CHINA SPORTS INTERNATIONAL LIMITED
(Company Registration No: 39798)

Unaudited Results for the Second Quarter and Six Months ended 30 June 2014

PART I INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2 & Q3), HALF-YEAR AND FULL YEAR RESULTS

1(a)(i) An income statement (for the Group) together with a comparative statement for the corresponding period of the immediately preceding financial year.

The operations of our Company and our subsidiaries ("**our Group**") are principally conducted in the People's Republic of China ("**PRC**"). Accordingly, 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 2014 (in RMB)

	Second Quarter		Change	Half Year		Change
	Unaudited	Unaudited		Unaudited	Unaudited	
(RMB '000)	2014	2013	%	2014	2013	%
Revenue	213,492	197,430	8.1	396,958	368,253	7.8
Cost of sales	(170,397)	(165,271)	3.1	(319,622)	(308,859)	3.5
Gross profit	43,095	32,159	34.0	77,336	59,394	30.2
Other operating income	791	918	(13.8)	1,997	1,811	10.3
Selling and distribution expenses	(11,307)	(60,889)	(81.4)	(22,352)	(101,939)	(78.1)
Administrative expenses	(6,158)	(4,875)	26.3	(11,481)	(9,172)	25.2
Finance costs	(1,979)	(2,067)	(4.3)	(3,843)	(3,774)	1.8
Profit/(Loss) before income tax	24,442	(34,754)	170.3	41,657	(53,680)	177.6
Taxation	(6,464)	(307)	2,005.5	(10,903)	(307)	3,451.5
Profit/(Loss) for the period	17,978	(35,061)	151.3	30,754	(53,987)	157.0
Gross profit margin	20.2%	16.3%		19.5%	16.1%	
Profit before income tax margin	11.4%	-17.6%		10.5%	-14.6%	
Net profit margin	8.4%	-17.8%		7.7%	-14.7%	

(RMB '000)	Second Quarter Unaudited 2014	Second Quarter Unaudited 2013	Change %	Half Year Unaudited 2014	Half Year Unaudited 2013	Change %
Profit/(Loss) for the period	17,978	(35,061)	151.3	30,754	(53,987)	157.0
Other comprehensive income for the period	-	309	(100.0)	(416)	249	(267.1)
Total comprehensive income for the period	17,978	(34,752)	151.7	30,338	(53,738)	156.5

1(a)(ii) Other Information

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

(RMB '000)	Second Quarter 2014	Second Quarter 2013	4Q 2006	Change %	Half Year 2014	Half Year 2013	4Q 2006	Change %
(a) Income statement includes the following:								
Interest paid on borrowings	(1,979)	(2,067)	(852)	(4.3)	(3,843)	(3,774)	(1,804)	1.8
Depreciation of property, plant and equipment	(3,161)	(10,158)	(17,468)	(68.9)	(6,321)	(21,381)	(5,055)	(70.4)
Amortisation of land use rights	(91)	(91)	(32)	-	(182)	(182)	(182)	-
Amortisation of intangible assets	(142)	(142)	(12)	-	(285)	(285)	(23)	-
Lease payments under operating lease for leasehold buildings	(480)	(480)	(1,230)	-	(480)	(480)	(1,105)	-
Salaries and related costs								
- Director remuneration	(587)	(390)	(1,101)	50.5	(1,169)	(977)	(1,192)	19.7
- Key personnel	(249)	(290)	(670)	(14.1)	(625)	(644)	(694)	(3.0)
Exchange gain / (loss)	2	(325)	(273)	(100.6)	509	(544)	(1,435)	(193.6)
(b) Other operating income comprises								
Interest income	789	868	1,149	(9.1)	1,488	1,761	2,077	(15.5)

1(b)(i) A balance sheet (for the issuer and Group), together with a comparative statement as at the end of the immediately preceding financial year.

Statement of Financial Position

(RMB '000)	Group Unaudited As at 30/6/2014	Group Audited As at 31/12/2013	Company Unaudited As at 30/6/2014	Company Audited As at 31/12/2013
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets				
Property, plant and equipment	119,056	125,352	61	58
Land use rights/Intangible assets	17,538	18,004	-	-
Prepayments	-	43,713	-	-
Deferred tax asset	38,343	49,245	-	-
Investment in subsidiary	-	-	459,986	459,986
	174,937	236,314	460,047	460,044
Current assets				
Inventories	20,740	20,172	-	-
Amount due from subsidiary	-	-	90,018	89,331
Trade receivables	233,869	270,565	-	-
Prepayments, other receivables and deposits	132,681	111,781	10	13
Pledged bank deposits	70,000	29,940	-	-
Cash and cash equivalents	778,868	694,301	1,534	5,327
	1,236,158	1,126,759	91,562	94,671
Less: Current liabilities				
Trade and bills payables	202,629	164,030	-	-
Amount owing to director	3,071	2,629	3,071	2,629
Accrued liabilities and other payables	36,825	57,782	2,547	3,131
Amount due to a subsidiary	-	-	22,854	22,881
Interest-bearing bank borrowings	108,500	108,900	-	-
	351,025	333,341	28,472	28,641
Net current assets	885,133	793,418	63,090	66,030
Non current liability				
Deferred tax liabilities	7,377	7,377	-	-
Net assets	1,052,693	1,022,355	523,137	526,074
Share capital and reserves				
Share capital	36,570	36,570	36,570	36,570
Share premium	560,135	560,135	560,135	560,135
Treasury shares	(226)	(226)	(226)	(226)
Merger reserves	801	801	-	-
Statutory reserves	87,938	87,938	-	-
Paid-in capital from exchange differences	330	330	330	330
Exchange reserves	3,487	3,903	3,829	3,829
Retained earnings	363,658	332,904	(77,501)	(74,564)

	Unaudited RMB'000 30/06/2014	Audited RMB'000 31/12/2013
Inventory turnover (days)	12	14
Trade receivable (days)	89	86

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

Amount repayable in one year or less, or on demand

	As at 30/6/2014		As at 31/12/2013	
	Secured RMB'000	Unsecured RMB'000	Secured RMB'000	Unsecured RMB'000
Bills payable	137,000	-	89,730	-
Interest-bearing loans	108,500	-	108,900	-
	245,500	-	198,630	-

Amount repayable after one year

	As at 30/6/2014		As at 31/12/2013	
	Secured RMB'000	Unsecured RMB'000	Secured RMB'000	Unsecured RMB'000
Bills payable	-	-	-	-
Interest-bearing loans	-	-	-	-
	-	-	-	-

Details of any collateral

The bills payable and interest-bearing loan for our subsidiary, Hengfa (Fujian) Light Industry Development Co., Ltd. ("**Hengfa**"), as at 30 June 2014 are secured by the land use rights and buildings of Hengfa. The bills payable as at 30 June 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 30 June 2014 and as at 31 December 2013 are also secured by the land use rights and buildings of Hengfa. The bills payable as at 30 June 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.

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 Unaudited 2014	Second Quarter Unaudited 2013	Half Year Unaudited 2014	Half Year Unaudited 2013
Cashflows from operating activities				
Profit/(Loss) before income tax	24,466	(34,754)	41,681	(53,680)
Adjustments for:				
Interest income	(789)	(868)	(1,488)	(1,761)
Depreciation of property, plant and equipment	3,161	10,158	6,321	21,381
Amortisation of land use rights/intangible assets	233	233	467	467
Interest expenses	1,979	2,067	3,843	3,774
Exchange difference in translation	(116)	506	(594)	781
Operating profit before working capital changes	28,934	(22,658)	50,230	(29,038)
Increase in inventories	(213)	(1,700)	(568)	(1,309)
Decrease / (Increase) in trade receivables and other receivables, preayment and deposits	15,681	(56,423)	15,796	(44,000)
Increase in trade payables and bill payables	13,921	57,472	38,599	56,642
(Decrease) / Increase in accrued liabilities and other payable	(22,693)	14,638	(20,420)	35,759
Cash from / (used in) operations	35,630	(8,671)	83,637	18,054
Interest received	789	868	1,488	1,761
Interest paid	(1,979)	(2,067)	(3,843)	(3,774)
Income tax paid	–	(307)	–	(649)
Net cash from / (used in) operating activities	**34,440**	**(10,177)**	**81,282**	**15,392**
Cashflows from investing activities				
Acquistion of Intangible assets	–	(639)	43,713	(639)
Purchases of property, plant and equipment	(3)	(68)	(25)	(176)
Net cash used in / (from) investing activities	**(3)**	**(707)**	**43,688**	**(815)**
Cashflows from financing activities				
Increase/(decrease) in amount owing to director	(702)	863	(116)	1,150
Proceeds from bank loans	40,000	25,000	63,600	79,000
Repayment of bank loans	(40,000)	(8,000)	(64,000)	(66,000)
(Decrease) / increase in pledged deposits	(3,000)	(12,390)	(40,060)	(16,050)
Net cash (used in) / from financing activities	**(3,702)**	**5,473**	**(40,576)**	**(1,900)**
Net increase / (decrase) in cash and cash equivalents	**30,735**	**(5,411)**	**84,394**	**12,677**
Cash and cash equivalents at beginning of period	**748,044**	**888,037**	**694,301**	**870,168**
Effects of exchange rate fluctuation	89	(325)	173	(544)
Cash and cash equivalents at end of period	**778,868**	**882,301**	**778,868**	**882,301**

(RMB '000)	Second Quarter Unaudited 2014	Second Quarter Unaudited 2013	Half Year Unaudited 2014	Half Year Unaudited 2013
Analysis of the balances of cash and cash equivalents				
Cash and bank balances	778,868	882,301	778,868	882,301
Cash and cash equivalents per share (Cents)	81.00	91.76	81.00	91.76
Number of shares at balance sheet date	961,538,000	961,538,000	961,538,000	961,538,000

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

(RMB '000)	Share Capital	Share Premium	Treasury Shares	Merger Reserves	Paid-in capital from exchange differences	Currency translation reserve	Statutory Reserve	Retained Profits/ (Accumulated Loss)	Total
Group									
At 1January 2013	36,570	560,135	(226)	801	330	3,448	86,173	491,550	1,178,781
Total comprehensive income for the period	-	-	-	-	-	455	-	(156,881)	(156,426)
Transfer to statutoy reserve	-	-	-	-	-	-	1,765	(1,765)	-
At 31 December 2013	36,570	560,135	(226)	801	330	3,903	87,938	332,904	1,022,355
At 1 January 2014	36,570	560,135	(226)	801	330	3,903	87,938	332,904	1,022,355
Total comprehensive income for the year	-	-	-	-	-	(416)	-	30,754	30,338
At 30 June 2014	36,570	560,135	(226)	801	330	3,487	87,938	363,658	1,052,693
Company									
At 1 January 2013	36,570	560,135	(226)	-	330	-	-	(62,530)	534,279
Total comprehensive income for the period	-	-	-	-	-	3,829	-	(12,034)	(8,205)
At 31 December 2013	36,570	560,135	(226)	-	330	3,829	-	(74,564)	526,074
At 1 January 2014	36,570	560,135	(226)	-	330	3,829	-	(74,564)	526,074
Total comprehensive income for the period	-	-	-	-	-	-	-	(2,937)	(2,937)
At 30 June 2014	36,570	560,135	(226)	-	330	3,829	-	(77,501)	523,137

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 2014 and no outstanding convertibles held as at 30 June 2014.

Treasury shares

Our Company did not make any purchase of our shares during the second quarter ended 30 June 2014. As at 30 June 2014, our Company holds 587,000 treasury shares (30 June 2013: 587,000).

	Company 30 June 2014 Number of shares	30 June 2013	Company 30 June 2014 RMB '000	30 June 2013
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 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 were no sales, transfers, disposal, cancellation and use of treasury shares during the six months ended 30 June 2014.

2. Whether the figures have been audited or reviewed and in accordance with which auditing standard or practice.

These figures have not been audited or reviewed by our Company's auditors.

3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of a matter).

Not applicable.

4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.

Our Group has applied the same accounting policies and methods of computations for the current reporting period consistent with those of the most recent audited financial statement as at 31 December 2013.

The new and revised Financial Reporting Standards which took effect from the current financial year are now assessed to have no material impact to the results or the opening balances of the accumulated profit of our Group and of our Company for the year ending 31 December 2014.

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

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

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

	Second Quarter		Half Year	
	2014	**2013**	**2014**	**2013**
Profit / (loss) after income tax (RMB'000)	17,978	(35,061)	30,754	(53,987)
Basic earnings / (loss) per share (RMB cents)	1.87	(3.64)	3.20	(5.61)
Diluted earnings / (loss) per share (RMB cents)	1.87	(3.64)	3.20	(5.61)

The basic earnings / (loss) per share is calculated based on profit after income tax divided by the weighted average ordinary shares during the three months ended 30 June 2014 and the six months ended 30 June 2014, which were 961,538,000 and 961,538,000 shares, respectively. The weighted average ordinary shares for the three months ended 30 June 2013 and six months ended 30 June 2013 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 2014	**As at 31 Dec 2013**	**As at 30 June 2014**	**As at 31 Dec 2013**
Net asset value as at the end of the respective period (RMB'000)	1,052,693	1,017,381	5231,37	526,074
Issued share capital at the end of financial period/year	961,538,000	961,538,000	961,538,000	961,538,000
Net asset value per share (RMB cents)	109.48	105.81	54.41	54.71

8. **A review of the performance of the Group, to the extent necessary for a reasonable understanding of the Group's business. It must include a discussion of the following:**

(a) any significant factors that affected the turnover, costs, and earnings of the Group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and

Commentary on Financial Results

Revenue

For the three months ended 30 June 2014 ("**2Q 14**"), our Group recorded revenue of approximately RMB 213.5 million, an increase of approximately RMB 16.1 million or 8.2% over revenue of approximately RMB 197.4 million for the previous corresponding period ("**2Q 13**"). For the six months ended 30 June 2014, ("**1H 14**"), revenue increased by approximately RMB 28.7 million or 7.8% to approximately RMB 397.0 million from approximately RMB 368.3 million in the previous corresponding period ("**1H 13**").

The increase in revenue in 1H 14 was mainly attributable to our Group focusing on high margin footwear products, being our YELI breathable shoes and orders from select OEM customers.

Further, the decrease in revenue registered for apparel products in 2Q 14 reflected 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 apparel and footwear (without enhanced features and functionality) products. However, the increases in revenue from YELI (primarily breathable shoes) and OEM footwear products in 2Q 14 offset the decrease in revenue of apparel products in 2Q 14 which resulted to the increase in revenue in 2Q 14.

Breakdown of revenue by business lines

(RMB million)	**2Q 14**	**%**	**2Q 13**	**%**	**1H 14**	**%**	**1H 13**	**%**
Footwear	198.9	93.2	178.4	90.4	370.7	93.4	320.6	87.0
Apparel	14.6	6.8	18.1	9.2	26.3	6.6	43.8	11.9
Accessories	-	-	0.9	0.4	-	-	3.9	1.1
Total Revenue	213.5	100.0	197.4	100.0	397.0	100.0	368.3	100.0

Breakdown of footwear revenue by segment

(RMB million)	**2Q 14**	**%**	**2Q 13**	**%**	**1H 14**	**%**	**1H 13**	**%**
YELI footwear	153.6	77.2	153.1	85.8	277.1	74.8	275.0	85.8
OEM footwear	45.3	22.8	25.3	14.2	93.6	25.2	45.6	14.2
Total footwear	198.9	100.0	178.4	100.0	370.7	100.0	320.6	100.0

Footwear

In 1H 14, footwear products recorded approximately RMB 370.7 million in sales, representing an increase of approximately RMB 50.1 million or approximately 15.6% over sales of footwear products of approximately RMB 320.6 million in 1H 13. The increases in revenue in 1H 14 and 2Q 14 were mainly attributable to our Group focusing on high margin footwear products, being our YELI breathable shoes and orders from select OEM customers. The increase in 1H 14 footwear revenue was mainly due to our strategy of focusing on breathable shoes which gave high margins in both 1H 14 and 2Q 14. Our breathable shoes continued to allow us to differentiate our footwear products from others, and allowed us to pull away from lower margin, high volume products in the highly competitive footwear industry in the PRC.

In 1H 14, revenue from our YELI footwear products was approximately RMB 277.1 million, which represented approximately 91.3% and 69.8% of our YELI revenue and of our total revenue, respectively, as compared to approximately 85.2% and 74.7% of our YELI revenue and our total revenue, respectively, in 1H 13.

In 2Q 14, revenue from our YELI footwear products was comparable to 2Q 13. However, our Group took a more conservative approach in managing the business risks of a persistent weakening retail sportswear market and of intensified price competition. This approach was brought about by the previous problems of our over-expanding our retail channels. We have since focused on developing niche markets in a conservative manner.

In 2Q 14, our Group recorded footwear revenue of approximately RMB 198.9 million, an increase of approximately RMB 20.5 million or approximately 11.5% over revenue of approximately RMB 178.4 million in 2Q 13.

The increase in OEM footwear revenue in 1H 14 and 2Q 14 was mainly attributable to increased orders from our existing and new OEM customers. We continued to pursue our strategy of selectively accepting higher margin orders from our existing and new OEM customers. By consistently maintaining the quality of our OEM products, we saw more orders from existing and new OEM customers. There was an increase in OEM footwear revenue contribution to total footwear revenue in 1H 14 and 2Q 14 from approximately 14.2% to approximately 25.3% and from approximately 14.2% to 22.8%, respectively.

Apparel

In 1H 14, our Group recorded apparel revenue of approximately RMB 26.3 million, a decrease of approximately RMB 17.5 million or approximately 40.0% as compared to approximately RMB 43.8 million in 1H 13. The apparel sales in 1H 14 contributed approximately 9.0% and 6.6% to our YELI revenue and our total revenue respectively, from approximately 13.6% and 11.9% in 1H 13.

In 2Q 14, our YELI apparel sales decreased from approximately RMB 18.1 million in 2Q 13 to approximately RMB 14.6 million which represented approximately 9.3% and 6.9% of our YELI revenue and of our total revenue respectively as compared to approximately 10.5% and 9.2% of our YELI revenue and our total revenue in 2Q 13.

The weaker consumer demand as well as our distributors being prudent when placing orders, coupled with the intensified price competition led to the decrease of average selling price on YELI apparel which affected the revenue from YELI apparel in both 1H 14 and 2Q 14.

Accessories

Our Group recorded no accessories revenue in 2Q 14 and 1H 14 as compared to 2Q 13 and 1H 13 of approximately RMB 0.9 million and RMB 3.9 million, respectively. This resulted from our strategic decision to discontinue our YELI accessories business in 3Q 2013..

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

	1H 14	**1H 13**	**Growth**
Points–of-sale	Over 1,365*	Over 1,450*	(6)%
YELI specialty stores	Over 250	Over 350	(29)%

* 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 6% from over 1,450 points of sale as at 30 June 2013 to over 1,365 point of sale as at 30 June 2014. Over the same period, the number of specialty stores decreased by 29% from over 350 to over 250. Our Group will continue to execute our strategy to improve the mix of our points of sale.

Due to the positive response to our YELI breathable shoes, our Group's distributors have since opened more sales counters and shops-in-shops in various first-tier and second-tier cities. At the same time, points of sales in third- and fourth-tier cities have also decreased. Increased presence of our brand in first- and second-tier cities has built up brand awareness of YELI. In view of the rising costs in running a YELI specialty store, our Group has encouraged our distributors to reduce the number of YELI specialty stores so that they can preserve and focus their resources to work with our Group in the change in the product positioning (as described below in **paragraph 11**) and vary the product line-up with greater emphasis on breathable shoes.

Cost of goods sold and gross profit margin

In line with the increase in revenue, our cost of sales increased by approximately RMB 10.7 million or 3.5% from approximately RMB 308.9 million in 1H 13 to approximately RMB 319.6 million in 1H 14.

Notwithstanding the higher revenue, subcontracting cost (including raw materials) of the footwear products and apparel increased by RMB 5.7 million or 5.6% from approximately RMB 101.5 million in 1H 13 to approximately RMB 107.2 million in 1H 14. This was mainly due to the reduction in subcontracting cost (including raw materials) of apparel outweighing the increase of subcontracting cost of footwear. The production of apparel are completely outsourced while more of the production of footwear products is being shifted back from subcontractors to our factories for better quality and cost control and in order to achieve better gross margin.

In line with the revenue increase in 2Q 14 from 2Q 13, our cost of sales increased by approximately RMB 5.1 million or 3.1% from approximately RMB 165.3 million in 2Q 13 to approximately RMB 170.4 million in 2Q 14.

Gross profit margin by product segment:

	2Q 14	2Q 13	Growth	1H 14	1H 13	Growth
Footwear	22.4%	22.0%	0.4%	21.0%	21.7%	(0.7)%
Apparel	11.2%	10.5%	0.7%	9.4%	12.8%	(3.4)%
Accessories	-	5.7%	(5.7)%	-	5.7%	(5.7)%
Overall GP margin	20.2%	16.3%	3.9%	19.5%	16.1%	3.4%

Our gross profit increased by approximately RMB 17.9 million or 30.1% from approximately RMB 59.4 million in 1H 13 to approximately RMB 77.3 million in 1H 14 as a result of higher margin from footwear products which outweighed the significant reduction in gross profit contributed by the apparel and accessories products. Our overall gross profit margin increased from approximately 16.1% in 1H 13 to 19.5% in 1H 14. The increase of overall gross profit margin was mainly due to higher margin derived from breathable shoes in 1H 14 which were partially offset by the decrease from apparel products. In 2Q 14 our gross profit margin increased to 20.2% from approximately 16.3% in 2Q 13. Quarter-on-quarter, our overall gross profit margin increased from 18.7% in 1Q 14 to 19.5% in 2Q 14. The increase of overall gross profit margin was mainly due to higher margin derived from the breathable shoes.

The decrease of the gross profit margin of our footwear in the 1H 14 as compared to the corresponding period last year was mainly attributable to higher subcontracting cost of OEM footwear products which offset the better gross profit margin registered for YELI breathable shoes. The increase of the gross profit margin of footwear in 2Q 14 as compared to the corresponding period last year was mainly attributed to the higher gross profit margin registered by YELI breathable shoes.

The gross profit margin of YELI apparel in 1H 14 has decreased 3.4% as compared to 1H 13. The decrease in gross profit margin of YELI apparel was mainly attributed to higher subcontracting cost and higher unit 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. The gross profit margin of YELI apparel products in 2Q 14 had a slight increase of 0.7% as compared to 2Q 13 as our Group had optimised the specialty stores in our network and subsidies had been provided to our distributors to assist them in clearing excess inventory.

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 14 and 2Q 14 which was due to lower bank balances during the period as compared to corresponding period in 2013.

Operating expenses

In total, operating expenses which comprise selling and distribution expenses and administrative expenses decreased by approximately RMB 77.3 million or 69.6% from approximately RMB 111.1 million in 1H 13 to approximately RMB 33.8 million in 1H 14. As a percentage of revenue, operating expenses decreased to approximately 8.5% in 1H 14 from approximately 22.0% in 1H 13.

The main decrease in total operating expenses came from selling and distribution costs which decreased by approximately RMB 79.5 million or 78.0% from approximately RMB 101.9 million in 1H 13 to approximately RMB 22.4 million in 1H 14 while selling and distribution costs in 2Q 14 decreased by approximately RMB 49.6 million or 81.4% from approximately RMB 60.9 million to approximately RMB 11.3 million in 2Q 14. The decreases were due to no subsidy being provided in 1H 14 and 2Q 14. We provided our distributors of approximately RMB 19.4 million and RMB 40 million in 1Q 13 and 2Q 13, respectively, to transform certain specialty stores at good locations to ensure alignment with our new product position and to clear off the excess and possibly obsolete inventory. In addition, our Group had spent RMB 16.5 million and RMB 8.3 million in 1H 14 and 2Q 14, respectively, in advertising on the internet to create and promote the awareness of YELI brand and the functionality of YELI breathable shoes on various e-commerce platforms, as compared to approximately RMB 21.3 million and RMB 10.9 million in 1H 13 and 2Q 13, respectively.

Significant progress has been made to change to the YELI outlets in line with the change in our product position which resulted in a significant decrease in the depreciation charge to the sales fixtures of the new outlets, which amounted to approximately RMB 0.9 million and RMB 0.4 million in 1H 14 and 2Q 14, respectively, as compared to approximately RMB 15.4 million and RMB 6.4 million in 1H 13 and 2Q 13, respectively.

Administrative expenses increased by approximately RMB 2.3 million or 25.0% from approximately RMB 9.2 million in 1H 13 to approximately RMB 11.5 million in 1H 14 due to higher depreciation of approximately RMB 1.9 million from our multi-complex building and higher professional fees of approximately RMB 0.2 million incurred in relation to various corporate projects and the change of the auditors for FY 2013 (completed in 1Q 14). In addition, higher salaries and wages and social security costs from our PRC subsidiaries has contributed to the increase in administrative expenses**.**

Administrative expenses in 2Q 14 increased by approximately RMB 1.3 million or 26.5% from approximately RMB 4.9 million in 2Q 13 to approximately RMB 6.2 million in 2Q 14. The increase was mainly attributable to higher depreciation charge of approximately RMB 1.4 million incurred from our multi-complex building.

Finance costs

Finance costs in 1H 14 and 2Q 14 were comparable to the corresponding periods last year. Our Group maintained the current level of bank loans (including bills payable) so as to preserve the financial flexibility as the credit environment in PRC has been challenging.

Income tax

Income tax expense in 2Q 14 and 1H 14 of approximately RMB 6.5 million and RMB 10.9 million reported respectively, were due to profit registered from our operating subsidiaries in PRC as compared to loss incurred in 2Q 13 and 1H 13, respectively.

(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 6.3 million from approximately RMB 125.4 million as at 31 December 2013 to approximately RMB 119.1 million as at 30 June 2014. This was mainly attributed to the depreciation charge of the property, plant and equipment during the period of approximately RMB 6.3 million.

Land use rights and intangible assets as at 30 June 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 related to the acquisition of the equity interest in Jinjiang Guosheng Shoe Material Co., Ltd ("**Guosheng**"). The prepayment was refunded in March 2014 with the termination of the acquisition.

Under PRC laws, tax losses incurred in the year ended 31 December 2013 can be utilised to off-set taxable profit of our Group in the following 5 financial years. The off-set gives rise to the deferred tax asset. The decrease in balance as at 30 June 2014 was due to the utilisation of the deferred tax asset to offset the taxable profit recorded in the 1H 14.

Current Assets

Inventories, comprised mainly raw materials and finished goods, as at 30 June 2014 was comparable to the balances as at 31 December 2013. The level of raw materials was sufficient to cope with the demand from customers in the coming quarter and to hedge against the increase in the prices of raw materials.

Trade receivables decreased from approximately RMB 270.6 million as at 31 December 2013 to approximately RMB 233.9 million as at 30 June 2014 due mainly to closer monitoring of collections from our customers. Our trade receivables turnover days were in the range of 75 to 90 days.

Aging of trade receivables is set out as follows:

	(RMB million)	**%**
Current (less than 30 days) –	83.4	35.6
31 to 60 days –	84.6	36.2
61 to 90 days –	65.9	28.2
Total	233.9	100.0

Other receivables and prepayment increased from approximately RMB 111.8 million as at 31 December 2013 to approximately RMB 132.7 million as at 30 June 2014. The balance consisted mainly of advance payments made to existing suppliers of approximately RMB 56.0 million to lock in raw materials prices as well as to the new suppliers for YELI apparel (the amount was the full consideration paid for materials or products to be purchased), interest obtained from deposit paid in relation to the acquisition of Guosheng of approximately RMB 4.6 million and the advance payment to a marketing agency of approximately RMB 14.8 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. We are still in negotiations with the Administrative Committee of the SETDZ (宿州经济技术开发区管委会) ("**ACSETDZ**") on the Suzhou Project and will release a detailed announcement regarding the Suzhou Project upon the completion of the negotiations with ACSETDZ.

As at 30 June 2014, we had cash and cash equivalents of approximately RMB 778.9 million. The increase in cash and cash equivalents was due mainly to the net cash generated from operation and net cash from investing activities being higher than the net cash used in financing activities. (Please refer to the statement of cash flow in this announcement for further details).

The cash and cash equivalents were mainly bank deposits denominated in RMB and Singapore Dollars. As at 30 June 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 increased from approximately 164.0 million as at 31 December 2013 to approximately RMB 202.6 million as at 30 June 2014. This was due to longer credit term secured from suppliers.

Accrued liabilities, other payables (included wages payables, accrued utilities expenses) and amount owing to a director decreased from approximately RMB 60.4 million as at 31 December 2013 to approximately RMB 39.9 million as at 30 June 2014. The net decrease was mainly attributed to the payment of royalties incurred for the financial year 2013 of approximately RMB 30.1 million which was partially offset by the royalties accrued of approximately RMB 8.4 million calculated based on the breathable shoes sold during the current financial period payable to Mr Lin Yongjian, who is the father of our executive directors Mr Lin Shaoxiong and Mr Lin Shaoqin.

As at 30 June 2014, we had bank borrowings of approximately RMB 108.5 million. The decrease in the bank loans as compared to 31 December 2013 was due to the repayment of bank loans of RMB 64 million in 1H 14 which was offset by bank loans of approximately RMB 63.6 million obtained in 1H 14,. In 1H 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 RMB 137 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.

<u>Commentary on Statement of Cash Flows</u>

Net Cash from Operating Activities

Operating cashflow before working capital changes increased by approximately RMB 79.2 million from approximately RMB 29.0 million net outflow in 1H 13 to approximately RMB 50.2 net inflow million in 1Q 14. The increase was mainly due to the operating profit generated in 1H 14 as compared to the operating loss incurred in the corresponding period in 2013. While the operating cashflow before working capital changes increased by approximately RMB 59.3 million from approximately RMB 34.8 million net outflow in 2Q 13 to approximately RMB 24.5 net inflow million in 2Q 14. The increase was mainly due to the operating profit generated in 1H 14 as compared to the operating loss incurred in the corresponding period in 2013.

Net cash from operating activities in 1H 14 increased by approximately RMB 65.8 million as compared to 1H 13 mainly due to the decrease in trade receivables of approximately RMB 36.7 million and the increase in trade payables and bills payables of approximately RMB 38.6 million were sufficient to cover the increase in prepayment and other receivables and inventories of approximately RMB 21.4 million and the decrease in other payables and accrued liabilities of approximately RMB 20.5 million.

In 1H 14, the decreases in account receivables were approximately RMB 36.7 million and the increases in trade payables and bill payables were approximately RMB 38.6 million. In 1H 14, our Group recorded increases in prepayment and other receivables and inventories of approximately RMB 20.9 million and RMB 0.6 million, respectively while decreases in other payables and accrued liabilities of approximately RMB 20.4 million were recorded,

Net cash from operating activities in 2Q 14 increased by approximately RMB 44.6 million as compared to 2Q 13 was mainly due to the increase in the trade payables and bills payables of approximately RMB 13.9 million. The decrease in prepayment and other receivables of approximately RMB 34.2 million was sufficient to cover the increases in trade receivables and inventories of approximately RMB 22.6 million and RMB 0.2 million, respectively, and the decrease in other payables and accrued liabilities of approximately RMB 23.4 million.

Net Cash used in Investing Activities

In 1H 14, net cash from investing activities was mainly attributable to the refund of the prepayment to Guosheng in March 2014 which was partially offset by the purchase of property, plant and equipment of RMB 25,000.

Net Cash from in Financing Activities

Net cash used in financing activities was approximately RMB 40.8 million in 1H 14. This was due mainly to net repayment of bank loans of RMB 0.4 million and the increase in pledged deposits of approximately RMB 40.1 million as well as a decrease in amount owing to a director (Mr Lin Shaoxiong) of approximately RMB 0.1 million in 1H 14.

Net cash used in financing activities was approximately RMB 3.7 million in 2Q 14. These were mainly due to the increase in pledged deposits of RMB 3 million and a decrease in amount owing to a director (Mr Lin Shaoxiong) of approximately RMB 0.7 million.

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 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 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.

PRC's Gross Domestic Product ("**GDP**"), fuelled by government's supportive measures and targeted monetary easing, expanded by 7.5% year-on-year (y-o-y) in the second quarter of 2014 (1Q14:7.4%). The improved GDP figure in 2Q14 was supported by stabilising industrial production growth and improvement in retail sales, while investment, especially property investment, was the major factor dragging down GDP in the quarter. Meanwhile, Consumer Price Index (CPI) remained mild at 2.2% in 2Q14 (1Q14:2.3%)*.

Average retail sales recorded a year-to-date growth of 12.1% during the first half of 2014*. Sustained growth in consumer spending in the domestic economy augurs well for the PRC 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 in general in the industry and intense competition amongst the market players. Footwear and apparel brands that are more differentiated, more responsive to market trends and capable of delivering value for money and innovation to consumers will benefit from the industry consolidation.

In response to such market conditions, our Group has taken the following measures and initiatives to develop better differentiated products, improve its retail channel management and operational efficiency.

Change in product positioning

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

As mentioned in our previous updates, our Group's target consumers increasingly prefer casual fashion wear over sportswear. We have accelerated our pace to transform and reposition the range of YELI footwear with added emphasis towards the casual fashion wear market. Furthermore, we have been putting in effort to differentiate YELI footwear by leveraging on its breathable shoes technology.

Streamline distribution network

In order to streamline our distribution network, we have continued to encourage our distributors to close down inefficient specialty stores and instead set up more shops and counters within departmental stores in first, second and third-tier cities. Consequently, specialty store count has reduced significantly from 730 stores in 2010 to 250 in 2Q14. Besides, we have initiated upgrades to the points-of-sale to better in our network to reflect the change in YELI's product positioning with added emphasis towards casual fashion wear.

Setting up production facility in Anhui Province, PRC

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

Planning to acquire the breathable-shoe patent rights

In view of the large amount of royalty fee incurred (FY11-FY13:RMB55.5m in total), we have been looking into acquiring the breathable-shoe patent rights. Besides cost savings, this strategic move will allow us to initiate legal claims on product infringements directly and also remove the uncertainty of the licensing arrangement not being extended in the future.

Henceforth, we will make strategic moves to strengthen our market share and continue to invest in product design and development in response to market trends as well as to better differentiate its products from competitors. Operationally, we will endeavour to improve our financial performance in FY2014 through cost control measures.

**Based on the statistics provided by China National Bureau of Statistics (NBS)*

12. Dividend

(a) Current Financial Period Reported On

Any dividend declared for the current financial period reported on?

None.

(b) Corresponding Period of the Immediately Preceding Financial Year

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

None.

(c) Date payable

Not applicable.

(d) Books closure date

Not applicable.

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

Not applicable.

PART II ADDITIONAL INFORMATION REQUIRED FOR FULL YEAR ANNOUNCEMENT

(This part is not applicable to Q1, Q2, Q3 or Half Year Results)

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

Not applicable.

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

Not applicable.

16. A breakdown of sales.

Not applicable.

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**").

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.

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 30 June 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	15.6 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 second quarter and six months ended 30 June 2014 to be false or misleading in any material aspect.

On behalf of the Board of Directors

Lin Shaoxiong
Chief Executive Officer
Singapore
14 August 2014

Lin Shaoqin
Executive Director

BY ORDER OF THE BOARD

Lin Shaoxiong
Chief Executive Officer
14 August 2014