RMB 33.9 million, a decrease of approximately RMB 119.7 million or 77.9% over revenue of approximately RMB 153.6 million in 2Q 14.

The decrease in OEM footwear revenue in 1H 15 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. In spite of us consistently maintaining the quality of our OEM products, we saw less orders from existing OEM customers due to the intensified competition in the sportswear industry. There was a decrease in OEM footwear revenue contribution in 1H 15 and 2Q 15 from approximately RMB 93.6 million to RMB 59.1 million and from approximately RMB 45.3 million to RMB 21.4 million, respectively .

Apparel

In 1H 15 and 1Q 15, our Group recorded no apparel revenue as compared to 1H 14 and 1Q 14 and this is a decrease of approximately RMB 26.3 million and RMB 14.6 million, respectively. This resulted from our strategic decision to discontinue our Yeli apparel business in 2015.

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

	1H 15	1H 14	Growth
Points-of-sale	Over 675*	Over 1,365*	(51)%
YELI specialty stores	Over 120	Over 250	(52)%

* 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.



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The distribution network for our YELI products in PRC decreased by approximately 51% from over 1,365 points of sale as at 30 June 2014 to over 675 point of sale as at 30 June 2015. Over the same period, the number of specialty stores decreased by 52% from over 250 to over 120. 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 a majority of the 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. The decreased presence of our brand in first- and second-tier cities has eroded the 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 191.8 million or 60.0% from approximately RMB 319.6 million in 1H 14 to approximately RMB 127.8 million in 1H 15.

In line with the revenue decrease in 2Q 15 from 2Q 14, our cost of sales decreased by approximately RMB 123.6 million or 72.5% from approximately RMB 170.4 million in 1H 14 to approximately RMB 46.9 million in 2Q 15.

Gross profit margin by product segment:

	2Q 15	2Q 14	Growth	1H 15	1H 14	Growth
Footwear	15.2%	22.4%	(7.2%)	19.5%	21.0%	(1.5%)
Apparel	-	11.2%	(11.2%)	-	9.4%	(9.4%)
Overall GP margin	15.2%	20.2%	(5%)	19.5%	19.5%	-

Our gross profit decreased by approximately RMB 46.4 million or 59.9% from approximately RMB 77.4 million in 1H 14 to approximately RMB 31.0 million in 1H 15 as a result of lower volume of footwear products being sold and no apparel sale. Our overall gross profit margin maintain the same in 1H 15 and 14 despite the lower volume of footwear products as we no longer sell low margin apparel products in 2015.

In 2Q 15, our gross profit margin decreased to 15.2% from approximately 22.4% in 2Q 14 to 15.2% in 2Q 15. Quarter-on-quarter, our overall gross profit margin decreased from 21.8% in 1Q 15 to 15.2% in 2Q 15. The decrease of our overall gross profit margin was mainly due to the decrease in volume of footwear products being sold in 2Q 15 which outweighed the offsetting of the fixed cost of the production as well as the sales mix of lower gross profit margin of the footwear products.



Other operating income

Other operating income comprises interest income from bank deposits and exchange differences. Without considering the realised exchange gain of approximately RMB 0.5 million recorded in 1H 14, there is a decrease in interest income in 1H 15 and 1H 14 which was due to lower bank balances during the period as compared to the corresponding period in 2014. However, the interest income in 1H 15 was comparable to 1H 14 due to preferred interest rate offered by the bank on attracting deposit.

Operating expenses

In total, operating expenses which comprise selling and distribution expenses and administrative expenses increased by approximately RMB 290.4 million or 859.2% from approximately RMB 33.8 million in 1H 14 to approximately RMB 324.2 million in 1H 15. As a percentage of revenue, operating expenses increase to approximately 204.2 % in 1H 15 from approximately 8.5% in 1H 14.

The main increase in total operating expenses came from administrative expenses which increased by approximately RMB 299.3 million or 2,602.6% from approximately RMB 11.5 million in 1H 14 to approximately RMB 310.8 million in 1H 15 while administrative expenses in 2Q 15 increased by approximately RMB 298.8 million or 4,852.6% from approximately RMB 6.2 million to approximately RMB 305.0 million in 2Q 15. The increases for both 1H 15 and 2Q 15 are due to the impairment loss on trade receivables of approximately RMB 299.0 million being recognised in both periods. We have tried all ways of collecting our trade receivables back but the collection has been slow due to the poor economic outlook. In view of this, we have made impairment loss on trade receivables in 2Q 15.

Selling and distribution expenses decreased by approximately RMB 9.0 million or 40.2% from approximately RMB 22.4 million in 1H 14 to approximately RMB 13.4 million in 1H 15 while selling and distribution expenses in 2Q 15 decreased by approximately RMB 6.3 million or 55.8% from approximately RMB 11.3 million to approximately RMB 5.0 million in 2Q 15. Our Group had only spent RMB 0.5 million and RMB 5.8 million in 2Q 15 and 1H 15, 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 16.5 million and RMB 8.3 million in 1H 14 and 2Q 14, respectively. The decrease in spending is due to poor economic outlook. In addition, our Group has incurred approximately RMB 2.0 million to subsidise our distributors in closing their stores.



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Finance costs

Finance costs in 1H 15 and 2Q 15 decreased by approximately RMB 0.4 million or 9.3% and approximately RMB 0.1 million or 3.7% as compared to 1H 14 and 2Q 14, respectively. The decrease was due to lower outstanding bank loans in 1H 15 and 2Q 15 as compared to 1H 14 and 2Q 14, respectively.

Income tax

Income tax expense in 1H 15 and 2Q 15 of approximately RMB 0 and RMB 1.7 million, respectively, were due to losses incurred in 1H 15 from our operating subsidiaries in PRC as compared to the profit registered in both 1H 14 and 2Q 14.

- (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 5.4 million from approximately RMB 113.8 million as at 31 December 2014 to approximately RMB 108.4 million as at 30 June 2015. This was mainly attributed to the depreciation charge of the property, plant and equipment during the period of approximately RMB 5.4 million.

Land use rights and intangible assets as at 30 June 2015 decreased marginally when compared to 31 December 2014. 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 offset taxable profit of our Group in the following 5 financial years. The offset gives rise to deferred tax asset. There is no utilisation of deferred tax asset for 1H 2015 due to the loss incurred and we have not recognised further deferred tax asset due to the gloomy economic outlook in the sportswear industry.

Current Assets

Inventories, which comprised mainly raw materials and finished goods, decreased by approximately RMB 7.4 million from approximately RMB 26.1 million as at 31 December 2014 to approximately RMB 18.7 million as at 30 June 2015. Our Group tried to maintain a lower level of inventories due to the uncertain economic outlook.



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Trade receivables decreased from approximately RMB 429.9 million as at 31 December 2014 to approximately RMB 296.2 million as at 30 June 2015 due to slow collection from customers and thus creating an impairment loss of RMB 299.0 million of trade receivables recognised in 2Q 15. Our trade receivables turnover days were in the range of 217 to 336 days. Our Group has decided to stop selling to existing distributors who have not been paying on time with effect from 3Q 15 and implement more stringent credit control to both new and existing distributors.

Aging of trade receivables is set out as follows:

	(RMB million)	%
Current (less than 30 days) –	58.7	19.8
31 to 60 days –	40.0	13.5
61 to 90 days –	20.7	7.0
Over 90 days	176.8	59.7
Total	<u>296.2</u>	<u>100.0</u>

Other receivables and prepayment decreased from approximately RMB 103.6 million as at 31 December 2014 to approximately RMB 101.7 million as at 30 June 2015.

The balance comprise mainly advance payments made to existing suppliers of approximately RMB 26.3 million to lock in raw materials prices and the advance payment to a marketing agency of approximately RMB 20.1 million. The advance payment to the agency covered online advertising and promotional activities; and outdoor and print media advertisements managed by the agency to create and increase awareness of our Group's electronic commerce ("e-commerce") platform. The outdoor advertisements included billboards on highways and buildings while the print media advertisements included advertisements on magazines highlighting our Group's e-commerce platform. Expenses for the internet marketing activities included planning and the production of the advertisements and setup for internet sales over the various e-commerce platforms (including T-mall, Tao Bao, shop.qq.com etc.).

In addition, a RMB 55 million refundable deposit was paid to the Anhui government in relation to the proposed acquisition of land in Suzhou, Anhui Province (the "Suzhou Project") to construct our new plant. In view of the poor economic outlook, the Suzhou Project might be too aggressive. We will negotiate 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 2015, we had cash and cash equivalents of approximately RMB 250.2 million. The decrease in cash and cash equivalents was due mainly to the net cash used in operation and financing activities. Please refer to the statement of cash flow in this announcement for further details.



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As at 30 June 2015, 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 147.5 million as at 31 December 2014 to approximately RMB 35.2 million as at 30 June 2015. This was due to prompt payment made to suppliers to secure better trade terms and less purchases during 1H 15 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 increased from approximately RMB 68.0 million as at 31 December 2014 to approximately RMB 69.9 million as at 30 June 2015. The increase was mainly due to the director helping to make payment of certain operating expenses of the subsidiaries.

As at 30 June 2015, we had bank borrowings of approximately RMB 22.5 million. The decrease in bank loans as compared to 31 December 2014 was due to repayment of bank loans of RMB 74.7 million in 1H 2015 which was offset by bank loans of approximately RMB 22.5 million obtained in 1H 15. In 1H 15, PRC economy continued to experience credit tightening from financial institutions and we have also stopped issuing bills payables to our suppliers as at 30 June 2015.

Commentary on Statement of Cash Flows

Net Cash from Operating Activities

Operating cashflow before working capital changes decreased by approximately RMB 38.7 million from approximately RMB 50.2 million net inflow in 1H 14 to approximately RMB 11.5 million net inflow in 1H 15. The decrease was mainly due to the operating loss generated in 1H 15 as compared to the operating profit incurred in the corresponding period in 2014 and offset by the recognition of the impairment loss on trade receivable. The operating cashflow before working capital changes decreased by approximately RMB 32.3 million from approximately RMB 28.9 million net inflow in 2Q 14 to approximately RMB 3.4 net outflow million in 2Q 15. The decrease was mainly due to the operating loss generated in 2Q 15 as compared to the operating profit incurred in the corresponding period in 2014 and offset by the recognition of the impairment loss on trade receivable.

Net cash used in operating activities in 1H 15 decreased significantly by approximately RMB 323.9 million as compared to 1H 14 mainly due to the huge loss of approximately RMB 296.1 million, increase in trade receivables of approximately RMB 146.1 million, and decrease in trade payables and bills payables of approximately RMB 20.6 million and RMB 91.8 million, respectively, and this is offset by the recognition of a huge impairment loss on trade receivables of approximately RMB 299.0 million and inventories of approximately RMB 7.4 million.



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Net cash used in operating activities in 2Q 15 decreased by approximately RMB 99.6 million as compared to 2Q 14 was mainly due to huge loss of approximately RMB 303.3 million, and increase in trade receivables of approximately RMB 64.8 million which is offset by the huge impairment loss on trade receivables recognised of approximately RMB 299.0 million. **Net Cash used in Investing Activities**

In 1H 15, there is no net cash used in investing activities whereas in 1H 14, there is a refund of the prepayment to Jinjiang Guosheng Shoe Material Co., Ltd. (晋江国盛鞋材有限公司) in March 2014 of approximately RMB 43.7 million offset by the purchase of property, plant and equipment of RMB 25,000.

In 2Q 14, net cash used in investing activities was mainly attributable to the purchase of property, plant and equipment of approximately RMB 3,000.

Net Cash from/(used in) Financing Activities

Net cash used in financing activities was approximately RMB 39.9 million in 1H 15. This was due mainly to net repayment of bank loans of RMB 52.2 million which was offset by an increase in amount owing to a director (Mr Lin Shaoxiong) of approximately RMB 1.6 million and the decrease in pledged deposits of approximately RMB 10.7 million in 1H 15.

Net cash from financing activities was approximately RMB 4.9 million in 2Q 15. These were mainly due to the increase in pledged deposits of approximately RMB 4.4 million and an increase in the amount owing to a director (Mr Lin Shaoxiong) of approximately RMB 0.9 million which was offset by the net repayment of bank loans of RMB 0.4 million.



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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 2015:

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

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

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

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

China's Gross Domestic Product ("GDP") increased by 7.0% year-on-year to approximately RMB 29,686.8 billion during 1H 15. At the same time, total retail sales of consumer goods for 1H 15 rose 10.4% to RMB14,157.7 billion with retail sales in rural area rising 11.6% while retail sales in urban area rising at a relatively slower pace of 10.2%*.

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 these actions, there remains uncertainty arising from the lack of product differentiation and 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.



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Henceforth, our Group will strategically move to sustain our market share and continue to invest in product design and development in response to market trends as well as to better differentiate our products from our competitors. Operationally, our Group will endeavour to improve our financial performance in the financial year ending 31 December 2015 through cost control measures and reducing subsidies given to distributors and tightening our credit control and collections.

* *Based on the statistics provided by China National Bureau of Statistics.*

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.



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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.

Not applicable.

16. A breakdown of sales.

Not applicable.

PART III OTHER INFORMATION

17. Interested Person Transactions

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

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

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

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

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

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

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



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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 the financial year ended 31 December 2014 (“FY 14”), is subject to a cap of RMB50,217,550, equivalent to 5% of the net tangible asset value of our Group, based on our 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**”). However, the aggregate royalty fee for the 2015 Extended Term together with other transactions entered into with Mr Lin Yongjian during the financial year ending 31 December 2015, is subject to a cap of RMB66,507,500, equivalent to 5% of the net tangible asset value of our Group, based on our audited financial statements for FY 14. The royalty fee for the 2015 Extended Term will be computed and paid only after our audited accounts for the 2015 Extended Term had been issued. All other terms and conditions remain unchanged for the 2015 Extended Term.

Our Audit Committee was of the view that the 2015 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 1H 15:

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	5.5 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 second quarter and 6 months ended 30 June 2015 to be false or misleading in any material aspect.

On behalf of the Board of Directors

Lin Shaoxiong
Chief Executive Officer
Singapore

Lin Shaoqin
Executive Director

14 August 2015

BY ORDER OF THE BOARD

Lin Shaoxiong
Chief Executive Officer
14 August 2015