China Sports International Ltd

(RE)NEW

Annual Report 2012

CONTENTS

ABOUT US

China Sports International Limited is mainly engaged in the design, manufacture and sale of sports fashion footwear and design and sale of sports fashion apparel and accessories under its own YELI (野力) brand. Our Group's products are designed for both functional use and casual use, catering to the lifestyle of its targeted consumer group aged between 13 to 30 years old. The products are mainly sold through distributors who have a retail network of more than 1,600 points of sale throughout first, second, third and fourth tier cities in the PRC.

(RE) EVOLVED WITH TIME

Adapting quickly with changing times, our Group has launched its e-commerce platform at http://yeli.tmall.com retailing YELI footwear to reach out to young adults who are increasingly doing their shopping over the Internet.

As the momentum for online shopping increases, China Sports will launch more products on its flagship e-store, including YELI apparel products.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors of China Sports International Limited, I am pleased to present our annual report for the financial year ended 31 December 2012 ("FY12").

Financial Highlights

For the year in review, revenue decreased by approximately 16.7% to RMB 760.3 million from RMB 913.1 million in the previous corresponding period ("FY 11"). This was primarily attributed to the intensified competition in footwear and apparel products thus reducing sales in both product segments. Being aware of the increased competition, our distributors have been prudent in placing orders for footwear and apparel products throughout 2012.

With the decline in revenue, gross profit decreased by 29.1% from approximately RMB 190.4 million to approximately RMB 135.0 million in FY12. Overall, gross profit margin decreased from approximately 20.9% to 17.8% due to material decrease in profit margin derived from the sale of apparel products. The higher margin derived from the sale of YELI breathable shoes could not offset the decrease in the profit margin for apparel products.

Moving with the Times

The sportswear industry in the PRC is currently experiencing oversupply, inventory overhang and increasing labour and rental costs resulting in a decline in overall profitability. To surmount these challenges, sportswear brands must have a clear brand positioning, effective sales channels and management and product differentiation in the increasingly consolidated industry.

In response to the challenging environment, our Group will carry on allocating resources, effort and time on research and development to further expand our product range and to introduce more high quality and health-promoting shoes so as to cater to consumers with increasing affluence and health awareness. In the year in review, we launched and will continue to launch new designs for YELI apparel targeted at the casual wear market, in order to further differentiate our products from other sportswear companies. Our Group will focus more on higher margin footwear products with enhanced features and functionality including the YELI breathable shoes which contributed to our 4Q12 revenue. We will also press on with our initiative of transforming and repositioning our range of YELI footwear products.

With the increasing costs of running YELI specialty stores, our Group encouraged its distributors to set up more points-of-sale within departmental stores in first- to third-tier cities to increase the brand awareness of YELI and enlarge the distribution network for YELI breathable shoes. This strategic approach will improve retail efficiency and will help the distributors to stay competitive amidst the challenging environment.

In FY12, we launched an electronic commerce (e-commerce) platform on Tmall (天猫), one of the largest business-to-consumer (B2C) online retail platforms in the PRC. Our Group's online flagship store has been set up under the domain name http://yeli.tmall.com to reach young adults, our Group's primary customers. With the aid of the internet, we aim to increase sales for YELI footwear and at the later stage the apparel products.

FY12 also marked a significant milestone for our Group as we roll out our new range of shoes for children. Enhanced functionality such as airflow increase; moisture reduction and odour reduction features are present in the new range of kids' footwear that will appeal directly to parents in search of footwear that offers comfort, functionality and great quality for their children. Our Group has plans to gradually increase advertising and promotional activities as well as to set up stand alone points-of-sale for YELI breathable shoes for youngsters. There is a significant growth potential in the kids market and our Group believes that the launching of kids-wear products can further increase the presence and brand value of YELI in the PRC market.

FY13 and beyond

In these uncertain global economic times, our Group will adopt a prudent approach in order to stay relevant. We will also continue to undertake necessary reforms and adjustments to improve our operating performance. Intensive competition and weak consumer demand are expected to persist and we will remain cautious in response to such market conditions and persevere in establishing our Group's new initiatives.

Our Group has undertaken a paradigm shift in the YELI footwear and apparel product lines towards casual and fashion wear design and away from sportswear (we call this the "Transformation") and revamping our branding and image accordingly to reflect the new product positioning.

Based on research observations, our Group's target consumers aged between 13 and 30 prefer casual fashion wear over sportswear and we intend to capitalise on our consumers' changing preference. A new range of YELI products with casual and fashion wear designs has been launched in the the PRC market on a pilot basis and our Group will roll out these designs in 2013.

We will also streamline our distribution network by encouraging distributors to close inefficient specialty stores, add more shop-in-shop interiors and upgrade their stores to better reflect the changed YELI product positioning. We will also offer subsidies to distributors.

To address the rising labour costs and sparingness of labour supply in coastal cities in the PRC, and to ensure a long-term, steady supply of workers, our Group is planning to expand its production footprint beyond Fujian Province through the establishment of a new production facility in Anhui Province, the PRC. Anhui Province is strategically located at the centre of economically strong, high population provinces like Jiangsu, Zhejiang, Fujian, Jiangxi, Henan and Hubei provinces and the city of Shanghai.

Going forward, we will continue to advance our strategic priorities to position our company for long-term stability. Our Group will continue to leverage on our competitive advantage, focus on streamlining our distribution network for operational productivity and adeptly guide our Transformation in product positioning.

In Appreciation

On behalf of the Board, let me take this opportunity to express our appreciation to all our shareholders, management, customers, business partners and employees for their unwavering support and commitment to our company. Despite a hazy economic outlook, we believe that we have the necessary plans to navigate forward. Together with your continued support, we look forward to the year ahead.

Lin Shaoxiong (林少雄)
Chairman and Chief Executive Officer

(RE) EVOLVED WITH STYLE

Our Group has unrolled a new marketing strategy catering to young consumers aged 13 to 30 years, which forms the largest customer base in China Sports. Our target consumer is increasingly choosing casual fashion wear over sportswear. Moving quickly with emerging trends, our Group is now repositioning its range of YELI products by introducing casual fashion footwear and apparel to its market. We believe that through our strategic marketing, we can create a competitive advantage over other competing sportswear companies.

DISTRIBUTION NETWORK

Network in PRC

China Sports has approximately 20 distributors with more than 1,600 points of sale covering more than 20 provinces in the the PRC

GLOBAL NETWORK

We also produce footwear on an OEM basis for various brands and export to different countries around the world.

BOARD OF DIRECTORS

Mr Lin Shaoxiong
（林少雄）
Executive Chairman and CEO

He was appointed onto the Board of Directors of our Company on 9 April 2007. He is responsible for the strategic business direction and development of our Group. Mr Lin Shaoxiong started his career in Hengfa Light Industry in 1998 at its inception, as its Director, where he was responsible for business development and day-to-day operations of our Group. His responsibilities included overseeing product development, sales and production functions of Hengfa Light Industry and liaising with key customers, suppliers and the various government authorities. He was a councillor in Jinjiang City, Fujian Province Youth Commercial Club from 2005 to 2007 and Fujian Province Footwear Association from 2006 to 2007. He has also been the Honorary Chairman of the Quanzhou City Sinoforeign Association since 2006. Mr Lin Shaoxiong graduated with a Diploma in Business Management from the Fujian Forestry College in 1999.

Mr Lin Shaoqin
（林少钦）
Executive Director

He was appointed onto the Board of Directors of our Company on 10 April 2007. Mr Lin Shaoqin is also the Sales and Marketing Manager of our Group and is responsible for all aspects of the sales and marketing of our products. He started his career with us in 2004 as a trainee, during which he became well acquainted with all aspects of our business and operation. Thereafter, he was appointed the Sales and Marketing Manager in 2005, and helped develop our Sales and Marketing Department to expand our sales and distribution network. He graduated from the Jin Nan Chinese School, Manila, Philippines in 2003 with a diploma in Economics.

Ms Lai Chin Yee
（黎静仪）
Independent Director

Ms Lai Chin Yee was appointed in 4 June 2007 as our Lead Independent Director. She has more than 22 years of experience in auditing, taxation, finance and accounting and is currently the Finance Director of Qian Hu Corporation Limited, a company listed on the Singapore Exchange Securities Trading Limited ("SGX-ST"). She is also the Lead Independent Director of other companies listed on the SGX-ST, namely Ryobi Kiso Holdings Ltd and CCM Group Limited. Prior to joining Qian Hu Corporation Limited in 2000, Ms Lai was an auditor with international public accounting firms since 1987. From December 2006 to August 2007, she was appointed by the Ministry of Finance as a Council Member of the Council on Corporate Disclosure and Governance (CCDG). She is a member of the CFO Committee of the Institute of Certified Public Accountant of Singapore ("ICPAS") since May 2009. Ms Lai graduated with a Bachelor degree in Accountancy from the National University of Singapore and is a Fellow of the of the ICPAS (FCPA). In 2009, she was named the Chief Financial Officer of the Year (for companies listed on the SGX-ST with less than $300 million in market capitalisation) at the Singapore Corporate Awards.

Mr Tham Hock Chee
（谭学持）
Independent Director

Mr Tham was appointed as our Independent Director on 4 June 2007 and Chairman of the Remuneration Committee of our Company. He was also appointed an Independent Director of Ouhua Energy Holdings Limited. From 1972 to 1973, he worked in a German tool company, Fraesmaeschinen Reckermann as a Production Planner. Thereafter, he worked in the Singapore Economic Development Board as an investment officer from 1973 to 1979, where for investment promotion and industrial training. He then joined Guthrie Singapore as a Product Manager in 1979 till 1983. From 1984 to 1985, Mr Tham worked as a General Sales Manager of Polaroid Singapore Private Limited. From 1985 to 1999, Mr Tham joined the Trade Development Board as the manager for Market Development (emerging markets) and was promoted to director in 1995, where he was responsible for the approval of subsidies for local companies through evaluation of their financial viability. Mr Tham subsequently worked in the Singapore Confederation of Industries as its Secretary General and was responsible for its entire operation and financial matters, including budget and financial control and cashflow management. He was later appointed a Senior Management Consultant in Droege & Comp Singapore Pte Ltd, a German management consulting company in 2002 till 2003. Between 2003 and July 2004, Mr Tham worked as a freelance management consultant. He then joined Sitoca Pte Ltd in July 2004 as a director of business development. Mr Tham left Sitoca Pte Ltd in March 2005 and is now a freelance management consultant. He received a scholarship from the German Government to study in Germany in 1967, where he graduated in 1972 as a Production Engineer from Fachhochschule Hamburg.

Mr Sim Hong Boon
（沈鸿文）
Independent Director

Mr Sim was appointed as our Independent Director and the Chairman of the Nomination Committee of our Company on 27 April 2010. He is a Fellow (Life) of the Singapore Institute Architects, Fellow of the Royal Australian Institute of Architects, Fellow of the Society of Project Management Singapore, Member of the British Institute of Architects, Member of the Singapore Institute of Planners and Member of the Malaysian Institute of Architects. Mr Sim served on various local and international professional organisations. He was the President of the Singapore Institute of Architects (1974-1978), Member of the Board of Architects (1973-1980) and Professional Engineers' Board (1977-1980), Member of the Commonwealth Board of Architectural Education (1975-1987), Honorary Secretary of the Architects' Regional Council Asia ("Arcasia") and Chairman, Arcasia Board of Architectural Education (1976-1987). Mr Sim held several directorships in private and listed companies in Singapore, China and Holland. He was the Chairman of the Supervisory Board, Aabe Fabrieken B.V. and Aabe Holland (1983-1993). He held several foreign government appointments, as Advisor to the Commanding Office for the Development of the Jinan Yao Qiang Airport (1989), Advisor for Trade & Economic Development to the Municipal Government of City of Jinan (1993), Advisor to the Committee for the Development of Jinan High Technology Industrial Park (1993), Senior Economic Advisor to the Municipal Government of Zao Zhuang City, Shandong Province and Representative of the Indian Tourism Development Corporation for East and South East Asia (2005).

KEY MANAGEMENT

Mr Alex Chan Chiu Hung (陈钊洪)

Mr Chan is our Chief Financial Officer. He oversees the management of the overall finance and accounting operations of our Group. He is also responsible for implementing internal controls and corporate governance and practices, as well as liaising with external parties and regulatory bodies in respect of our Group's financial matters. He has been working with several listed and multinational companies for over 14 years. He joined us in March 2007. Mr Chan holds a Bachelor Degree with Honours in Finance from Hong Kong Baptist University. He has been a CPA of Hong Kong Certified Public Accountants and a member of the Institute of Chartered Accountants in England and Wales and a fellow member of Association of Chartered Certified Accountant, the Hong Kong Institute of Chartered Secretaries and Institute of Chartered Secretaries and Administrators. He obtained an Advanced Diploma in Specialist Taxation from Hong Kong Institute of Certified Public Accountants in February 2013.

Mr Kang Weisheng (康为胜)

Mr Kang is our Procurement Manager. He is responsible for the sourcing of and purchase of raw materials for our manufacturing operations. He is also responsible for ensuring the quality of our raw materials. He joined us in 1998 as a production supervisor and was appointed as the Procurement Manager in 2006. Mr Kang graduated from Yongchun 5th High School (福建省永春县第五中学) in Fujian Province in 1986.

Mr Fu Chengzhong (傅成忠)

Mr Fu is our Production Manager. He is responsible for overseeing our Group's overall production activities. He joined us as an Assistant General Manager at our Group's inception in 1998, and was later appointed Human Resources Manager in 2003. In 2004, he relinquished his position as Human Resources Manager as he became our Production Manager. He holds a Diploma in Administration from Fujian Radio & TV University (福建广播电视大学).

Mr Zhong Xinggui (钟兴贵)

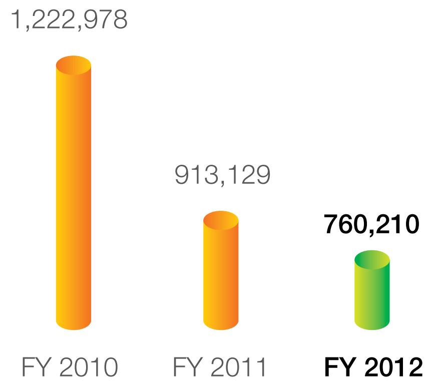
Mr Zhong joined Hengfa (Fujian) Light Industry Development Co., Limited in April 2009 as a Consultant of the Human Resource Department and appointed as our Human Resource Manager in April 2010. He is responsible for planning, directing and coordinating human resource management activities within principal operating subsidiaries of our Group and maintain functions such as employee recruitment, compensation, personnel policies and regulatory compliance. From February 2005 to August 2007, he was a Human Resource Supervisor, Xiamen Huierkang Food Group. From September 2007 to October 2008, he was a Regional Human Resource Manager, Aimark Service Industry (China) Limited Company. From November 2008 to March 2009, he was a Human Resource Manager, Bai Xiang Group.

Mr Xie Liangcheng (谢良成)

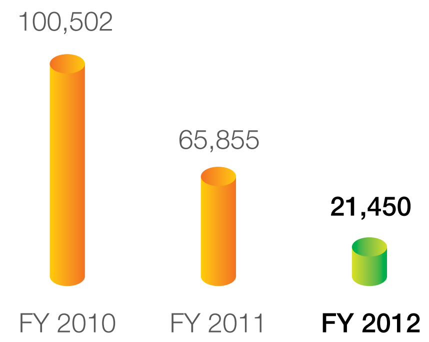
Mr Xie joined Hengfa (Fujian) Light Industry Development Co., Limited as Assistant Technical Manager in February 2008 and was subsequently promoted to become Technical and Quality Assurance Manager on 30 December 2008. He is mainly involved in providing technical advice on the production of footwear and ensuring the production quality of our Group's products. From February 1999 to January 2001, he worked in Haowei Footwear Manufacturing Company Limited as a Supervisor for the production of sample. Thereafter, he worked in Hong Kong Kerry Trading Limited Company (香港可利贸易有限公司) as a Quality Control Manager from February 2001 to January 2002. He then joined Mingyi Footwear Limited Company (明益鞋业有限公司) from February 2003 to January 2008 as a Technical Manager.

FINANCIAL HIGHLIGHTS

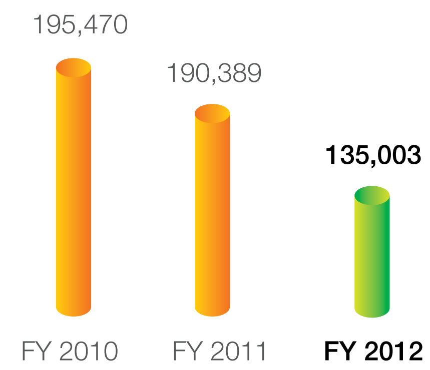
Revenue (RMB'000)



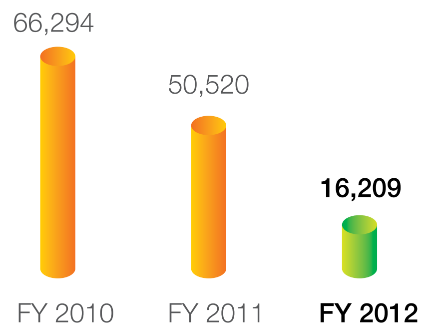
Profit Before Income Tax (RMB'000)



Gross Profit (RMB'000)



Profit After Income Tax (RMB'000)



OPERATIONS REVIEW

Revenue

For the year ended 31 December 2012 ("FY 12"), revenue decreased by approximately RMB 152.8 million or 16.7% to RMB 760.3 million from RMB 913.1 million in the previous corresponding period ("FY 11").

The decrease in revenue in FY 12 was mainly attributable to the increased competition in the industry, which started from footwear products and subsequently extended to the apparel products thus decreasing sales in both product segments. Accordingly, our Group's distributors were more prudent in their order placement for both products.

Footwear

In FY 12, our Group's recorded footwear revenue of approximately RMB 622.9 million was about the same as that in FY 11. Our Group maintained its footwear revenue in FY 12 under an environment of heightened competition especially for lower margin high sales volume products in the footwear industry in the PRC. As a result of inventory overhang, various footwear companies in the PRC had adopted aggressive discounting strategies to reduce inventory.

In response , our Group continued with its business strategies of reducing the sale of lower margin footwear products and focusing more on higher margin footwear products with enhanced features and functionality, including YELI breathable shoes. In FY 12, YELI footwear sales were approximately RMB 533.2 million which represented approximately 79.5% and 70.1% of YELI revenue and of total revenue respectively as compared to approximately 63.6% and 54.6% of YELI revenue and total revenue in FY 11.

In FY 12, our Group recorded Original Equipment Manufacturing (OEM) footwear revenue of approximately RMB 89.7 million, a decrease of approximately RMB 39.5 million or 30.6% over revenue of approximately RMB 129.2 million in FY 11. Our Group continued to pursue its strategy to selectively accept higher margin orders from existing and new OEM customers. However, this strategy could not fully offset the decrease in lower margin orders from certain OEM customers thus contributing to the decrease in footwear revenue.The portion of OEM footwear revenue over total footwear revenue had decreased to 14.4% in FY 12.

Apparel

In FY 12, our YELI apparel sales decreased to approximately RMB 123.3 million which represented approximately 18.4% and 16.2% of YELI revenue and of total revenue respectively as compared to approximately 33.1% and 28.4% of YELI revenue and total revenue in FY 11. The weaker consumer demand as well as prudence in order placement on the part of distributors, coupled with intensified price competition which led to the decrease of average selling price on YELI apparel, have affected the revenue for YELI apparel in the year in review.

Accessories

In FY 12, YELI accessories sales was approximately RMB 14.1 million which represented 2.1% and 1.9% of YELI revenue and total revenue in FY 12, as compared to approximately 3.3%and 2.9% of YELI revenue and total revenue in FY 11.

The decrease in sales in FY 12 was mainly attributed to weaker consumer demand and distributors being more prudent when placing orders thus affecting the revenue for YELI accessories. The distribution network for YELI products in the PRC decreased by approximately 15% from over 1,930 points-of-sale as at 31 December 2011 compared to over 1,650 points-of-sale as at 31 December 2012.

Over the same period, the number of specialty stores decreased by 41% from over 710 to over 420. Our Group will continue to execute our strategy to improve the mix of the points-of-sale. Due to the positive response to YELI breathable shoes, our Group's distributors have started to open more counters and shops-in-shops in first-tier and second-tier cities to increase the brand awareness of YELI.

In view of the rising costs for a distributor to run a YELI specialty store, our Group has encouraged our distributors to reduce the number of YELI specialty stores so that the distributors can focus more of their resources to work with our Group in undertaking the "Transformation", a paradigm shift with respect to the YELI footwear and apparel product lines towards casual and fashion wear design and away from sportswear. We will also vary the product line-up with greater emphasis on breathable shoes.

	FY2012	FY2011	Growth
Points-of-sale	Over 1,650*	Over 1,930*	(15)%
YELI specialty stores	Over 420	Over 710	(41)%

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

OPERATIONS REVIEW

Cost of goods sold and gross profit margin

In line with the decrease in revenue, cost of sales decreased by approximately RMB 97.4million or 13.5% from approximately RMB 722.7 million in FY 11 to approximately RMB 625.3 million in FY 12.

With the lower revenue, sub-contracting cost (including raw materials) of the footwear products, apparel and accessories decreased by approximately RMB 101.8 million or 34.9% from approximately RMB 291.9 million in FY 11 to approximately RMB 190.1 million in FY12. The production of apparel and accessories was completely outsourced but more of the production of footwear products was being shifted back from sub-contractors to our factories for better quality and cost control and in order to achieve better gross margin.

Gross profit decreased by approximately RMB 55.4 million or 29.1% from approximately RMB 190.4 million in FY 11 to approximately RMB 135.0 million in FY 12 as a result of the reduction in revenue. Overall gross profit margin decreased from approximately 20.9% in FY 11 to 17.8% in FY 12. The decrease of overall gross profit margin was mainly due to material decrease in margin derived from the apparel products.

The increase of the gross profit margin of footwear in FY12 as compared to FY11 was mainly attributable to the higher gross profit margin registered by the YELI breathable shoes. The decreases in gross profit margin of YELI apparel were mainly attributable to higher sub-contracting cost and raw material costs compounded by the intensified price competition from various market players as they cleared excessive inventory. Our Group has lowered the selling price of apparel products in response to the current market environment.

The gross profit margin for YELI accessories in FY 12 was approximately 7.7% as compared to approximately 7.4% in FY 11. During FY 12, the gross margin of YELI accessories benefited from the advance payments made to suppliers to control the increasing raw materials and sub-contracting costs. However, during the current quarter 4Q12 the cost savings from advance payments for raw materials and sub-contracting costs had been eroded by prevailing intensified price competition in the industry.

Other operating income

Other operating income comprises mainly interest income from bank deposits. The increase in interest income in FY 12 is due mainly to higher bank balances in FY 12 as compared to FY 11.

Operating expenses

In total, operating expenses which comprised selling and distribution expenses and administrative expenses decreased by approximately RMB 13.7 million or 10.9% from approximately RMB 126.0 million in FY 11 to approximately RMB 112.3 million in FY 12. As a percentage of revenue, operating expenses increased to approximately 14.8% in FY 12 from approximately 13.8% in FY 11.

The main decrease in total operating expenses arose from selling and distribution costs which decreased by approximately RMB 9.7 million or 9.7% from approximately RMB 100.4 million in FY

The increase of the gross profit margin of footwear in FY12 as compared to FY11 was mainly attributable to the higher gross profit margin registered by the YELI breathable shoes.

11 to approximately RMB 90.7 million in FY 12. Our Group spent less as compared to last year as our Group was preparing for the "Transformation", to avoid the anticipated intensified price competition in the industry in 2013. In FY 12, more resources were deployed for new advertising and promotional programmes to promote YELI breathable shoes, new fixtures for new points-of-sale as well as changing the design and lay-out of existing specialty stores. Accordingly, there was a significant increase in the depreciation charge in relation to the purchased fixtures which amounted to approximately RMB 33.6 million in FY 12.

Administrative expenses decreased by approximately RMB 4.1 million or 16.0% from approximately RMB 25.6 million in FY 11 to approximately RMB 21.5 million in FY 12. The decrease in administrative expenses was mainly attributed to our Group taking stringent cost control measures to offset the higher salaries and social security cost incurred by the PRC subsidiaries.

Finance costs

Finance costs in FY 12 increased by approximately RMB 2.0 million or 45.5% from approximately RMB 4.4 million in FY 11 to approximately RMB 6.4 million in FY 12. The increase was due to higher amounts of outstanding bills payable and bank loans coupled with higher interest rates in FY 12 as compared to FY 11.

Income tax

Income tax expense decreased by approximately RMB 10.1 million or 66.0% from approximately RMB 15.3 million in FY 11 to approximately RMB 5.2 million in FY 12 due to lower profit registered in FY 12 and there being no provision made for withholding tax on dividend for the current year. The effective tax rate has increased slightly from 23.3% in FY 11 to 24.4% in FY 12.

CORPORATE INFORMATION

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DIRECTORS
Mr Lin Shaoxiong
Mr Lin Shaoqin
Ms Lai Chin Yee
(Lead Independent Director)
Mr Tham Hock Chee
(Independent Director)
Mr Sim Hong Boon
(Independent Director)

AUDIT COMMITTEE
Ms Lai Chin Yee
(Chairman)
Mr Sim Hong Boon
Mr Tham Hock Chee

REMUNERATION COMMITTEE
Mr Tham Hock Chee
(Chairman)
Ms Lai Chin Yee
Mr Sim Hong Boon

NOMINATING COMMITTEE
Mr Sim Hong Boon
(Chairman)
Ms Lai Chin Yee
Mr Tham Hock Chee

SECRETARY
Ms Nicole Tan Siew Ping (LLB (Hons))

ASSISTANT SECRETARY
Mr Ira Stuart Outerbridge III (FCIS)

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Singapore 089758

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Bank of Communications
The Bank of East Asia
Industrial and Commercial Bank of China

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Certified Public Accountants
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& Industry Building
Singapore 179365
Partner-in-charge: Mr Wong Kian Kok
Appointed on: 1 December 2011


野力新一代呼吸鞋
享受27℃的舒适
YES LIVE!

CORPORATE GOVERNANCE REPORT FIANANCIAL STATEMENTS AND OTHER INFORMATION

The Board of Directors (the "Board") of China Sports International Limited (the "Company" or "China Sports") is committed to high standards of corporate governance by complying with the benchmark set by the Code of Corporate Governance 2012 (the "Code").

This report outlines China Sports' corporate governance framework with specific reference to the Code.

The Company is required under Rule 710 of the Listing Manual of the Singapore Exchange Securities Trading Limited (the "SGX-ST") to describe its corporate governance practices with specific reference to the principles of the Code in this Annual Report and disclose any deviation from the guidelines of the Code together with an appropriate explanation for such deviation in this Annual Report. The Board has adhered to the principles and guidelines set out in the Code as set out in this report.

(A) BOARD MATTERS

Principle 1: Every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the long-term success of the company. The Board works with Management to achieve this objective and the Management remains accountable to the Board.

The Board of Directors comprises: CG Guideline 4.6

Name of Director	Designation	Date of Appointment	Date of Last Re-election	Date of Resignation
Mr Lin Shaoxiong	Executive Chairman and CEO	9 April 2007	30 April 2012	N.A.
Mr Lin Shaoqin	Executive Director	10 April 2007	27 April 2010	N.A.
Ms Lai Chin Yee	Lead Independent Director	4 June 2007	30 April 2012	N.A.
Mr Tham Hock Chee	Independent Director	4 June 2007	27 April 2010	N.A.
Mr Sim Hong Boon	Independent Director	27 April 2010	28 April 2011	N.A.

The detailed profiles of the Directors are set out on pages 10 to 11 of this Annual Report. CG Guideline 4.7

The Board's role is to: CG Guideline 1.1

- provide entrepreneurial leadership, set strategic objectives, and ensure that the necessary financial and human resources are in place for the Group to meet its objectives;
- establish a framework of prudent and effective controls which enables risk to be assessed and managed, including safeguarding of shareholders' interests and the Company's assets;
- review Management performance;
- identify the key stakeholder groups and recognise that their perceptions affect the Company's reputation;

- set the Group's values and standards (including ethical standards), and ensure that obligations to the Shareholders and others are understood and met; and
- consider sustainability issues, e.g. environmental and social factors, as part of its strategic formulation.

The Board regularly reviews the business plans and the financial performance of the Group. The Board has overall responsibility for putting in place a framework of good corporate governance in the Group, including the processes for financial reporting and compliance. All Board members bring their independent judgement, diversified knowledge and experience to bear on issues of strategy, performance, resources and standards of conduct. All Directors objectively discharge their duties and responsibilities at all times as fiduciaries in the interests of the Company. CG Guideline 1.2

The Board has identified a number of areas for which the Board has direct responsibility for decision-making. The Board's approval is required in matters such as major funding proposals, investment and divestment proposals, major acquisitions and disposals, corporate or financial restructurings, mergers and acquisitions, share issuances, dividend and major corporate policies on key areas of operation, the release of quarterly, half yearly and full year results and interested person transactions (as defined in Chapter 9 of the Listing Manual of the SGX-ST) (each, an "IPT") of a material nature. CG Guideline 1.5

There were no incoming directors during the course of the financial year. When the existing directors were appointed, there were briefed by Management on the business activities and strategic directions of the Group. Directors have open access to all relevant information, including discussions with Management and subject matter experts, and visits to operations. Directors may meet independently with Management at any time to discuss areas of interest or concern. CG Guidelines 1.6 and 2.8

They were also briefed and provided with information relating to corporate conduct and governance including continuing disclosure requirements of the Company under the Listing Manual; disclosure of interests in securities; restrictions on disclosure of confidential or price sensitive information. The Directors are encouraged to participate in continuous professional development to develop and refresh their skills. They have attended presentations, participated in site-visits and received briefings and updates relevant to the Group's businesses and/or to the Directors' duties and responsibilities. The Directors are also provided with opportunities for continuing education in areas such as directors' duties and responsibilities, corporate governance, so as to update them on matters that affect or may enhance their performance as Board or Board committee members.

Generally, a formal letter is provided to each Director upon his appointment, setting out the Director's duties and obligations. CG Guideline 1.7

To assist the Board in the discharge of its responsibilities, the Board has established the Audit Committee ("AC"), Remuneration Committee ("RC"), and Nominating Committee ("NC"). These Board Committees function within clearly defined terms of reference and operating procedures, which are reviewed on a regular basis by the Board. The Board also constantly reviews the effectiveness of each Committee. CG Guideline 1.3

The Board meets on a regular basis and as and when necessary to address any specific significant matters that may arise. *Ad hoc* meetings will be convened to deliberate on urgent substantive matters when necessary. Attendance by means of telephone and conference via electronic communications at Board meetings is allowed under the Company's Bye-laws. CG Guideline 1.4

The number of Board and Board Committee meetings held during the financial year and the attendance of Directors during these meetings is set out as follows:

CG Guideline 1.4

Type of Meetings / Name of Director	Board		Audit Committee		Remuneration Committee		Nominating Committee	
	Meetings held	Meetings attended	Meetings held	Meetings attended	Meetings held	Meetings attended	Meetings held	Meetings attended
Mr Lin Shaoxiong	4	4	5	4*	1	1*	2	2*
Mr Lin Shaoqin	4	2	5	2*	1	–	2	–
Ms Lai Chin Yee	4	4	5	5	1	1	2	2
Mr Tham Hock Chee	4	4	5	5	1	1	2	2
Mr Sim Hong Boon	4	4	5	4	1	1	2	2

* By Invitation

Principle 2: There should be a strong and independent element on the Board, which is able to exercise objective judgement on corporate affairs independently, in particular, from Management and 10% shareholders. No individual or small group of individuals should be allowed to dominate the Board's decision making.

The Board comprises two Executive Directors and three Independent non-executive Directors. The NC's review of the independence of each Director for the financial year ended 2012 is based on the Code's definition of what constitutes an Independent Director. With three of the Directors deemed to be independent, the NC is of the view that the Board is able to exercise objective judgement on corporate affairs and provide the Management with a diverse and objective perspective on issues, and further, that no individual or small group of individuals dominate the Board's decision making process.

CG Guidelines 2.1, and 2.2

There is presently a good balance between the executive and non-executive Directors and a strong and independent element on the Board. The Board, through the delegation of its authority to the NC, has used its best efforts to ensure that Directors appointed to the Board and its Board Committees comprise directors who as a group provide an appropriate balance and diversity of skills, experience, gender and knowledge of the Group and provide core competencies such as accounting or finance, business or management experience, industry knowledge, strategic planning experience and customer-based experience or knowledge to enable the Board to make sound and well-considered decisions.

CG Guidelines 4.3 and 2.6

As a group, the Directors bring with them a broad range of industry knowledge, expertise and experience. Each Director has been appointed on the strength of his/her calibre, experience and potential to contribute to the Company and its businesses. The Directors bring valuable insights from different perspectives vital to the strategic interests of the Company.

Although all the Directors have an equal responsibility for the Group's operations, the role of these Independent Directors is particularly important in ensuring that the strategies proposed by Management are constructively challenged, fully discussed and examined, and take account of the long-term interests, of the Shareholders, having regard to the interests of employees, customers, suppliers and the many communities in which the Group conducts business. The Independent Directors help to develop proposals on strategy. The Independent Directors also review the performance of Management in meeting agreed goals and objectives, and monitor the reporting of performance.

CG Guideline 2.7

None of our Directors has served on our Board beyond nine years from the date of his/her first appointment. CG Guideline 2.4

The Independent Directors are encouraged to meet, without the presence of Management, and do so at least once a year, so as to be a more effective check on Management. CG Guidelines 2.8 and 3.4

Principle 3: There should be a clear division of responsibilities between the leadership of the Board and the executives responsible for managing the company's business. No one individual represents a considerable concentration of power.

There is a clear division of responsibilities between the leadership of the Board and the executives responsible for managing the Company's business with clearly defined lines of responsibility between the Board and executive functions of the management of China Sports' business. The Board sets broad business guidelines, approves financial objectives and business strategies and monitors the standards of the performance of the executive management on a periodic basis.

Mr Lin Shaoxiong is our Executive Chairman and Chief Executive Officer ("CEO"). In view of Mr Lin Shaoxiong's concurrent appointment as our Executive Chairman and CEO, we have appointed Ms Lai Chin Yee as our Lead Independent Director. The Lead Independent Director is available to the Shareholders where they have concerns which contact through the normal channels of our Executive Chairman and CEO has failed to resolve or for which such contact is inappropriate. CG Guideline 3.3

The Chairman's role includes: CG Guideline 3.2

- lead the Board to ensure its effectiveness on all aspects of its role;
- set the agenda and ensure that adequate time is available for discussion of all agenda items, in particular strategic issues;
- promote a culture of openness and debate at the Board;
- ensure that the Directors receive complete, adequate and timely information;
- ensure effective communication with Shareholders;
- encourage constructive relations within the Board and between the Board and Management;
- facilitate the effective contribution of Directors, in particular, non-executive Directors; and
- promote high standards of corporate governance.

Principle 4: There should be a formal and transparent process for the appointment and re-appointment of directors to the Board.

Nominating Committee

The NC comprises the following non-executive and Independent Directors: CG Guideline 4.1

Mr Sim Hong Boon (Chairman)
Mr Tham Hock Chee
Ms Lai Chin Yee

The NC meets at least once annually and had full attendance by its committee members during the financial year ended 31 December 2012. The Chairman of the NC is neither a substantial shareholder of the Company nor directly associated with a substantial shareholder of the Company. The Lead Independent Director is a member of the NC. CG Guideline 4.1

The NC has adopted its own terms of reference in compliance with the Code that describes the responsibilities of the members. Amongst them, the NC is responsible for making recommendations to the Board on all Board appointments. CG Guideline 4.1

The primary function of the NC is to determine the criteria for identifying candidates and to review nominations for the appointment of Directors to the Board, to consider how the Board's performance may be evaluated and to propose objective performance criteria for the Board's approval. Its duties and functions are outlined as follows: CG Guidelines 4.1 and 4.2

- to make recommendations to the Board on the appointment of new executive and non-executive Directors, including making recommendations on the composition of the Board generally and the balance between executive and non-executive Directors appointed to the Board;
- to assist the Board when the Board examines its size with a view to determining the impact of the number upon effectiveness, decide on what it considers an appropriate size for the Board, which facilitates effective decision making. The NC may make recommendations to the Board with regards to any adjustments that are deemed necessary; CG Guideline 2.5
- to review, assess and recommend nominees or candidates for appointment or election to the Board, having regard to his/her requisite qualifications and competency and whether or not he/she is independent and in the case of a re-nomination, to his/her contribution and performance (e.g. attendance, preparedness, participation and candour);
- to determine, on an annual basis, if a Director is independent bearing in mind the circumstances set forth in the Code and other salient factors. If the NC determines that a Director, who has one or more of the relationships mentioned therein can be considered independent, the Company should disclose in full the nature of the Director's relationship and bear responsibility for explaining why he/she should be considered independent. Conversely, the NC has the discretion to determine that a Director is not independent even if the said Director does not fall under the circumstances set forth in the Code; CG Guideline 4.3
- to make recommendations to the Board for the continuation (or not) in services of any Director who has reached the age 70 years;
- to recommend Directors who are retiring by rotation to be put forward for re-election;

- to decide whether or not a Director is able to and has been adequately carrying out his/her duties as a Director, particularly when he/she has multiple board representations; CG Guideline 4.4
- to recommend to the Board internal guidelines to address the competing time commitments faced by Directors who serve on multiple boards;
- to assist the Board to implement a process for assessing the effectiveness of the Board as a whole and for assessing the contribution of each individual Director to the effectiveness of the Board;
- to decide how the Board's performance may be evaluated and propose objective performance criteria. Such performance criteria, which allow for comparison with industry peers, should be approved by the Board and address how the Board has enhanced long-term Shareholders' value. These performance criteria should not be changed from year to year, and where circumstances deem it necessary for any of the criteria to be changed, the onus should be on the Board to justify this decision. In addition to any relevant performance criteria which the Board may propose, the performance evaluation should also consider the Company's share price performance over a 5 year period vis-à-vis the Singapore Straits Times Index and a benchmark index of its industry peers. The Chairman of the NC should act on the results of the performance evaluation and where appropriate, propose new members be appointed to the Board or seek the resignation of Directors, in consultation with the NC; and CG Guideline 5.2
- to provide a description of the process for the selection and appointment of new Directors to the Board. This should include disclosure on the search and nomination process.

Under the Company's Bye-laws, any Director appointed by the Board shall retire at the next annual general meeting ("AGM") of the Company and shall then be eligible for re-election at that meeting. Each Director shall retire at least once every three years and is eligible for re-election. The Board has accepted NC's nomination of the retiring Director who has been given his/her consent for re-election at the Company's forthcoming AGM. The retiring Directors are Mr Lin Shaoqin and Mr Tham Hock Chee will retire pursuant to Bye-law 86(1) of the Company's Bye-laws. CG Guideline 4.2

In its search, nomination and selection for new Directors, the NC identifies the key attributes that an incoming Director should have, based on a matrix of the CG Guideline 4.6 attributes of the existing Board and the requirements of the Group. After endorsement by the Board of the key attributes, the NC taps on the resources of Directors' personal contacts and recommendations of potential candidates, and goes through a short-listing process. If candidates identified from this process are notsuitable, executive recruitment agencies are appointed to assist in the search process. Interviews are set up with potential candidates for NC members to assess them, before a decision is reached. CG Guideline 4.6

The Chairman of the Board will give feedback to the NC on the appointment of new Directors or retirement or resignation of existing Directors, following the outcome of an annual performance evaluation of individual Directors, and the NC will take into consideration his/her views in this regard. CG Guideline 5.3

The NC is also responsible for determining annually, the independence of Directors. In doing so, the NC takes into account the circumstances set forth in Guidelines 2.3 and 2.4 the Code and any other salient factors. Following its annual review, the NC has endorsed the independence of the following Directors, Mr Sim Hong Boon, Mr Tham Hock Chee and Ms Lai Chin Yee. CG Guideline 4.3

Notwithstanding that each of our Independent Directors has multiple board representations, he or she has sufficient time and given sufficient attention to the affairs of the Company. The NC is satisfied that sufficient time and attention is being given by the Directors to the affairs of the Group, notwithstanding that some of the Directors have multiple board representations, and there is presently no need to implement internal guidelines to address their competing time commitments. This matter is reviewed on an annual basis by the NC. The Board has accepted the NC's recommendation that the maximum number of listed company board representations that a Director may hold is 6. CG Guideline 4.4

No alternate directors has been appointed to the Board CG Guideline 4.5

Principle 5: There should be a formal annual assessment of the effectiveness of the Board as a whole and its board committees and the contribution by each director to the effectiveness of the Board.

The Board has implemented a process carried out by the NC for assessing the effectiveness of the Board as a whole and for assessing the contribution by each individual Director to the effectiveness of the Board. For the year under review, the NC has evaluated and discussed the results of individual Directors' assessment and of the Board's performance and effectiveness as a whole and carried out a review of the independence of Directors. Each year, each Director is requested to complete a comprehensive evaluation questionnaire with regard to board performance. The aim of the questionnaire is to assess whether each director continues to contribute effectively and demonstrate commitment to the role (including commitment of time for meetings of the Board and board committees, and any other duties). CG Guideline 5.1 CG Guideline 5.3

The questionnaire covers various aspect of board effectiveness, including: CG Guideline 5.2

- effectiveness of discussions and debate;
- relationship between the Board and Management, including the flow of information and level of engagement;
- the level and quality of Directors' contributions and standard of conduct;
- Board processes, including level and timeliness of information provided to the Board;
- adequacy of composition of the Board; and
- degree of diversity of skills, experience and knowledge of Directors.

The responses to the questionnaire will be collated and reviewed by the NC and the NC will make its recommendation to the Board.

The Chairman, in consultation with the NC, will, if necessary, propose steps to be undertaken to strengthen the Board's leadership so as to improve the effectiveness of the Board's oversight of the Company. CG Guideline 5.3

Principle 6: In order to fulfill their responsibilities, directors should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis so as to enable them to make informed decisions to discharge their duties and responsibilities.

The Board has separate and independent access to senior management and the Company Secretary at all times in carrying out their duties. Requests for information from the Board are dealt with promptly by Management. The Board is informed of all material events and transactions as and when they occur. Directors are given Board papers, background or explanatory information, including risk, benefits, and financial impact, relating to matters to be brought before the Board, in advance of meetings for them to be adequately prepared for meetings and senior Management is, where necessary, in attendance at the Board meetings. The Company Secretary attends all Board meetings and meetings of the AC, NC and RC. The Company Secretary or her representatives administer, attend and prepare minutes of Board and Board Committees meetings, and assist the Chairman in ensuring that Board procedures are followed in accordance with the Company's Bye-laws so that the Board functions effectively. CG Guidelines 6.1, 6.2 and 6.3

The Directors have, individually or as a group, the right to seek independent legal and other professional advice, where necessary, in order to fulfill his duties and responsibilities as Director. Any expense incurred in this aspect shall be borne by the Company. CG Guideline 6.5

(B) REMUNERATION MATTERS

Principle 7: There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.

The RC is responsible for ensuring a formal and transparent procedure for developing policy on executive remuneration, and for fixing the remuneration packages of individual Directors and senior Management.

Remuneration Committee

The RC comprises the following non-executive and Independent Directors: CG Guideline 7.1

Mr Tham Hock Chee (Chairman)
Mr Sim Hong Boon
Ms Lai Chin Yee

The principal responsibilities of the RC are: CG Guideline 7.1

- To review and submit its recommendations for endorsement by the Board, a framework of remuneration and the specific remuneration packages and terms of employment (where applicable) for each Director, CEO (or executive of equivalent rank) if the CEO is not a Director and senior Management, including but not limited to senior executives, divisional directors or those reporting directly to the Chairman/CEO of the Group or employees related to the Executive Directors and Controlling Shareholders of the Group. The Independent Directors on the RC shall review and approve annually the total remuneration of the Directors, Executive Officers and other employees who are related to the Substantial Shareholders or Directors. CG Guideline 7.2

- To review and submit its recommendations for endorsement by the Board, the Executives' and Employees' Share Option Schemes or any long-term incentive schemes which may be set up from time to time and to do all acts necessary in connection therewith. CG Guideline 7.2

- To cover all aspects of remuneration, including but not limited to Directors' fees, salaries, allowances, bonuses, options and benefits-in-kind in the RC's review and recommendations. CG Guideline 7.2

The RC meets at least once annually and had full attendance by its committee members during the financial year ended 31 December 2012. The RC has adopted its own terms of reference in compliance with the Code that describes the responsibilities of the members. CG Guideline 7.1

Each member of the RC shall abstain from voting on any resolutions in respect of his/her remuneration package.

Having considered the matter, the RC has not sought external advise on remuneration of all Directors. CG Guideline 7.3

The RC reviews the terms and conditions of service agreements of the Executive Directors before their execution. In the course of such review, the RC will consider the Group's obligations arising in the event of termination of these service agreements, to ensure that such agreements contain fair and reasonable termination clauses and are not overly generous so as to avoid rewarding poor performance. CG Guideline 7.4

Principle 8: The level and structure of remuneration should be aligned with the long-term interest and risk policies of the company, and should be appropriate to attract, retain and motivate (a) the directors to provide good stewardship of the company, and (b) key management personnel to successfully manage the company. However, companies should avoid paying more than is necessary for this purpose.

In structuring a compensation framework for Executive Directors and key executives, the RC seeks to link a significant and appropriate proportion of executive compensation to the individual and the Group's performance. In structuring the compensation framework, the RC also takes into account the risk policies of the Group, the need for compensation to be symmetric with risk outcomes and the time horizon of risks. In assessing executive Directors' and key management personnel's performance, the RC considers appropriate and meaningful measures. Further, in considering whether the compensation is appropriate for Independent Directors, the RC takes into account factors such as effort and time spent, and responsibilities of the Directors; and the principal that Independent Directors should not be over-compensated to the extent that their independence might be compromised. The RC's recommendation are made in consultation with the Chairman of the Board and submitted for endorsement by the entire Board. CG Guidelines 8.1 and 8.3

The Company has established the China Sports Employee Share Option Scheme (the "ESOS") in 2010 as a long-term incentive scheme for directors and employees of the Group. The RC is tasked to review the grant of options under the ESOS. The ESOS is also a scheme under which Independent Directors can be encouraged to hold Shares so as to better align their interests with those of the Shareholders. The Company has to date, not granted any options. CG Guidelines 8.2 and 8.3

The Company does not use contractual provisions to allow the Group to reclaim incentive components of remuneration from executive directors and key management personnel in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss to the Company. Executive Directors owe a fiduciary duty to the Company. The Company should be able to avail itself to remedies against the executive directors in the event of such breach of fiduciary duties. CG Guidelines 8.4

Principle 9: Each company should provide clear disclosure of its remuneration policies, level and mix of remuneration, and the procedure for setting remuneration, in the company's Annual Report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key management personnel, and performance.

DISCLOSURE ON REMUNERATION

CG Guidelines 9.1, 9.2 and 9.3

Directors	Salary %	Bonus %	Benefits %	Director Fees %	Total %	Total
Mr Lin Shaoxiong	100	–	–	–	100	RMB960,000
Mr Lin Shaoqin	85	9	6	–	100	RMB600,000
Ms Lai Chin Yee	–	–	–	100	100	S$58,000
Mr Tham Hock Chee	–	–	–	100	100	S$50,000
Mr Sim Hong Boon	–	–	–	100	100	S$50,000

Key Executives	Salary %	Bonus %	Benefits %	Director Fees %	Total %
Below $250,000					
Mr Alex Chan Chiu Hung	92	8	–	–	100
Mr Kang Weisheng	48	32	20	–	100
Mr Xie Liangchen	48	32	20	–	100
Mr Fu Chengzhong	48	32	20	–	100

The aggregate amount of any termination (on the assumption that any termination by the Group would be with notice as contractually provided for and excluding termination by reason of redundancy), retirement and post-employment benefits that may be granted to Directors (including the chief executive officer (the "**CEO**")) and the top five key management personnel (who are not Directors or the CEO) is nil.

CG Guideline 9.1

The aggregate total remuneration paid to the top five key management personnel (who are not directors or the CEO) for FY 12 is approximately RMB1,463,000.

CG Guideline 9.3

Immediate family members of Directors or CEO

CG Guideline 9.4

Save that Mr Lin Shaoxiong and Lin Shaoqin are brothers, there are no immediate family members of Directors or CEO in employment with the Group and whose remuneration exceeds S$50,000 during the financial year ended 31 December 2012.

On 6 November 2010, the shareholders of the Company approved the adoption of a share option scheme known as the China Sports Employee Share Option Scheme (the "ESOS"), which complied with Chapter 8, Part VIII of the Listing Manual of the SGX-ST. The principal terms of the ESOS are as follows: CG Guideline 9.5

- the total number of Shares in respect of which options may be granted under the ESOS (the "**ESOS Shares**") (the "**Options**") on any date, when added to the number of (a) ESOS Shares issued and issuable and/or transferred and transferable in respect of all Options granted under the ESOS; and (b) all Shares issued and issuable in respect of all options or awards granted under any other share incentive schemes or share plans adopted by the Company and for the time being in force, shall not exceed 15% of the issued share capital of the Company (excluding treasury shares) on the day immediately preceding that date;

- the exercise price of Options granted will be determined by the RC, subject to a maximum discount not exceeding 20% of the Market Price. "**Market Price**" being the last dealt price per Share determined by reference to the daily Official List published by the SGX-ST for a period of 3 consecutive market days immediately prior to the date of grant; and

- Options granted with the exercise price set at Market Price may be exercised after the first anniversary of the grant and expiring on the 10th anniversary. Options granted at a discount to the Market Price may be exercised after the second anniversary of the grant and expiring on the 10th anniversary Provided Always that an Option shall be exercised before the end of 120 months (or 60 months where the participant is a Group non-executive director) of the grant and subject to such other conditions as may be introduced by the RC from time to time.

(C) ACCOUNTABILITY AND AUDIT

Principle 10: The Board should present a balanced and understandable assessment of the company's performance, position and prospects.

The Board is responsible for providing a balanced and understandable assessment of the Group's performance, position, prospects, operations and financial position and updating the Shareholders through the quarterly, half yearly and full year results announcements as well as timely announcements of other matters as prescribed by the relevant rules and regulations. CG Guideline 10.1

The Board receives from Management regular updates and financial information which present a balanced and understandable assessment of the Company's performance, position and prospects. The Chief Financial Officer ("CFO") circulates quarterly financial reports to the AC which includes the income statement, statement of financial positions, statement of comprehensive income and cash flow statement of the Group, transactions between the Group and any interested person (namely, any of the Directors or any of the Controlling Shareholders or any of their Associates) and latest corporate developments. CG Guideline 10.2

Having regard to limited resources of the Company, Management provides management accounts to the Board together with explanation and information on a quarterly basis, and also as and when the Board requires the same. These enable the Board to make balanced and informed assessment of the Company's performance, position and prospects. CG Guideline 10.3

Written policies are established where appropriate to ensure compliance by the Board with applicable legislative and regulatory requirements. For example, the Company has adopted a set of insider trading policy; and whistle-blowing policy. CG Guideline 10.2

Principle 11: The Board is responsible for the governance of risk. The Board should ensure that Management maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the company's assets, and should determine the nature and extent of the significant risks which the Board is willing to take in achieving its strategic objectives.

The Board recognises the importance of sound internal controls and risk management practices to good corporate governance. The Board affirms its overall responsibility for the Group's systems of internal controls and risk management. In this regard, the Board: CG Guidelines 11.1 and 11.2

- ensures that Management maintains a sound systems of risk management to safeguard shareholders' interests and the Group's assets;
- determines the nature and extent of significant risks that the Board is willing to take in achieving its strategic objective;
- determines the Company's levels of risk tolerance and risk policies;
- oversees Management in the design, implementation and monitoring of risk management and internal control systems (including financial, operational, compliance and information technology controls and risk management systems); and
- reviews annually the adequacy and effectiveness of the risk management and internal control systems

The Group faces a variety of risks including risks from the industry and geographic region in which it operates. The effective management of risks enhances the Company's ability to achieve its financial and operational goals, and to meet its legal and compliance responsibilities, thereby protecting and enhancing shareholder value. The Company's commitment is to manage the business risks to an acceptable level, so as to maximise opportunities and minimise negative outcomes. It should however be noted that the Company's risk management systems are designed to manage rather than to eliminate the risk. In addition, it should be noted that any system can provide only reasonable, and not absolute, assurance against risks. CG Guideline 11.3

The Board will consider the necessity of establishing a Board Risk Committee in 2013. CG Guideline 11.4

For the FY 12, the Board has received assurance from CEO and the Chief Financial Officer of the Company that: CG Guideline 11.3

- the financial records of the Group have been properly maintained and the financial statements give a true and fair view of the Group's operations and finances; and
- the system of risk management and internal control in place within the Group (including financial, operational, compliance and information technology controls) is adequate and effective in addressing the material risks in the Group in its current business environment.

Principle 12: The Board should establish an Audit Committee with written terms of reference which clearly set out its authority and duties.

Audit Committee CG Guideline 12.1

The AC comprises the following non-executive and Independent Directors:

Ms Lai Chin Yee (Chairman)
Mr Tham Hock Chee
Mr Sim Hong Boon

The AC held five meetings during the financial year ended 31 December 2012. The AC meets regularly with the Group's external and internal auditors and Management to review accounting, auditing and financial reporting matters so as to ensure that an effective system of control is maintained in the Group. The AC met once with the external auditors without the presence of the Management during the financial year ended 31 December 2012. CG Guidelines 12.5 and 12.8

The Board is of the view that the AC members are appropriately qualified in that they have sufficient accounting or related financial management expertise and experiences to discharge the AC's function. The AC Chair, has recent and relevant accounting or related financial management expertise or experience. As and when necessary or appropriate, the Company will engage external professionals to assist the AC. CG Guideline 12.2

The AC has adopted its own terms of reference in compliance with the Code that describes the responsibilities of the members. During the meetings of the AC held during the financial year, the AC performed its functions and responsibilities as set out in its terms of reference, which include the following: CG Guideline 12.1

- to review with the external auditors: CG Guideline 12.4

  (a) the audit plan, including the nature and scope of the audit before the audit commences;

  (b) their evaluation of the system of internal accounting controls;

  (c) their audit report; and

  (d) their management letter and Management's response.

- to ensure co-ordination where more than one audit firm is involved;

- to review all formal announcements relating to the Company's financial performance and the quarterly, half-year and annual financial statements to ensure the integrity of the said financial statements and formal announcements; and thereafter to submit them to the Board for approval. The AC will focus, inter alia, on the following:

  (a) significant financial reporting issues and judgements;

  (b) changes in accounting policies and practices;

  (c) major risk areas;

  (d) significant adjustments resulting from the audit;

  (e) the going-concern statement;

  (f) compliance with accounting standards;

(g) audit qualifications (if any);

(h) concerns and issues arising from the audits; and

(i) compliance with stock exchange and statutory/regulatory requirements.

- to discuss problems and concerns, if any, arising from the quarterly, half-year and final audits, in consultation with the external auditors and the internal auditors where necessary;

- to meet with the external auditors and internal auditors without the presence of Management, at least annually, to discuss any problems and concerns they may have. The external auditors have the right to appear and be heard at any meeting of the AC and shall appear before the AC when required to do so by the AC;

- to review the assistance given by Management to the external auditors;

- to review annually the scope and results of the audit and its cost effectiveness as well as the independence and objectivity of the external auditors. Where the auditors also provide a substantial volume of non-audit services to the Company, to review the nature and extent of such services in order to balance the maintenance of objectivity and value for money, and to ensure that the independence of the auditors would not be affected;

- to review the internal audit programme and ensure co-ordination between the internal and external auditors and the Management;

- to review the effectiveness of the internal audit function, the scope and results of the internal audit procedures and to ensure that the internal audit function has adequate resources and has appropriate standing within the Company and to review and ensure annually the adequacy of the internal audit function; CG Guideline 13.5

- to recommend to the Board if the internal audit function be undertaken in-house or out-sourced to a reputable public accounting/auditing firm. If the public accountant is also the external auditor of the Company, the AC should satisfy itself that the independence of the public accountant is not compromised by any other material relationship with the Company;

- to review the adequacy of the Company's internal controls. Guideline 12.4 states that the AC should review the adequacy and effectiveness of the Company's internal controls, including financial, operational, compliance and information technology controls established by the Management (collectively "internal controls"). The AC should ensure a review of the effectiveness of the Company's internal controls is conducted at least annually;

- to review the audited (consolidated) financial statements of the Company, and thereafter to submit to the Board;

- to review all internal audit reports. The internal auditor's primary line of reporting should be to the Chairman of the AC; CG Guideline 13.1

- to commission and review the findings of internal investigations into matters where there is any suspected fraud or irregularity, or failure of internal controls or infringement of any Singapore law, rule or regulation, which has or is likely to have an impact on the Company's and Group's operating results or financial position. To also discuss the above with the external auditors and to review Management's response;

- to investigate any matter within its terms of reference, with full access to and co-operation by Management and full discretion to invite any Director or executive officer to attend its meetings, and with reasonable resources to enable it to discharge its functions properly; CG Guideline 12.3
- to review arrangements by which employees of the Company, its subsidiaries, and associates may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and ensure that arrangements are in place for the independent investigations of such matters and for appropriate follow up actions;
- to report to the Board its findings from time to time on matters arising and requiring the attention of the AC. In addition, upon the request of the auditor, the Chairman of the AC shall convene a meeting of the AC to consider any matters the auditor believes should be brought to the attention of the Directors or Shareholders;
- to recommend to the Board the appointment, re-appointment, removal and matters arising from the resignation of the external auditors, and approve the remuneration and terms of engagement of the external auditors;
- to review all other existing and future IPTs not having been approved by the Shareholders to ensure that they are carried out at arm's length basis and on normal commercial terms and are not prejudicial to the interests of the Company and minority Shareholders;
- to review all IPTs to ensure compliance with Chapter 9 of the Listing Manual of the SGX-ST;
- where appropriate, to update the SGX-ST on any findings of the independent accounting firm commissioned to review the adequacy of the Group's existing system of internal controls relating to IPT review procedures, and any follow up action taken by the AC, if any;
- to review the payment terms for IPTs (not previously approved by the Shareholders) on a quarterly basis;
- to review IPTs, including but not restricted to, comment in annual report as to whether the IPTs are conducted in accordance with the review procedures;
- to review any potential conflict of interest;
- to review the hedging policies, all types of instruments used for hedging as well as the foreign exchange policies and practices of the Group;
- to review the reporting structure relating to the Group's accounting function and conduct semi-annual meetings with the CFO to ensure that the CFO is able to discharge his responsibilities effectively;
- to undertake such other reviews and projects as may be requested by the Board and report to the Board its findings from time to time on matters arising and requiring the attention of the AC; and
- to undertake generally such other functions and duties as may be required by law or the Listing Manual of the SGX-ST, and by such amendments made thereto from time to time.

CORPORATE GOVERNANCE REPORT

In July 2010, the Singapore Exchange Limited and Accounting and Corporate Regulatory Authority had launched the "Guidance to Audit Committees on Evaluation of Quality of Work performed by External Auditors" which aims to facilitate the AC in evaluating the external auditors. Accordingly, the AC had evaluated the performance of the external auditors based on the key indicators of audit quality set out in the guidance.

The AC shall also review, implement and administer the Group's Whistle-Blowing Policy which set out the provisions by which employees and other persons may, in confidence, raise serious concerns about possible improprieties in matters of financial reporting or other matters that could have a large impact on the Company and is authorised to do such acts as are necessary to ensure, *inter alia*, that (i) independent investigations are carried out in an appropriate and timely manner, (ii) appropriate action is taken to correct the weaknesses in internal controls and policies which had allowed such incidences to prevent recurrence and (iii) administrative, disciplinary, civil or other actions that are initiated following the completion of investigations are appropriate, balanced and fair.

CG Guideline 12.7

The AC is satisfied with the independence and objectivity of the external auditors and recommends to the Board the nomination of Messrs Foo Kon Tan Grant Thornton LLP for re-appointment as external auditors of the Company at the forthcoming AGM. The external auditors do not provide non-audit services to the Company. The aggregate fees paid to the external auditors comprise only fees for audit services and amount to S$160,000. The extenal auditors were appointed to audit the accounts of the Company, its subsidiaries and its significant associated Companies. The Company is therefore in compliance with Rules 712 and 715 of the Listing Manual.

CG Guideline 12.6

P`rinciple 13: The company should establish an effective internal audit function that is adequately resourced and independent of the activities it audits.

The Company has outsourced the internal audit functions to Cachet Certified Public Accountants Limited. It has performed and implemented internal reviews, to ensure that the system of internal controls maintained by the Company is sufficient to provide reasonable assurance that the Company's assets are safeguarded against loss from unauthorised use or disposal; transactions are properly authorised and proper financial records are being maintained.

CG Guideline 13.4

The internal auditors have a direct and primary reporting line to the AC Chair and assist the Board in monitoring and managing risks and internal controls of the Group. The AC approves the internal audit plan and ensures the adequacy of internal audit resources prior to the commencement of the internal audit.

CG Guideline 13.1

The AC is satisfied that the internal audit function has adequate resources and has appropriate standing within the Company. The Internal Auditor has unfettered access to all the company's documents, records, properties and personnel, including access to the AC.

The Internal Auditor carries out it function according to standards set by the "Internal Control-Integrated Framework" established by the Committee of Sponsoring Organizations of the Trendway Commission (COSO).

CG Guideline 13.4

The AC and the Board have reviewed the Company's risk assessment based on the reports of the internal auditors and external auditors and, in the absence of any evidence to the contrary, the Board is of the opinion, with the concurrence of the AC, that there are adequate internal controls in place within the Group addressing material financial, operational and compliance risk to meet the needs of the Group in its current business environment, having regard to the scale and nature of the Group's business.

CG Guidelines 12.1 and 12.2

(C) SHAREHOLDERS RIGHTS AND RESPONSIBILITIES; COMMUNICATION WITH SHAREHOLDERS; CONDUCT OF SHAREHOLDER MEETING

Principle 14: Companies should treat all shareholders fairly and equitably, and should recognise, protect and facilitate the exercise of shareholders' rights, and continually review and update such governance arrangements.

Principle 15: Companies should actively engage their shareholders and put in place an investor relations policy to promote regular, effective and fair communication with shareholders.

Principle 16: Companies should encourage greater shareholder participation at general meetings of shareholders, and allow shareholders the opportunity to communicate their views on various matters affecting the company.

The Company believes in timely, fair and adequate disclosure of relevant information to the Shareholders and investors so that they will be apprised of developments that may have a material impact on the price or value of Company's securities. The Company does not practice selective disclosure. In this respect, the Board presents a balanced and understandable assessment of the Group's performance, position and prospects in its announcements, including quarterly, half-year and full-year results and reports to regulators, if any, all of which are released through SGX-ST's website at SGXNet (www.sgx.com). Press releases are announced through SGXNet before they are published. The Company also strives to be as descriptive, detailed and forthcoming as possible. The Company has a policy that where there is inadvertent disclosure made to a selected group, the Company will ensure that the information is disclosed publicly to all others as soon as practicable. To date, there has not been any such inadvertent disclosures.

CG Guidelines 14.1 15.1 and 15.2

Before and after every general meeting, the Chairman and other members of the Board will engage in dialogue with Shareholders, to gather views or inputs, and address Shareholders' concerns. The Company also solicits the views of the Shareholders through analyst briefings and meetings with investors and fund managers. The Company is open to meetings with investors and analysts, and in conducting such meetings, the Company is mindful of the need to ensure fair disclosure. Information is also available on the Company's website http://www.chinasportsintl.com/. Shareholders and potential investors have 24-hour access to the Company's website which includes a dedicated Investor Relations link providing the Company's latest press releases and stock details. Enquiries may also be posed to our investor relations contact by mail, phone or email. The Company believes that all these accesses to information will facilitate the Shareholders in their exercise of their ownership rights.

CG Guidelines 15.3 and 15.4

All Shareholders will receive the annual report and notice of AGM. At general meetings of shareholders, the Shareholders will be given the opportunity to voice their views and ask Directors or Management questions regarding the Company's affairs. The Chairmen of the AC, RC and NC will normally be present at the AGM to answer any questions relating to the work of these Board Committees. The external auditors will be also present at the AGM to answer questions from the Shareholders about the conduct of audit and the preparation and content of the Auditors' Report. To ensure that the Shareholders have the opportunity to participate effectively in and vote at general meetings, voting at general meetings of the Company has since 2011 been conducted by poll. The chairman of the meeting, with the assistance of service providers engaged by the Company, will brief shareholders to familiarise them with the detailed procedures involved in conducting a poll. An announcement of the detailed results of the poll showing the number of votes cast for and against each resolution and the respective percentages will be announced after the general meeting via SGXNet. Having undertaken a cost/benefit analysis, the Company has decided not to undertaking polling by means of electronic polling at this juncture.

CG Guidelines 14.2 and 16.3

The Company records minutes of all general meetings and questions and comments from shareholders together with the responses of the Board and Management. These are available to Shareholders at their request.

CG Guideline 16.4

A Shareholder who is entitled to attend and vote may either vote in person or in absentia through the appointment of one or two proxies (who can either be named individuals nominated by the Shareholder to attend the meeting or the Chairman of the meeting as the Shareholder may select). The Bye-laws of the Company allows a member of the Company with two or more Shares to appoint one or two proxies to attend and vote instead of the member. Further, where the member is a Central Depository (Pte) Ltd (or its nominee as notified in writing to the Company), it can appoint more than 2 proxies. CG Guidelines 14.3, 15.1 and 16.1

Subject to compliances to any relevant laws or regulations and the demand for voting ***in absentia***, such as by mail, e-mail or fax, etc., the Company may evaluate the possibility of such voting method. In connection with such evaluation, careful study will have to be undertaken to ensure the integrity of the information and the authentication of the identity of members through the web is not compromised. CG Guidelines 16.1

Separate resolutions are proposed at general meetings for approval for each substantially separate issue. "Bundling" of resolutions are kept to a minimum and are done only where the resolutions are interdependent so as to form one significant proposal and only where there are reasons and material implications justifying the same. Each item of special business included in the notice of the meeting will be accompanied by a full explanation of the effects of a proposed resolution. Separate resolutions are proposed for substantially separate issues at the meeting. CG Guideline 15.5 CG Guidelines 14.2 and 16.2

The Company does not have a policy on payment of dividends; instead the issue of the payment of dividend is deliberated seriously and at length by the Board annually having regard to various factors. Where dividends are not paid, the Company discloses the reasons at the general meetings. CG Guidelines 15.5

DEALINGS IN SECURITIES

The Company acknowledges the importance to adopt its own internal Code of Best Practices on Securities Transactions to provide guidance to all Directors and officers of the Company and its subsidiaries with regard to dealings in the Company's securities in compliance with the Rule 1207(19) of the Listing Manual of the SGX-ST. SGX-ST Rule 1207(19)

Directors and all officers are also expected to observe insider-trading laws at all times even when dealing with securities within the permitted trading period.

MATERIAL CONTRACTS

Apart from those related party transactions disclosed in the [Note 30] of the audited financial statements, there were no material contracts of the Company or its subsidiary involving the interest of any director or controlling shareholder subsisting at the end of the financial year ended 31 December 2012.

The Group regularly reviews and improves its business and operational activities to identify areas of significant business risks as well as taking appropriate measures to control and mitigate these risks. The Group reviews all significant control policies and procedures and highlights all significant matters to the AC and the Board. The financial risk management objectives and policies are outlined in the financial statements.

USE OF PLACEMENT PROCEEDS

As previously announced, with the termination of our distribution rights for the Federation Internationale de Football Association's collection of football, lifestyle clothing and accessories, the Directors had changed the use of the balance proceeds from a placement.

The following table sets out the details of the utilisation of placement proceeds up to 31 December 2012:

No	Planned Usage	Placement Proceeds (RMB million)	Cumulative amount used (RMB million)	Balance (RMB million)
1.	Penetrate kids-wear market in the PRC: Research & Development ("R&D") and setting up distribution network, including setting up "YELI" kids-wear specialty stores	50.0	11.9	38.1
2.	Penetrate kids-wear market in the PRC: Advertising and promotional expenses for YELI kids-wear	20.0	10.0	10.0
3.	Development of online shopping platform	27.9	24.2	3.7
		97.9	46.1	51.8

INTERESTED PERSON TRANSACTIONS

The Company has established procedures to ensure that all transactions with interested persons are reported in a timely manner to the AC and that the transactions are on an arm's length basis.

Mr. Lin Shaoxiong and Mr. Lin Yongjian have jointly provided a personal guarantee to secure Hengfa (Fujian) Light Industry Development Co., Ltd.'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.

In addition, Mr. Lin Yongjian is the owner of certain intellectual property utilised in our breathable shoes. Mr. Lin Yongjian has on a goodwill basis allowed our Group utilise his intellectual property till 30 September 2011. On 12 December 2011, our Group had entered a licensing agreement with Mr. Lin Yongjian relating to the rights to utilise the technology of the breathable shoes (the "License").

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

On 26 February 2013, the Company announced that it had signed an agreement with Licensor to extend the term of the License for a period of six months. The royalty fee to be paid during the extended period continues to be on the same terms in the Agreement.

The following is the aggregate value of all transactions with interested persons (as defined in Chapter 9 of the Listing Manual) ("**IPT**") for the financial year ended 31 December 2012:

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	**undershareholders' mandate pursuant to Rule 920 (excluding transactions less than S$100,000)**
	RMB	RMB
Lin Shaoxiong	–	–
Royalty fees paid to Lin Yongjian	24.3 million	–

DIRECTORS' REPORT

For the financial year ended 31 December 2012

The directors submit this report to the members together with the audited consolidated financial statements of the Group and statement of financial position of the Company for financial year ended 31 December 2012.

Names of directors

The directors in office at the date of this report are:

Mr Lin Shaoxiong
Mr Lin Shaoqin
Ms Lai Chin Yee (Lead Independent Director)
Mr Sim Hong Boon (Independent Director)
Mr Tham Hock Chee (Independent Director)

At the forthcoming Annual General Meeting, Mr Lin Shaoqin and Mr Tham Hock Chee will be retiring pursuant to Bye-law 86(1) of the Company's Bye-laws and, being eligible, offer themselves for re-election.

Arrangements to acquire shares or debentures

During and at the end of the financial year, neither the Company nor its subsidiaries was a party to any arrangement of which the object was to enable the directors to acquire benefits through the acquisition of shares in or debentures of the Company or of any other corporate body, other than as disclosed in this report.

Directors' interest in shares or debentures

According to the Declaration of Directors' Interest In The Company And Its Related Corporations that the directors from time to time furnish to our Company, none of the directors who held office at the end of the financial year had any interest in shares or debentures of the Company and its related corporations except as follows:

	Number of ordinary shares of HK$0.04 each			
The Company - China Sports International Limited	Holding registered in the name of director or nominee		Holding in which director is deemed to have an interest	
	As at 1.1.2012	**As at 31.12.2012 and 16.3.2013**	As at 1.1.2012	**As at 31.12.2012 and 16.3.2013**
Mr Lin Shaoxiong	282,500,000	**282,500,000**	–	**–**
Mr Tham Hock Chee	150,000	**150,000**	–	**–**

DIRECTORS' REPORT

For the financial year ended 31 December 2012

Share options scheme

At a Special General Meeting of the Company held on 6 November 2010, shareholders approved the China Sports Employee Share Option Scheme (the "Scheme") under which options ("Options") may be granted to selected Directors and employees of the Company, its subsidiaries and associated companies as may exist from time to time including executive and non-executive directors to subscribe for or to be transferred ordinary shares in the capital of the Company, particulars of which are set out in the circular to Shareholders of the Company dated 21 October 2010, and that the Directors are authorised:

(a) to implement and administer the Scheme;

(b) to modify and/or amend the Scheme from time to time provided that such modification and/or amendment is effected in accordance with the rules of the Scheme, and to do all such acts to enter into such transactions, arrangements and agreements as may be necessary or expedient in order to give full effect to the Scheme;

(c) to offer and grant Options in accordance with the rules of the Scheme, and to deliver existing Shares (excluding treasury shares) and allot and issue from time to time such number of new shares as may be required to be transferred or allotted and issued pursuant to the exercise of the Options under the Scheme; and

(d) to do all such acts and things (including executing all such documents as may be required) as they may consider necessary or desirable to give effect to the Scheme.

The Scheme is administered by the Remuneration Committee of the Company, being Mr Tham Hock Chee, Ms Lai Chin Yee and Mr Sim Hong Boon.

No Options have been granted under the Scheme since its inception.

No shares were issued by virtue of the exercise of the Options.

There were no unissued shares under the Options at the end of the financial year.

Audit Committee

The Audit Committee comprises the following members:

Ms Lai Chin Yee (Chairman)
Mr Sim Hong Boon
Mr Tham Hock Chee

The Audit Committee performs the functions set out in the Listing Manual issued by the Singapore Exchange Securities Trading Limited (the "Listing Manual") and the Code of Corporate Governance. In performing its functions, the Audit Committee reviewed the following:

(i) the overall scope of both the internal and external audits and the assistance given by the Company's officers to the auditors. It met with the Company's internal and external auditors to discuss the results of their respective examination and their evaluation of the Company's system of internal accounting controls;

(ii) the audit plan of the Company's independent auditor and any recommendations on internal accounting controls arising from the statutory audit;

(iii) the quarterly financial information and the statement of financial position of the Company and the consolidated financial statements of the Group for the financial year ended 31 December 2012 as well as the auditor's report thereon; and

(iv) interested person transactions (as defined in Chapter 9 of the SGX Listing Manual).

The Audit Committee has full access to management and is given the resources required for it to discharge its functions. It has full authority and the discretion to invite any director or executive officer to attend its meetings. The Audit Committee also recommends the appointment of the external auditors and reviews the level of audit and non-audit fees.

The Audit Committee is satisfied with the independence and objectivity of the external auditors and has recommended to the Board of Directors that the auditors, Foo Kon Tan Grant Thornton LLP, be nominated for re-appointment as auditors at the forthcoming Annual General Meeting.

Independent auditor

The independent auditor, Foo Kon Tan Grant Thornton LLP, Certified Public Accountants, has expressed its willingness to accept re-appointment.

On behalf of the Directors

MR LIN SHAOXIONG

MR LIN SHAOQIN

Dated: 12 April 2013

STATEMENT BY DIRECTORS

For the financial year ended 31 December 2012

In the opinion of the directors, the consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up so as to give a true and fair view of the state of affairs of the Group and the Company as at 31 December 2012 and of the results, changes in equity and cash flows of the Group for the financial year ended on that date and at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the Directors

MR LIN SHAOXIONG

MR LIN SHAOQIN

Dated: 12 April 2013

INDEPENDENT AUDITOR'S REPORT

To the Members of China Sports International Limited

Report on the financial statements

We have audited the accompanying financial statements of China Sports International Limited ("the Company") and its subsidiaries ("the Group"), which comprise the statements of financial position of the Company and of the Group as at 31 December 2012, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform to the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2012 and the results, changes in equity and cash flows of the Group for the financial year ended on that date.

Foo Kon Tan Grant Thornton LLP
Public Accountants and
Certified Public Accountants

Singapore,
Dated:12 April 2013

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2012

		The Company		The Group	
		31 December	31 December	**31 December**	31 December
		2012	2011	**2012**	2011
	Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
ASSETS					
Non-Current Assets					
Land use rights	4	**–**	–	**16,549**	16,914
Intangible assets and rights	5	**–**	–	**2,390**	94
Property, plant and equipment	6	**54**	80	**155,819**	155,210
Prepayments	7	**–**	–	**43,713**	43,713
Subsidiaries	8	**459,986**	458,436	**–**	–
Deferred tax asset	18	**–**	–	**–**	–
		460,040	458,516	**218,471**	215,931
Current Assets					
Inventories, at cost	9	**–**	–	**22,786**	17,203
Trade and other receivables	10	**14**	13	**297,602**	250,336
Deferred expenditure	11	**–**	–	**–**	4,000
Amount due from subsidiaries	12	**90,046**	89,166	**–**	–
Pledged fixed deposits	13	**–**	–	**42,865**	39,980
Cash and bank balances	14	**12,124**	18,368	**870,168**	828,438
		102,184	107,547	**1,233,421**	1,139,957
Total assets		**562,224**	566,063	**1,451,892**	1,355,888

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2012

	Note	The Company		The Group	
		31 December 2012	31 December 2011	**31 December 2012**	31 December 2011
		RMB'000	RMB'000	**RMB'000**	RMB'000
EQUITY AND LIABILITIES					
Capital and Reserves					
Share capital	15	**36,570**	36,570	**36,570**	36,570
Treasury shares	16	**(226)**	(226)	**(226)**	(226)
Reserves	17	**497,935**	501,469	**1,142,437**	1,125,991
Total equity		**534,279**	537,813	**1,178,781**	1,162,335
Non-Current Liabilities					
Deferred tax liability	18	**–**	–	**7,377**	7,377
Provision for guaranteed royalty payments	19	**–**	–	**639**	–
		–	–	**8,016**	7,377
Current Liabilities					
Trade and bills payables	20	**–**	–	**117,416**	80,851
Accrued liabilities and other payables	21	**4,995**	5,099	**53,337**	24,562
Amount due to subsidiaries	12	**22,950**	23,151	**–**	–
Bank borrowings	22	**–**	–	**94,000**	80,000
Income tax payable		**–**	–	**342**	763
		27,945	28,250	**265,095**	186,176
Total equity and liabilities		**562,224**	566,063	**1,451,892**	1,355,888

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 31 December 2012

	Note	**31 December 2012 RMB'000**	31 December 2011 RMB'000
Revenue	3	**760,260**	913,129
Cost of sales		**(625,257)**	(722,740)
Gross profit		**135,003**	190,389
Other income	3	**5,122**	5,914
Selling and distribution costs	23	**(90,726)**	(100,381)
Administrative expenses		**(21,538)**	(25,618)
Finance costs	24	**(6,411)**	(4,449)
Profit before taxation	25	**21,450**	65,855
Taxation	26	**(5,241)**	(15,335)
Total profit for the year		**16,209**	50,520
Other comprehensive income after tax	27		
Currency translation differences		**237**	980
Other comprehensive income for the year, net of tax		**237**	980
Total comprehensive income for the year		**16,446**	51,500
Earnings per share (RMB cents)	28		
- Basic and diluted		**1.69**	5.25

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 31 December 2012

	Share capital RMB'000	Treasury share RMB'000	Share premium (Note 17 a) RMB'000	Merger reserve (Note 17 c) RMB'000	Paid-in capital from exchange differences (Note 17 d) RMB'000	Currency translation reserve (Note 17 e) RMB'000	Statutory reserve (Note 17 b) RMB'000	Retained profits RMB'000	Total equity RMB'000
Balance at 1 January 2011	36,570	–	560,135	801	330	2,231	78,271	438,977	1,117,315
Total comprehensive income for the year	–	–	–	–	–	980	–	50,520	51,500
Purchase of treasury share	–	(226)	–	–	–	–	–	–	(226)
Payment of dividend (Note 29)	–	–	–	–	–	–	–	(6,254)	(6,254)
Transfer to statutory reserve	–	–	–	–	–	–	6,138	(6,138)	–
Balance at 31 December 2011	**36,570**	**(226)**	**560,135**	**801**	**330**	**3,211**	**84,409**	**477,105**	**1,162,335**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**237**	**–**	**16,209**	**16,446**
Transfer to statutory reserve	**–**	**–**	**–**	**–**	**–**	**–**	**1,764**	**(1,764)**	**–**
Balance at 31 December 2012	**36,570**	**(226)**	**560,135**	**801**	**330**	**3,448**	**86,173**	**491,550**	**1,178,781**

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 31 December 2012

	31 December 2012 RMB'000	31 December 2011 RMB'000
Cash Flows from Operating Activities		
Profit before taxation	**21,450**	65,855
Adjustments for:		
Depreciation of property, plant and equipment	**41,740**	22,590
Amortisation of land use rights	**365**	363
Amortisation of intangible assets and rights	**259**	45
Property, plant and equipment written off	**13**	421
Gain on disposal of property, plant and equipment	**(21)**	–
Unrealised exchange differences	**747**	1,998
Interest expense	**6,411**	4,449
Interest income	**(5,009)**	(4,532)
Operating profit before working capital changes	**65,955**	91,189
Change in operating assets and liabilities:		
- inventories	**(5,583)**	11,518
- trade receivables	**(45,278)**	81,445
- other receivables	**2,012**	(33,713)
- trade payables and bill payables	**36,565**	(83,126)
- other payables	**24,902**	(35,390)
Net cash generated from operations	**78,573**	31,923
Interest received	**5,009**	4,532
Interest paid	**(6,411)**	(4,449)
Income tax paid	**(5,662)**	(14,587)
Net cash generated from operating activities	**71,509**	17,419
Cash Flows from Investing Activities		
Proceeds from disposal of property, plant and equipment	**36**	–
Prepayment for investments	**–**	(43,713)
Acquisition of property, plant and equipment	**(42,375)**	(83,007)
Net cash used in investing activities	**(42,339)**	(126,720)

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 31 December 2012

	31 December 2012 RMB'000	31 December 2011 RMB'000
Cash Flows from Financing Activities		
Increase in fixed deposit pledged	**(2,885)**	(16,005)
Increase/(decrease) in amount owing to director	**603**	(7,312)
Proceeds from short-term loan	**116,700**	80,000
Repayment of short-term loan	**(102,700)**	(35,000)
Purchase of treasury shares	**–**	(226)
Payment of dividend	**–**	(6,254)
Net cash generated from financing activities	**11,718**	15,203
Net increase/(decrease) in cash and cash equivalents	**40,888**	(94,098)
Cash and cash equivalents at beginning of year	**828,438**	924,004
Effect of exchange rates fluctuation	**842**	(1,468)
Cash and cash equivalents at end of year (Note 14)	**870,168**	828,438

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

1 General information

The financial statements of the Company and of the Group for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the directors on the date of the Statement By Directors.

The Company is incorporated in Bermuda under the name of China Sports International Limited on 27 March 2007 as an exempted company with limited liability under the Bermuda Companies Act 1981. The Company was admitted to the Official List of the Singapore Exchange Mainboard ("SGX-ST") on 18 July 2007 pursuant to an Initial Public Offering ("IPO").

The Company is domiciled in Bermuda. The registered office is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

The principal activity of the Company is that of an investment holding company. The principal activities of the subsidiaries are stated in Note 8.

2(a) Basis of preparation

The financial statements are prepared in accordance with Singapore Financial Reporting Standards ("FRS") including related Interpretations promulgated by the Accounting Standards Council ("ASC"). The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The financial statements are presented in Renminbi which is the Company's functional currency. All financial information are presented in Renminbi (to the nearest thousand), unless otherwise stated.

Significant accounting estimates and judgements

The preparation of the financial statements in conformity with FRS requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the financial year. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates.

The critical accounting estimates and assumptions used and areas involving a high degree of judgements are described below:

Critical assumption used and accounting estimates in applying accounting policies

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Management estimates the useful lives of property, plant and equipment to be within 2 to 20 years. The carrying amounts of the Company's and the Group's property, plant and equipment as at 31 December 2012 are RMB 54,000 and RMB 155,819,000 (2011 - RMB 80,000 and RMB 155,210,000) respectively. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

2(a) Basis of preparation (Cont'd)

Critical assumption used and accounting estimates in applying accounting policies (cont'd)

Allowance for inventory obsolescence

The Group reviews the ageing analysis of inventories at each reporting date, and makes provision for obsolete and slow-moving inventory items that are no longer suitable for sale. The net realisable value for such inventories are estimated based primarily on the latest invoice prices and current market conditions. Possible changes in these estimates could result in revisions to the valuation of inventories.

Allowance for bad and doubtful debts

Allowances for bad and doubtful debts are based on an assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the expected outcome is different from the original estimate, such difference will impact carrying value of trade and other receivables and doubtful debt expenses in the period in which such estimate has been changed.

Impairment of investment in subsidiary

Determining whether investment in subsidiary is impaired requires an estimation of the value-in-use of that investment. The value-in-use calculation requires the Group to estimate the future cash flows expected from the cash-generating units and an appropriate discount rate in order to calculate the present value of the future cash flows. Management has evaluated the recoverability of the investment based on such estimates.

Income taxes

The Group has exposure to income taxes in the People's Republic of China ("PRC"). Significant judgement is involved in determining the group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business.

According to the Corporate Income Tax Law and its Implementation Rules, withholding tax is imposed on dividends declared in respect of profit earning by PRC subsidiaries from 1 January 2008 onward. For the Group, the applicable rate for the withholding tax rate is 10%.

The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The accounting policies used by the Group have been applied consistently to all periods presented in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2012

2(b) Interpretations and amendments to published standards effective in 2012

On 1 January 2012, the Group adopted the new or amended FRS and Interpretations to FRS ("INT FRS") that are mandatory for application from that date. Changes to the Group's accounting policies have been made as required in accordance with the transitional provisions in the respective FRS. This includes the following FRS which are relevant to the Group:

Reference	Description
FRS 12	Deferred Tax – Recovery of Underlying Assets
FRS 107	Disclosures – Transfers of Financial Assets

The adoption of these amended FRS did not result in substantial changes to the Group's and Company's accounting policies and had no material effect on the amounts reported for the current or prior financial years.

2(c) FRS not yet effective

The following are the new or amended FRS issued in 2012 that are not yet effective but may be early adopted for the current financial year:

Reference	Description	Effective date (Annual periods beginning on or after)
Amendments to FRS 1	Presentation of items of Other Comprehensive Income	1 July 2012
Revised FRS 19	Employee Benefits	1 January 2013
FRS 113	Fair Value Measurement	1 January 2013
Amendments to FRS 107	Disclosures - Offsetting Financial Assets and Financial Liabilities	1 January 2013
Improvements to FRSs 2012		
- Amendments to FRS 1	Presentation of Financial Statements	1 January 2013
- Amendments to FRS 16	Property, Plant and Equipment	1 January 2013
- Amendments to FRS 32	Financial Instruments: Presentation	1 January 2013
Revised FRS 27	Separate Financial Statements	1 January 2014
Revised FRS 28	Investments in Associates and Joint Ventures	1 January 2014
FRS 110	Consolidated Financial Statements	1 January 2014
FRS 111	Joint Arrangements	1 January 2014
FRS 112	Disclosure of Interests in Other Entities	1 January 2014
Amendments to FRS 32	Offsetting Financial Assets and Financial Liabilities	1 January 2014

Except for the amendments to FRS 1, the directors do not anticipate that the adoption of the above FRS in future periods will have a material impact on the financial statements of the Group and the Company in the period of their initial adoption.

2(c) FRS not yet effective (Cont'd)

The nature of the impending changes in accounting policy on adoption of the amendments to FRS 1 is described below.

Amendments to FRS 1 *Presentation of Items of Other Comprehensive Income*

The amendments to FRS 1 Presentation of Items of Other Comprehensive Income ("OCI") are effective for financial periods beginning on or after 1 July 2012.

The amendments to FRS 1 changes the grouping of items presented in OCI. Items that could be classified to profit or loss at a future point in time would be presented separately from items which will never be reclassified. As the amendments only affect the presentations of items that are already recognised in OCI, the Group does not expect any impact on its financial position or performance upon adoption of this standard.

2(d) Summary of significant accounting policies

Consolidation

The financial statements of the Group include the financial statements of the Company and its subsidiaries made up to the end of the financial year. Information on its subsidiaries is given in Note 8.

The consolidated financial statements of the Group have been prepared using the historical cost method similar to the "pooling-of-interests" as acquisition of subsidiary is accounted for as reconstructions of businesses. Under the historical cost method, the acquired assets and liabilities are recorded at their existing carrying amounts. The consolidated financial statements include the results of operations, and the assets and liabilities of the pooled enterprises as part of the Group for the whole of the period.

Other than for accounting of subsidiaries using the historical cost method as disclosed above, the results of the subsidiaries acquired since the date of the IPO are included in the consolidated income statement from the effective date in which control is transferred to the Group using the purchase method.

Subsidiaries are entities (including special purpose entities) over which the Group has power to govern the financial and operating policies so as to obtain benefits from its activities, generally accompanied by a shareholding giving rise to a majority of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

In preparing the consolidated financial statements, transactions, balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated but are considered an impairment indicator of assets transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests are that part of the net results of operations and of net assets of a subsidiary attributable to the interests which are not owned directly or indirectly by the equity holders of the Company. They are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and balance sheet. Total comprehensive income is attributed to the non-controlling interests based on their respective interests in a subsidiary, even if this results in the non-controlling interests having a deficit balance.

Please refer to the paragraph "Subsidiaries" for the accounting policy on investments in subsidiaries in the separate financial statements of the Company.

2(d) Summary of significant accounting policies (Cont'd)

Land use rights

Land use rights represent up-front payment to acquire long-term interests in the usage of land and are stated at cost less accumulated amortisation and impairment losses, if any. Amortisation is charged so as to write off the cost of the land use rights, using the straight-line method, over the period of the grant of 50 years, which is the lease term.

Intangible assets and rights

Intangible assets and rights are accounted for using the cost model with the exception of goodwill. Capitalised costs are amortised on a straight-line basis over their estimated useful lives for those considered as finite useful lives as follows:

Patents	10 years
Computer software	5 years
Licensing rights	4 years

After initial recognition, they are carried at cost less accumulated amortisation and accumulated impairment losses, if any. In addition, they are subject to annual impairment testing. Indefinite life intangibles are not amortised but are subject to annual impairment testing.

Intangible assets and rights are written off where, in the opinion of the directors, no further future economic benefits are expected to arise.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is computed utilising the straight-line method to write off the cost of these assets after deducting the residual values over their estimated useful lives as follows:

Buildings	20 years
Plant and machinery	5 to 10 years
Furniture, fixtures and office equipment	3 to 20 years
Motor vehicles	5 years
Outlet fixtures	2 years

No depreciation is provided on construction work-in-progress.

The cost of property, plant and equipment includes expenditure that is directly attributable to the acquisition of the items. Dismantlement, removal or restoration costs are included as part of the cost of property, plant and equipment if the obligation for dismantlement, removal or restoration is incurred as a consequence of acquiring or using the asset.

Subsequent expenditure relating to property, plant and equipment that have been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the standard of performance of the asset before the expenditure was made, will flow to the Group and the cost can be reliably measured. Other subsequent expenditure is recognised as an expense during the financial year in which it is incurred.

2(d) Summary of significant accounting policies (Cont'd)

Property, plant and equipment and depreciation (Cont'd)

For acquisition and disposal during the year, with the exception of outlet fixtures, depreciation is provided from the month of acquisition and to the month before disposal respectively. In the case of outlet fixtures, depreciation is provided from the year of acquisition and to the year of disposal. Fully depreciated property, plant and equipment are retained in the books of accounts until they are no longer in use.

Depreciation methods, useful lives and residual values are reviewed, and adjusted as appropriate, at each reporting date as a change in estimates.

Subsidiaries

A subsidiary is an entity controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether there is control.

In the Company's separate financial statements, shares in subsidiaries are stated at cost less allowance for any impairment losses on an individual subsidiary basis.

Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined on weighted average cost model, and include all costs in bringing the inventories to their present location and condition. Cost incurred in bringing each product to its present location and conditions are accounted as follows:

(a) Raw materials at purchase cost on a weighted average basis; and

(b) Finished goods and work-in-progress at cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity.

Provision is made for obsolete, slow-moving and defective inventories in arriving at the net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Financial assets

Financial assets, other than hedging instruments, can be divided into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the assets were acquired. The designation of financial assets is re-evaluated and classification may be changed at the reporting date with the exception that the designation of financial assets at fair value through profit or loss is not revocable.

All financial assets are recognised on their trade date - the date on which the Company and the Group commit to purchase or sell the asset. Financial assets are initially recognised at fair value, plus directly attributable transaction costs except for financial assets at fair value through profit or loss, which are recognised at fair value.

2(d) Summary of significant accounting policies (Cont'd)

Financial assets (Cont'd)

Derecognition of financial instruments occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least at each reporting date whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

Non-compounding interest and other cash flows resulting from holding financial assets are recognised in profit or loss when received, regardless of how the related carrying amount of financial assets is measured.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Loans and receivables include trade and other receivables (excluding advance to suppliers and prepayments). They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. If there is objective evidence that the asset has been impaired, the financial asset is measured at the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. The impairment or write-back is recognised in profit or loss.

Provisions

Provisions are recognised when the Company and the Group have a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Present obligations arising from onerous contracts are recognised as provisions.

The directors review the provisions annually and where in their opinion, the provision is inadequate or excessive, due adjustment is made.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of the time is recognised as finance costs.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and bank deposits which are readily convertible to cash and which are subject to an insignificant risk of changes in value.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents are presented net of fixed deposit pledged to the bank for banking facilities.

2(d) Summary of significant accounting policies (Cont'd)

Share capital and treasury shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital account.

When any entity within the Group purchases the Company's ordinary shares ("treasury shares"), the consideration paid including any directly attributable incremental cost is presented as a component within equity attributable to the Company's equity holders, until they are cancelled, sold or reissued.

When treasury shares are subsequently cancelled, the cost of treasury shares are deducted against the share capital account if the shares are purchased out of capital of the Company, or against the retained earnings of the Company if the shares are purchased out of earnings of the Company.

When treasury shares are subsequently sold or reissued pursuant to the employee share option scheme, the cost of treasury shares is reversed from the treasury share account and the realised gain or loss on sale or reissue, net of any directly attributable incremental transaction costs and related income tax, is recognised in the capital reserve of the Company.

Dividends

Final dividends proposed by the directors are not accounted for in shareholders' equity as an appropriation of retained profit, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because of the bye-laws of the Company grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised directly as a liability when they are proposed and declared.

Financial liabilities

The Group's financial liabilities include borrowings, trade and bill payables, and accrued liabilities and other payables.

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest related charges are recognised as an expense in "finance cost" in profit or loss. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Borrowings are recognised initially at the fair value of proceeds received less attributable transaction costs, if any. Borrowings are subsequently stated at amortised cost which is the initial fair value less any principal repayments. Any difference between the proceeds (net of transaction costs) and the redemption value is taken to the income statement over the period of the borrowings using the effective interest method. The interest expense is chargeable on the amortised cost over the period of the borrowings using the effective interest method.

Gains and losses are recognised in the profit and loss account when the liabilities are derecognised as well as through the amortisation process.

Borrowings which are due to be settled within twelve months after the reporting date are included in current borrowings in the statement of financial position even though the original terms was for a period longer than twelve months and an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting date. Borrowings to be settled within the Group's normal operating cycle are classified as current. Other borrowings due to be settled more than twelve months after the end of the reporting period are included in non-current borrowings in the statement of financial position.

2(d) Summary of significant accounting policies (Cont'd)

Financial liabilities (Cont'd)

Trade payables, other payables and accruals are initially measured at fair value, net of transaction costs and subsequently measured at amortised cost, using the effective interest rate method.

Research costs

Research costs are expensed as incurred, except for development costs which relates to the design and testing of new or improved materials, products or processes which are recognised as an asset to the extent that it is expected that such assets will generate future economic benefits.

Income tax

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

The PRC corporate income tax is provided at rates applicable to an enterprise in the PRC on income for financial reporting purpose, adjusted for income and expenses items which are not assessable or deductible for income tax purposes.

Deferred income tax is recognised for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

A deferred income tax liability is recognised on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred income tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised.

Deferred income tax is measured:

(i) at the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period; and

(ii) based on the tax consequence that will follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred income taxes are recognised as income or expense in the profit or loss, except to the extent that the tax arises from a business combination or a transaction which is recognised directly in equity. Deferred tax arising from a business combination is adjusted against goodwill on acquisition.

2(d) Summary of significant accounting policies (Cont'd)

Value added tax

The Group's sales of goods in the PRC are subjected to Value-added tax ("VAT") at the applicable tax rate of 17% for PRC domestic sales. Input VAT on purchases can be deducted from output VAT. The net amount of VAT recoverable from, or payable to, the tax authority is included as part of "other receivables" or "other payables" in the statement of financial position. The Group's export sales are not subject to VAT.

Revenues, expenses and assets are recognised net of the amount of VAT except:

- Where the VAT incurred on a purchase of assets or services is not recoverable from the tax authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of VAT included.

Borrowing cost

Borrowing costs are recognised in profit or loss using the effective interest rate method except for those costs that are directly attributable to the construction of qualifying assets. This includes those costs on borrowings acquired specifically for the construction of qualifying assets, as well as those in relation to general borrowings used to finance the construction of qualifying assets.

Borrowing costs on general borrowings are capitalised by applying a capitalisation rate to the expenditures on that qualifying assets that are financed by general borrowings.

Employee benefits

Retirement benefits scheme

Pursuant to the relevant regulations of the PRC government, the Group participates in a local municipal government retirement benefits scheme (the "Scheme"), whereby the subsidiaries of the Company in the PRC are required to contribute a certain percentage of the basic salaries of its employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiaries of the Company. The only obligation of the Group with respect to the Scheme is to pay the on-going required contributions under the Scheme mentioned above. Contributions under the Scheme are charged to the income statement as incurred.

There are no provisions under the Scheme whereby forfeited contributions may be used to reduce future contributions.

Employee leave entitlements

No provision has been made for employee leave entitlements as any unconsumed annual leave not utilised will be forfeited.

2(d) Summary of significant accounting policies (Cont'd)

Employee benefits (Cont'd)

Key management personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity. Directors (and certain general managers) are considered key management personnel.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Impairment of non-financial assets

The carrying amounts of the Company's and Group's non-financial assets subject to impairment are reviewed at end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

If it is not possible to estimate the recoverable amount of the individual asset, then the recoverable amount of the cash-generating unit to which the assets belong will be identified.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Company at which management controls the related cash flows.

Individual assets or cash-generating units that include goodwill and other intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the carrying amount exceeds the recoverable amount of the asset or cash generating unit. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value-in-use, based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

Any impairment loss is charged to profit or loss unless it reverses a previous revaluation in which case it is charged to equity.

2(d) Summary of significant accounting policies (Cont'd)

Revenue recognition

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Revenue excludes goods and services taxes and is arrived at after deduction of trade discounts. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

Interest income is recognised on a time-apportioned basis using the effective interest rate method.

Currency translation

Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's presentation currency and the functional currency of the principal operating subsidiaries of the Group.

Transactions and balances

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates at the dates of the transactions. Currency translation differences from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the reporting date are recognised in the income statement, unless they arise from borrowings in foreign currencies, other currency instruments designated and qualifying as net investment hedges and net investment in foreign operations. Those currency translation differences are recognised in the currency translation reserve in the consolidated financial statements and transferred to the profit or loss as part of the gain or loss on disposal of the foreign operation.

Non-monetary items measured at fair values in foreign currencies are translated using the exchange rates at the date when the fair values are determined.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date of translation.

Group entities

The results and financial position of all the entities within the Group that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) Assets and liabilities are translated at the closing rate at the end of the reporting period;

(ii) Income and expenses are translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the translation dates, in which case income and expenses are translated using the exchange rates at the dates of the transaction); and

(iii) All resulting currency translation differences are recognised in the currency translation reserve in equity.

2(d) Summary of significant accounting policies (Cont'd)

Operating leases

Leases of office and factory premises where substantially all risks and rewards incidental to ownership are retained by the lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are recognised in the profit or loss on a straight-line basis over the period of the lease.

Contingent rents are recognised as an expense in profit or loss when incurred.

Operating segments

For management purposes, operating segments are organised based on their products which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers are directly accountable to the chief executive officer who regularly reviews the segment results in order to allocate resources to the segments and to assess segment performance.

3 Revenue and other income

Revenue represents the net invoiced value of goods sold, after allowance for returns and trade discounts.

The Group	**31 December 2012 RMB'000**	31 December 2011 RMB'000
Revenue		
Sales of goods	**760,260**	913,129
Other income		
Interest income	**5,009**	4,532
Sundry income	**92**	1,382
Gain on disposal of property, plant and equipment	**21**	–
	5,122	5,914

4 Land use rights

The Group	RMB'000
Cost	
At 1 January 2011	3,173
Additions	15,000
At 31 December 2011 and 2012	**18,173**
Accumulated amortisation	
At 1 January 2011	896
Amortisation for the year (Note 25)	363
At 31 December 2011	**1,259**
Amortisation for the year (Note 25)	**365**
At 31 December 2012	**1,624**
Net book value	
At 31 December 2012	**16,549**
At 31 December 2011	16,914

Land use rights held by the Group with net book value of RMB 2,374,000 (2011 - RMB 2,437,000) as at 31 December 2012 were pledged to a bank to secure a bank borrowing granted to the Group (Note 22).

5 Intangible assets and rights

The Group	Patents RMB'000	Licensing rights RMB'000	Software RMB'000	Total RMB'000
Cost				
At 1 January and December 2011	77	–	219	296
Additions	**–**	**2,555**	**–**	**2,555**
At 31 December 2012	**77**	**2,555**	**219**	**2,851**
Accumulated amortisation				
At 1 January 2011	47	–	110	157
Amortisation for the year	14	–	31	45
At 31 December 2011	**61**	**–**	**141**	**202**
Amortisation for the year	**9**	**228**	**22**	**259**
At 31 December 2012	**70**	**228**	**163**	**461**
Net book value				
At 31 December 2012	**7**	**2,327**	**56**	**2,390**
At 31 December 2011	16	–	78	94

Licensing rights refer to the rights that the Group acquired during the year to make use of some intellectual properties on its products (see Note 19 for more details).

6 Property, plant and equipment

The Company	**Furniture, fixtures and office equipment**
Cost	**RMB'000**
At 1 January 2011	99
Additions	42
At 31 December 2011	**141**
Additions	**12**
At 31 December 2012	**153**
Accumulated depreciation	
At 1 January 2011	29
Depreciation	32
At 31 December 2011	**61**
Depreciation	**38**
At 31 December 2012	**99**
Net book value	
At 31 December 2012	**54**
At 31 December 2011	80

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2012

6 Property, plant and equipment (Cont'd)

The Group	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Outlet fixtures RMB'000	Construction work-in-progress RMB'000	Total RMB'000
Cost							
At 1 January 2011	48,042	40,675	4,947	1,808	69,261	–	164,733
Transferred from advance to contractor	–	–	–	–	10,000	20,000	30,000
Additions	–	835	97	–	53,875	28,200	83,007
Exchange difference on translation	–	–	(1)	–	–	–	(1)
Disposals	–	(698)	–	–	–	–	(698)
At 31 December 2011	**48,042**	**40,812**	**5,043**	**1,808**	**133,136**	**48,200**	**277,041**
Additions	**10,569**	**476**	**26**	**–**	**8,107**	**23,197**	**42,375**
Disposals	**–**	**(24)**	**–**	**(136)**	**–**	**–**	**(160)**
At 31 December 2012	**58,611**	**41,264**	**5,069**	**1,672**	**141,243**	**71,397**	**319,256**
Accumulated depreciation							
At 1 January 2011	13,692	12,616	2,875	1,121	69,215	–	99,519
Depreciation (Note 25)	2,162	3,805	604	325	15,694	–	22,590
Exchange difference on translation	–	–	(1)	–	–	–	(1)
Disposals	–	(277)	–	–	–	–	(277)
At 31 December 2011	**15,854**	**16,144**	**3,478**	**1,446**	**84,909**	**–**	**121,831**
Depreciation (Note 25)	**2,189**	**3,842**	**444**	**217**	**35,048**	**–**	**41,740**
Disposals	**–**	**(12)**	**–**	**(122)**	**–**	**–**	**(134)**
At 31 December 2012	**18,043**	**19,974**	**3,922**	**1,541**	**119,957**	**–**	**163,437**
Net book value							
At 31 December 2012	**40,568**	**21,290**	**1,147**	**131**	**21,286**	**71,397**	**155,819**
At 31 December 2011	32,188	24,668	1,565	362	48,227	48,200	155,210

6 Property, plant and equipment (Cont'd)

Buildings held by the Group at net book value of RMB 39,760,000 (2011 - RMB 2,880,000) as at 31 December 2012 were pledged to a bank to secure a bank borrowing granted to the Group (Note 22).

The construction work-in-progress will be reclassified to buildings at cost incurred upon completion of construction of factory and office complex.

The Group	**31 December 2012 RMB'000**	31 December 2011 RMB'000
Depreciation expenses		
Depreciation expense charged to:		
Cost of sales	**6,136**	5,967
Administrative expenses	**556**	929
Selling and distribution expenses	**35,048**	15,694
	41,740	22,590

7 Prepayments

The Group

This is cash paid for the proposed acquisition of 10% of the aggregate paid-up registered capital of a wholly foreign-owned enterprise established in China, Jinjiang Guosheng Shoe Material Co., Ltd (晋江国盛鞋材有限公司) ("Guosheng"). The acquisition has not been completed at the end of financial year 2012.

Since the payment for the acquisition, Guosheng undertook a corporate restructuring in which the seller will hold 100% of Elite Trend Limited ("Elite Trend'), an offshore special purpose entity established in the Cayman Islands and Elite Trend will hold (directly or indirectly) all the equity interest in Guosheng (instead of the seller). In the light of the restructuring and upon the request of the seller, the Group entered into an investment agreement with the seller on 31 March 2013 to acquire a stake in Elite Trend Limited instead of Guosheng. Under the Agreement, the acquisition is to be completed by 30 June 2013. Otherwise, all money paid by the Group will have to be duly refunded.

8 Subsidiaries

The Company	31 December 2012 RMB'000	31 December 2011 RMB'000
Unquoted equity investment, at cost	**18,072**	18,072
Amounts due from subsidiaries on long-term loan account	**441,914**	440,364
	459,986	458,436

The amounts owing by subsidiaries on long-term loan account are an extension of the Company's net investment in the subsidiaries. These are unsecured, interest-free and are not expected to be repaid within one year. As they represent net investment, with indeterminable repayments, fair valuation is not appropriate.

Of the amounts due from subsidiaries, RMB 107,173,000 (2011: RMB 107,173,000) is denominated in Singapore dollars.

The subsidiaries are:

Name	Country of incorporation/ principal place of business	Cost of investment		Effective percentage of equity held		Principal activities
		2012	2011	**2012**	2011	
		RMB'000	RMB'000	**%**	%	
Held by the Company:						
Theme Way Limited (1)	Hong Kong	**18,072**	18,072	**100**	100	Investment holding
Held by Theme Way Limited:						
Hengfa (Fujian) Light Industry Development Co., Ltd 恒发(福建)轻工业发展有限公司 ("Hengfa Light Industry") (2)	The People's Republic of China	**–**	–	**100**	100	Design and sales of sports fashion footwear and manufacture of sports fashion footwear
YELI (Hong Kong) Company Limited ("YELI Hong Kong") (1)	Hong Kong	**–**	–	**100**	100	Investment holding
YELI Sports (China) Co., Ltd 野力体育 (中国) 有限公司 ("YELI China") (2)	The People's Republic of China	**–**	–	**100**	100	Design and sales of sports fashion footwear, apparel and accessories

8 Subsidiaries (Cont'd)

(1) Audited by Lau & Au Yeung C.P.A. Limited.
(2) Audited by福州鼓楼征安联合会计事务所for statutory reporting and Foo Kon Tan Grant Thornton LLP for the Group reporting purposes.

9 Inventories, at cost

The Group	**31 December 2012 RMB'000**	31 December 2011 RMB'000
Raw materials	**11,626**	8,378
Work-in-progress	**9,255**	6,922
Finished goods	**1,905**	1,903
	22,786	17,203
Cost of inventories included in cost of sales	**492,106**	495,776

10 Trade and other receivables

	The Company		The Group	
	31 December 2012 RMB'000	31 December 2011 RMB'000	**31 December 2012 RMB'000**	31 December 2011 RMB'000
Trade receivables - third parties	**–**	–	**241,067**	195,789
Other receivables	**4**	3	**272**	3
Advance to suppliers	**–**	–	**51,253**	50,100
Prepayments	**10**	10	**5,010**	4,444
	14	13	**297,602**	250,336

Trade receivables generally have credit terms of 90 days (2011 - 90 days).

RMB 22,382,000 (2011 - RMB 28,617,000) of trade receivables is pledged to secure bank borrowing granted to the Group (Note 22).

Advance to suppliers relates to deposit given to suppliers to secure raw materials.

There is no trade receivable which are past due. All trade receivables are located in the PRC.

11 Deferred expenditure

The Group has signed a Technology License Contract in relation to breathable shoes with Mr Lin Yongjian, Mr Lin Shaoxiong's father in financial year 2011. Under the contract, the Group has paid RMB 5,000,000 as the entrance fees (入门费). This was amortised over the period of the contact from 1 October 2011 to 31 December 2012.

12 Amount due from/(to) subsidiaries

Non-trade amount due from/(to) subsidiaries refer to payment make on behalf and are unsecured, interest-free and repayable on demand.

The amounts due from subsidiaries are denominated in the following currencies:

	31 December 2012	31 December 2011
The Company	**RMB'000**	RMB'000
Singapore dollar	**25,285**	24,405
Renminbi	**64,761**	64,761
	90,046	89,166

The amounts due to subsidiaries are denominated in the following currencies:

	31 December 2012	31 December 2011
The Company	**RMB'000**	RMB'000
United States dollar	**17,426**	17,627
Renminbi	**5,524**	5,524
	22,950	23,151

13 Pledged fixed deposits

The fixed deposits are pledged to a bank to secure a banking facility granted to subsidiaries (Note 20). The fixed deposits have an effective interest rate of 1.23% per annum (2011 - 0.91%).

14 Cash and bank balances

	The Company		The Group	
	31 December 2012 RMB'000	31 December 2011 RMB'000	**31 December 2012 RMB'000**	31 December 2011 RMB'000
Fixed deposits with maturity less than 3 months	**3,789**	3,581	**3,789**	3,581
Cash at banks	**8,335**	14,787	**866,304**	824,787
Cash on hand	**–**	–	**75**	70
	12,124	18,368	**870,168**	828,438

The Renminbi is not freely convertible into foreign currencies. Under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange Renminbi for foreign currencies through banks that are authorised to conduct foreign exchange business.

Cash and bank balances are denominated in the following currencies:

	The Company		The Group	
	31 December 2012 RMB'000	31 December 2011 RMB'000	**31 December 2012 RMB'000**	31 December 2011 RMB'000
Hong Kong dollar	**–**	–	**75**	76
Renminbi	**–**	–	**857,897**	809,925
Singapore dollar	**12,124**	18,368	**12,174**	18,415
United States dollar	**–**	–	**22**	22
	12,124	18,368	**870,168**	828,438

The effective interest rate for bank deposits is 1.23 % per annum (2011 - 0.85% per annum).

15 Share capital

The Company and The Group	No. of ordinary shares 31 December 2012 '000	31 December 2011 '000	Amount 31 December 2012 RMB'000	31 December 2011 RMB'000
Issued and fully paid:				
Balance at beginning and end of year	**962,125**	962,125	**36,570**	36,570
Total	**962,125**	962,125	**36,570**	36,570

The ordinary shares have par value of HK$ 0.04 each.

According to Rule 723 of the Listing Manual of the SGX-ST, at least 10% of the Company's shares should be held in the hands of public. In the opinion of the directors, the Company has complied with the Rule 723.

Apart from the above, the Group is not subject to any other externally imposed capital requirements.

The holders of ordinary shares (excluding treasury shares) are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares (excluding treasury shares) rank equally with regard to the Company's residual assets.

16 Treasury shares

The Company and The Group	No. of ordinary shares 31 December 2012 '000	31 December 2011 '000	Amount 31 December 2012 RMB'000	31 December 2011 RMB'000
At beginning of year	**587**	–	**226**	–
Repurchased during the year	**–**	587	**–**	226
Balance at end of year	**587**	587	**226**	226

The Company acquired 587,000 of its own shares through purchase on the Singapore Exchange during the financial year 2011. The total amount paid to acquire the shares was RMB 226,000 and has been deducted from the shareholders' equity. The shares are held as "treasury shares".

17 Reserves

		The Company		The Group	
		31 December 2012	31 December 2011	**31 December 2012**	31 December 2011
	Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Share premium	(a)	**560,135**	560,135	**560,135**	560,135
Statutory reserve	(b)	**–**	–	**86,173**	84,409
Merger reserve	(c)	**–**	–	**801**	801
Paid-in capital from exchange differences	(d)	**330**	330	**330**	330
Currency translation reserve	(e)	**–**	–	**3,448**	3,211
Retained profits/(accumulated losses)		**(62,530)**	(58,996)	**491,550**	477,105
		497,935	501,469	**1,142,437**	1,125,991
Represented by:					
Distributable		**(62,530)**	(58,996)	**491,550**	477,105
Non-distributable		**560,465**	560,465	**650,887**	648,886
		497, 935	501,469	**1,142,437**	1,125,991

(a) Share premium

Share premium represents the difference between the price paid for shares and the par value of the shares.

(b) Statutory reserve

In accordance with the accounting regulations of the PRC, the subsidiaries of the Company established in the PRC are required to transfer 10% of its profit after taxation prepared in accordance with the accounting regulation in the PRC to the statutory reserve until the reserve balance reaches 50% of the respective registered capital. Such reserve may be used to reduce any losses incurred or for capitalisation as paid-up capital. The reserve is not available for distribution to the shareholders of the entity.

(c) Merger reserve

The merger reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired over the nominal value of the shares of the Company issued in exchange thereof.

(d) Paid-in capital from exchange differences

Paid-in capital from exchange differences represents the exchange differences between Hong Kong Dollar equivalent to Renminbi as stated in the prospectus of the Group and the prevailing exchange rates at the dates when the capital was paid in.

17 Reserves (Cont'd)

(e) Currency translation reserve

Currency translation reserve arises from the translation of the financial statements of foreign subsidiaries' assets and liabilities whose functional currencies are different from the presentation currency of the Group.

18 Deferred tax

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The amounts, determined after appropriate offsetting, are shown on the statement of financial position as follows:

	The Company		The Group	
	31 December 2012 RMB'000	31 December 2011 RMB'000	**31 December 2012 RMB'000**	31 December 2011 RMB'000
Deferred tax assets				
Balance at beginning	**–**	–	**–**	5,000
Transfer from income statement (Note 26)	**–**	–	**–**	(5,000)
	–	–	**–**	–
Deferred tax liabilities				
Balance at beginning	**–**	–	**7,377**	7,377
Transfer from income statement (Note 26)	**–**	–	**–**	–
	–	–	**7,377**	7,377

Deferred tax liabilities represent withholding tax payable on dividend to be declared by PRC subsidiaries.

According to the Corporate Income Tax Law and its Implementation Rules, withholding tax is imposed on dividends declared in respect of profit earning by PRC subsidiaries from 1 January 2008 onward. For the Group, the applicable rate for the withholding tax is 10%. In estimating the withholding taxes on dividends expected to be distributed by the subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008, the directors have made an assessment based on the factors which included the dividend policy and the level of capital and working capital required for the Group's operations in the foreseeable future.

19 Provision for guaranteed royalty payments

The Group	31 December 2012 RMB'000	31 December 2011 RMB'000
Provision for guaranteed royalty payments	**2,555**	–
Less: Amount payable within 1 year	**(1,916)**	–
	639	–

During the year, the Group entered into a licensing agreement which requires the Group is to make guaranteed royalty payments on a bi-annual basis until 31 March 2014.

The guaranteed amounts are dominated in United States dollars.

20 Trade and bills payables

The Group	31 December 2012 RMB'000	31 December 2011 RMB'000
Trade payables	**23,956**	6,391
Bills payables	**93,460**	74,460
	117,416	80,851

Trade payables generally have credit terms of 30 days (2011 - 90 days).

Bills payables are secured by fixed deposits pledged to a bank (Note 13).

21 Accrued liabilities and other payables

	The Company		The Group	
	31 December 2012 RMB'000	31 December 2011 RMB'000	**31 December 2012 RMB'000**	31 December 2011 RMB'000
Accrued liabilities	**1,867**	1,821	**11,128**	15,513
Amount owing to director	**2,365**	1,762	**2,365**	1,762
Other payables	**763**	1,516	**36,668**	4,495
VAT payable	**–**	–	**3,176**	2,792
	4,995	5,099	**53,337**	24,562

Amount owing to directors are unsecured, interest free and repayable on demand.

Included in the accrued liabilities is the accrued sale incentive rebates of RMB 7,632,000 (2011 - RMB11,740,000) for incentive to be given to distributors who meet certain sales targets.

Accrued liabilities and other payables are denominated in the following currencies:

	The Company		The Group	
	31 December 2012 RMB'000	31 December 2011 RMB'000	**31 December 2012 RMB'000**	31 December 2011 RMB'000
Hong Kong dollar	**74**	286	**795**	897
Renminbi	**2,384**	2,544	**48,089**	21,396
Singapore dollar	**2,537**	2,269	**2,537**	2,269
US dollar	**–**	–	**1,916**	–
	4,995	5,099	**53,337**	24,562

22 Bank borrowings

	The Company		The Group	
	31 December 2012 RMB'000	31 December 2011 RMB'000	**31 December 2012 RMB'000**	31 December 2011 RMB'000
Bank borrowings (secured)	–	–	**94,000**	80,000

Bank borrowings are denominated in RMB, repayable within one year, and are secured by:

(i) bank borrowings of RMB 40m are secured by the assets of the Group's subsidiaries and guaranteed by a director;

(ii) bank borrowing of RMB 15m is secured by the mortgage of a land use right (Note 4) and a factory building (Note 6) of a subsidiary;

(iii) bank borrowing of RMB 19m is secured by the pledge of account receivable worth RMB 22,382,000 of a subsidiary (Note 10); and

(iv) bank borrowings of RMB 20m are unsecured.

The outstanding bank borrowings of the Group exposed to interest rate risk are as follows:

	The Company		The Group	
	31 December 2012 RMB'000	31 December 2011 RMB'000	**31 December 2012 RMB'000**	31 December 2011 RMB'000
At effective interest rate of 7.19 % per annum (2011 - 3.17 % per annum)	–	–	**94,000**	80,000

Interest-bearing bank borrowings have a fixed interest rate of the contract period.

23 Selling and distribution costs

The Group	31 December 2012 RMB'000	31 December 2011 RMB'000
Salaries and related cost	**3,811**	3,994
Advertisement	**29,924**	56,788
Sale incentive rebate	**7,632**	11,740
Depreciation of outlet fixtures	**35,048**	15,694
Product sales tax supplement	**3,382**	4,194
Others	**10,929**	7,971
	90,726	100,381

24 Finance costs

The Group	31 December 2012 RMB'000	31 December 2011 RMB'000
Interest charges on bank borrowings	**6,411**	4,449

25 Profit before taxation

The Group	Note	31 December 2012 RMB'000	31 December 2011 RMB'000
Profit before taxation is arrived at after charging/(crediting):			
Amortisation of land use rights	4	**365**	363
Amortisation of intangible assets	5	**259**	45
Audit fees paid/payable to			
- auditors of the Company		**960**	839
- other auditors		**76**	68
Depreciation of property, plant and equipment	6	**41,740**	22,590
Property, plant and equipment written off	6	**13**	421
Directors' fees - directors of the Company		**2,200**	2,367
Exchange (gain)/loss		**(688)**	2,427
Minimum lease payments under operating leases		**2,876**	1,200
Research expenses		**562**	2,525
Staff costs			
Directors' remuneration other than fee			
- directors of the Company		**161**	141
- retirement scheme contribution		**36**	34
Key management personnel			
- salaries, wages and related costs		**436**	1,296
- retirement scheme contribution		**102**	100
Other than key management personnel			
- salaries, wages and related costs		**40,828**	35,307
- retirement scheme contribution		**9,910**	12,499
		51,473	49,377

26 Taxation

Reconciliation between tax expense and accounting profit at applicable tax rates is as follows:

The Group	**31 December 2012 RMB'000**	31 December 2011 RMB'000
Current taxation	**5,241**	20,335
Deferred tax asset (Note 18)	**–**	(5,000)
	5,241	15,335
Profit before taxation	**21,450**	65,855
Tax at statutory rate of 25% (2011 – 25%)	**5,363**	16,464
Tax effect of allowance given by tax jurisdiction	**(2,105)**	(4,033)
Tax effect on non-deductible expenses	**1,983**	2,904
	5,241	15,335

Wholly foreign-owned enterprises are subject to the PRC state and local income tax rates pursuant to the income tax laws of the PRC for foreign investment enterprises and foreign enterprises (the "Tax Laws").

As a foreign investment enterprise established under the laws of the PRC, YELI China are entitled to full exemption from national income tax for the first two years and a 50% reduction in national income tax for the next three years (the "Regular Tax Reduction and Exemption Treatment"). The PRC tax authority had informed YELI China that 31 December 2008 was to be its first profitable year for the purpose of determining the tax holiday period. Accordingly, YELI China is in its third tax incentive year and has to pay tax at the rate of 12.5% for the financial year.

27 Other comprehensive income after tax

Disclosure of tax effects relating to each component of other comprehensive income:

The Group	**RMB'000** **Before tax**	**RMB'000** **Tax expenses**	**RMB'000** **Net of tax**
31 December 2012			
Currency translation differences	**237**	**–**	**237**
31 December 2011			
Currency translation differences	980	–	980

28 Earnings per share

The Group

The basic and diluted earnings per share are calculated based on the consolidated profits on the weighted average number of shares in issue of 961,538,000 shares (2011 - 961,841,000 shares) during the financial year. There is no potential dilution on earning for the relevant financial years.

29 Dividends

The Company and The Group	**31 December 2012** **RMB'000**	31 December 2011 RMB'000
Final dividend paid in respect of the previous financial year of RMB Nil (2011 - RMB 0.0065) per share	**–**	6,254

30 Related party transactions

In addition to the related party information disclosed elsewhere in the financial statements, the following are significant transactions with related parties and on negotiated rates:

The Group	31 December 2012 RMB'000	31 December 2011 RMB'000
Entrance fees of intellectual property contract to subsidiary director	–	5,000
Royalties fee on intellectual property contract paid to subsidiary director	24,306	1,080

31 Commitments

(a) Operating leases commitments

The total future minimum lease payments of the Group under non-cancellable operating leases are as follows:

The Group	31 December 2012 RMB'000	31 December 2011 RMB'000
Within one year	960	7,457
In the second to fifth years	1,920	–
	2,880	7,457

The leases on the Group's office and hostel, and factory premises on which rentals are payable will expire on 31 December 2015. The current rent payable is RMB 80,000 per month.

(b) Capital expenditure

The Group	31 December 2012 RMB'000	31 December 2011 RMB'000
Capital expenditure contracted but not provided for:		
- construction of factory and office complex	–	23,196

32 Operating segments

For management purposes, the Group is organised into two reportable operating segments, which are footwear and apparels and accessories. There are no operating segments that have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its operating segments for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as set out in the table below, is measured differently from operating profit or loss in the consolidated financial statements.

Group's financing and income taxes are managed on a group basis and are not allocated to operating segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transaction with third parties, if any.

The segment information provided to the management for the reportable segments is as follows:

	Footwear		**Apparel and accessories**		**Total**	
	2012	2011	**2012**	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Segment Revenue	**622,848**	627,824	**137,412**	285,305	**760,260**	913,129
Segment Results	**63,132**	75,350	**29,507**	80,301	**92,639**	155,651
Interest income					**5,009**	4,532
Unallocated other income					**113**	1,382
Unallocated expenses					**(69,900)**	(91,261)
Finance cost					**(6,411)**	(4,449)
Operating profit					**21,450**	65,855
Income taxes					**(5,241)**	(15,335)
Net profit					**16,209**	50,520
Segment assets	**439,057**	305,106	**56,089**	138,651	**459,146**	443,757
Segment liabilities	**(140,991)**	(72,477)	**(30,401)**	(32,936)	**(171,392)**	(105,413)
Other information						
Capital expenditures	**37,271**	57,071	**7,659**	25,936	**44,930**	83,007
Depreciation of property, plant and equipment	**(35,544)**	(17,686)	**(6,196)**	(4,904)	**(41,740)**	(22,590)
Sale incentive rebate	**(6,253)**	(8,072)	**(1,379)**	(3,668)	**(7,632)**	(11,740)
Amortisation of land use rights and intangibles	**(577)**	(394)	**(47)**	(14)	**(624)**	(408)
Property, plant and equipment written off	**(11)**	(289)	**(2)**	(132)	**(13)**	(421)

32 Operating segments (Cont'd)

The Group	2012 RMB'000	2011 RMB'000
Reported segment assets are reconciled to total assets as follows:		
Segment assets	**495,146**	443,757
Long term prepayments	**43,713**	43,713
Cash and bank balances	**870,168**	828,438
Pledged fixed deposits	**42,865**	39,980
Total assets	**1,451,892**	1,355,888
Reported segment liabilities are reconciled to total liabilities as follows:		
Segment liabilities	**171,392**	105,413
Bank borrowings	**94,000**	80,000
Provision for income tax	**342**	763
Deferred tax liability	**7,377**	7,377
Total liabilities	**273,111**	193,553

There is no geographical segment information presented as the Group is located and operates predominantly in the PRC.

33 Financial risk management objectives and policies

The Group does not have written risk management policies and guidelines. However, the board of directors meets periodically to analyse and formulate measures to manage the Group's exposure to market risk, including principally changes in interest rates and currency exchange rates. Generally, the Group employs a conservative strategy regarding its risk management. As the Group's exposure to market risk is kept at a minimum level, the Group has not used any derivatives or other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes.

As at 31 December 2012, the Group's financial instruments mainly consisted of cash and cash equivalents, trade and other receivables (excluding advances to suppliers and prepayments), trade and bill payables, accrued liabilities and other payables, and bank borrowings.

33 Financial risk management objectives and policies (Cont'd)

33.1 Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument that is denominated in a currency other than respective functional currencies of Group entities will fluctuate due to changes in foreign exchange rates.

The Group's businesses are principally conducted in Renminbi, except that interest income are mainly in Singapore dollar and Renminbi.

As at 31 December 2012, the non-Renminbi assets and liabilities of the Company and the Group are mainly bank deposits and non-trade payables in Singapore dollar. The Group has not entered into any forward exchange contract to hedge its exposure to foreign exchange risk.

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity to a reasonably possible change in SGD exchange rates (against RMB), with all other variable held constant, of the Group's profit net of tax and equity.

		As at 31 December 2012 RMB'000		As at 31 December 2011 RMB'000	
		Profit net of tax	**Equity**	Profit net of tax	Equity
SGD	- strengthened 5% (2011 - 5%)	**+482**	**+482**	+921	+921
	- weakened 5% (2011 - 5%)	**-482**	**-482**	-921	-921

33.2 Interest rate risk

Interest rate risk is the risk that fair value or future cash flows of the Company's and the Group's financial instruments will fluctuate because of changes in market interest rates.

In respect of interest-bearing financial assets and financial liabilities, the following table indicates their effective interest rates at end of the reporting period and the periods in which they reprice or mature, whichever is earlier:

33 Financial risk management objectives and policies (Cont'd)

33.2 Interest rate risk (Cont'd)

The Group

	Note	Effective interest rate	Total	Less than 1 year	1 to 5 years
		%	RMB'000	RMB'000	RMB'000
2012					
Financial assets					
Pledged fixed deposits	**13**	**1.23**	**42,865**	**42,865**	**–**
Financial liabilities					
Bank borrowings	**22**	**7.19**	**94,000**	**94,000**	**–**
2011					
Financial assets					
Pledged fixed deposits	13	0.91	39,980	39,980	–
Financial liabilities					
Bank borrowings	22	3.17	80,000	80,000	–

The Company and the Group are not exposed to any cash flows risk as they do not have any monetary financial instruments with variable interest rates.

33.3 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group's exposure to credit risk arises primarily from bank deposits and trade receivables.

For bank deposits, a majority of the cash at banks is held with reputable financial institutions in the PRC.

For trade receivables, management has a credit control policy in place. Credit evaluations are performed on all customers requiring credit over a certain amount. Transactions are conducted with customers with appropriate credit histories. The credit risk and amount outstanding is monitored on an on-going basis. With this credit evaluation processes, credit control policies and collection procedures in place, the credit risk is mitigated substantially. The Group does not require collateral in respect of financial assets.

The Group performs on-going credit evaluation of its customers' financial condition and requires no collateral from its customers. The allowance for doubtful debts is based upon a review of the expected collectability of all trade and other receivables.

33 Financial risk management objectives and policies (Cont'd)

33.3 Credit risk (Cont'd)

There is no concentration of credit risk.

Further details of credit risks on trade receivables are disclosed in Note 10.

33.4 Liquidity risk

Liquidity risk is the risk that the Company or the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

The Company's and the Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The table below analyses the maturity profile of the Company's and the Group's financial liabilities based on contractual undiscounted cash flows:

The Group	**Less than 1 year RMB'000**
At 31 December 2012	
Trade, bills and other payables	**170,753**
Bank borrowings	**94,000**
	264,753
At 31 December 2011	
Trade, bills and other payables	105,413
Bank borrowings	80,000
	185,413
The Company	
At 31 December 2012	
Trade and other payables	**27,945**
At 31 December 2011	
Trade and other payables	28,250

The Group maintains sufficient level of cash and cash equivalents to meet its working capital requirements.

33 Financial risk management objectives and policies (Cont'd)

33.5 Market price risk

The Group does not hold any quoted or marketable financial instruments; hence it is not exposed to any movement in market prices.

34 Capital management

The Group's objectives when managing capital are:

(a) To safeguard the Group's ability to continue as a going concern;

(b) To support the Group's stability and growth;

(c) To provide capital for the purpose of strengthening the Company's risk management capability; and

(d) To provide an adequate return to shareholders.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities.

The Group also monitors its capital based on the net the debt-to-adjusted capital ratio. Net debt is calculated as borrowings plus trade and other payables less cash and bank balances. Adjusted capital comprises all components of equity less restricted statutory reserve.

The Group's net debt to equity ratio as at 31 December 2012 and 2011 are as follows:

The Group	**2012** **RMB'000**	2011 RMB'000
Total debt	**265,392**	185,413
Less: Cash and bank balances	**(870,168)**	(828,438)
Net cash	**(604,776)**	(643,025)
Total equity	**1,178,781**	1,162,335
Less: Statutory reserve	**(86,173)**	(84,409)
Adjusted capital	**1,092,608**	1,077,926
Net debt-to-adjusted capital ratio	**N/A**	N/A

34 Capital management (Cont'd)

In order to maintain or adjust the capital structure the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, buy back issued shares, obtain new borrowings or sell assets to reduce debt.

There were no changes in the Group's overall approach to capital management during the year. The Group currently does not adopt any formal dividend policy.

35 Financial Instruments

Fair values

The carrying amount of the financial assets and financial liabilities with a maturity of less than one year is assumed to approximate their fair values.

The Group does not anticipate that the carrying amounts recorded at end of reporting period would be significantly different from the values that would eventually be received or settled.

36 Event after reporting date

On 23 February 2013, the Company signed an agreement with Mr Lin Yongjian to extend the Technology License Contract for the breathable shoe technology for another 6 months from 1 January 2013.

STATISTICS OF SHAREHOLDINGS

As at 15 March 2013

Authorised share capital	:	HK$500,000,000
Issued and fully paid-up capital	:	HK$38,461,520
No. of equity securities (Excluding Treasury Shares)	:	961,538,000
Treasury Shares	:	587,000 (0.06% of the total number of issued shares excluding Treasury Shares)
Class of equity securities	:	Ordinary shares of HK$0.04 each
Voting rights	:	One vote per share

STATISTICS OF SHAREHOLDINGS

Size of Shareholdings	No of Shareholders	%	No of Shares	%
1 - 999	173	3.50	76,613	0.01
1,000 - 10,000	970	19.61	6,066,751	0.63
10,001 - 1,000,000	3,754	75.88	349,846,927	36.38
1,000,001 and above	50	1.01	605,547,709	62.98
Total	4,947	100.00	961,538,000	100.00

SUBSTANTIAL SHAREHOLDERS

(Based on the notice of change of interests by Substantial Shareholders to the Company)

	Direct Interest	%	Deemed Interest	%
Lin Shaoxiong[(1)]	282,500,000	29.38	–	–

The percentage of shareholding above is computed based on the total issued hsares of 961,538,000 excluding treasury shares.

Note:

(1) Lin Shaoxiong's shares of 282,500,000 in the share capital of the Company are held in the name of nominee, UOB Kay Hian Pte Ltd.

TWENTY LARGEST SHAREHOLDERS AS AT 15 MARCH 2013

No.	Name	No. of Shares	%
1	UOB KAY HIAN PTE LTD	350,348,500	36.44
2	HSBC (SINGAPORE) NOMINEES PTE LTD	48,246,462	5.02
3	PHILLIP SECURITIES PTE LTD	27,760,822	2.89
4	OCBC SECURITIES PRIVATE LTD	27,720,450	2.88
5	DBS VICKERS SECURITIES (S) PTE LTD	18,493,000	1.92
6	BOON SUAN LEE	13,936,000	1.45
7	MAYBANK KIM ENG SECURITIES PTE LTD	8,581,000	0.89
8	LING HUA EE	6,500,000	0.68
9	TAN POH GHEE	5,649,000	0.59
10	HONG LEONG FINANCE NOMINEES PTE LTD	5,074,000	0.53
11	TAY AH KEE	5,000,000	0.52
12	TAN CHUAN HEONG	4,632,000	0.48
13	NEO MENG HWA	4,025,000	0.42
14	LIM & TAN SECURITIES PTE LTD	3,584,500	0.37
15	BOON SU YIN MARIE	3,388,000	0.35
16	WEE KAM SIAK @ JULIAN WEE KAM SIAK	3,380,000	0.35
17	DBS NOMINEES PTE LTD	3,221,475	0.34
18	GOH KHOON LIM	3,160,000	0.33
19	CHOAH LEONG YEW	3,077,000	0.32
20	CITIBANK CONSUMER NOMINEES PTE LTD	2,956,000	0.31
		548,733,209	57.08

PUBLICLY HELD SHARES

Based on information available to the Company as at 15 March 2013, approximately 70.60% of the Company's shares listed on the Singapore Exchange Securities Trading Limited were held in the hands of the public. Accordingly, the Company has complied with Rule 723 of the Listing Manual of the SGX-ST.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at Room Chengal 1, Crowne Plaza Changi Airport, 75 Airport Boulevard, Singapore 819664 on Monday, 29 April 2013 at 9:00 a.m. to transact the following businesses:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and the Audited Financial Statements of the Company and the Group for the year ended 31 December 2012 together with the Auditors' Report thereon. **(Resolution 1)**

2. To re-elect the following directors of the Company retiring pursuant to Bye-law 86(1) of the Bye-laws of the Company.

   Mr Tham Hock Chee **(Resolution 2)**

   Mr Lin Shaoqin **(Resolution 3)**

   [See Explanatory Note (i)]

3. To approve the payment of directors' fees of S$158,000 for the year ended 31 December 2012 (2011: S$158,000). **(Resolution 4)**

4. To re-appoint Foo Kon Tan Grant Thornton LLP as the Auditors of the Company and to authorise the directors of the Company to fix their remuneration. **(Resolution 5)**

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolutions as Ordinary Resolutions, with or without any modifications:

5. Authority to issue shares **(Resolution 6)**

   (a) That pursuant to Bye-law 12(3) of the Bye-laws of the Company and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited, the directors of the Company be authorised and empowered to:

   (i) issue shares in the Company ("**shares**") whether by way of rights, bonus or otherwise; and/or

   (ii) make or grant offers, agreements or options (collectively, "**Instruments**") that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) options, warrants, debentures or other instruments convertible into shares, at any time and upon such terms and conditions and for such purposes and to such persons as the directors of the Company may in their absolute discretion deem fit; and

(b) (notwithstanding the authority conferred by **this Resolution** may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the directors of the Company while **this Resolution** was in force, provided that:

(i) the aggregate number of shares (including shares to be issued in pursuance of the Instruments, made or granted pursuant to **this Resolution**) and Instruments to be issued pursuant to **this Resolution** shall not exceed 50% of the total number of issued shares (excluding treasury shares) in the capital of the Company (as calculated in accordance with **sub-paragraph (ii) below**), of which the aggregate number of shares and Instruments to be issued other than on a pro rata basis to existing shareholders of the Company shall not exceed 20% of the total number of issued shares (excluding treasury shares) in the capital of the Company (as calculated in accordance with **sub-paragraph (ii) below**);

(ii) subject to such calculation as may be prescribed by the Singapore Exchange Securities Trading Limited, for the purpose of determining the aggregate number of shares and Instruments that may be issued under **sub-paragraph (i) above**, the percentage of issued shares and Instruments shall be based on the total number of issued shares (excluding treasury shares) in the capital of the Company at the time of the passing of **this Resolution**, after adjusting for:

(1) new shares arising from the conversion or exercise of the Instruments or any convertible securities;

(2) new shares arising from exercising share options or vesting of share awards outstanding and subsisting at the time of the passing of **this Resolution**; and

(3) any subsequent bonus issue, consolidation or subdivision of shares;

(c) in exercising the authority conferred by **this Resolution**, the Company shall comply with the provisions of the Listing Manual of the Singapore Exchange Securities Trading Limited for the time being in force (unless such compliance has been waived by the Singapore Exchange Securities Trading Limited) and the Bye-laws of the Company; and

(d) unless revoked or varied by the Company in a general meeting, such authority shall continue in force (i) until the conclusion of the next annual general meeting of the Company or the date by which the next annual general meeting of the Company is required by law to be held, whichever is earlier; or (ii) in the case of shares to be issued in pursuance of the Instruments made or granted pursuant to **this Resolution**, until the issuance of such shares in accordance with the terms of the Instruments.

[See Explanatory Note (ii)]

NOTICE OF ANNUAL GENERAL MEETING

6. Proposed Renewal of Share Buy-Back Mandate **(Resolution 7)**
(to be voted on by taking of a poll)

That:

(a) for the purposes of the Bermuda Companies Act and the Listing Manual of the Singapore Exchange Securities Trading Limited ("**SGX-ST**") and pursuant to the Company's Memorandum of Association and Bye-laws, the directors of the Company be authorised to exercise all the powers of the Company to purchase or otherwise acquire issued ordinary shares in the Company of par value HK$0.04 each ("**Shares**") not exceeding in aggregate the Maximum Limit (as defined below), at such price(s) as may be determined by the directors of the Company from time to time up to the Maximum Price (as defined below), whether by way of:

(i) on-market purchase ("**Market Purchase**") on the SGX-ST; and/or

(ii) off-market purchase in accordance with any equal access scheme as may be determined or formulated by the directors of the Company as they consider fit, which scheme(s) shall satisfy all the conditions prescribed by the Listing Manual ("**Off-market Purchase**"), and

otherwise in accordance with all other laws and regulations, including but not limited to the provisions of the Bermuda Companies Act and the Listing Manual, as may for the time being be applicable ("S**hare Buy-back Mandate**");

(b) unless varied or revoked by the members of the Company in a general meeting, the authority conferred on the directors pursuant to the Share Buy-back Mandate in **paragraph (a) of this Resolution** may be exercised by the directors at any time and from time to time during the period commencing from the date of the passing of this Resolution and expiring on the earlier of:

(i) the date on which the next annual general meeting is held or is required by law or the Bye-laws of the Company to be held;

(ii) the date on which the authority conferred by the Share Buy-back Mandate is revoked or varied by the Shareholders (as hereinafter defined) in a general meeting; or

(iii) the date on which purchases or acquisitions of Shares pursuant to the Share Buy-back Mandate are carried out to the full extent mandated (the "**Relevant Period**");

(c) in **this Resolution**:

"**Maximum Limit**" means that number of issued Shares representing not more than 10% of the total number of issued Shares as at the date of the passing of **this Resolution** unless the Company has, at any time during the Relevant Period, effected a reduction of its share capital in accordance with the applicable provisions of the Bermuda Companies Act, in which event, the total number of Shares shall be taken to be the total number of Shares as altered by the capital reduction. Any Shares which are held as treasury shares will be disregarded for purposes of computing the 10% limit;

"**Maximum Price**", in relation to a Share to be purchased or acquired, means the purchase price (excluding brokerage, stamp duties, commission, applicable goods and services tax and other related expenses) which shall not exceed:

(i) in the case of a Market Purchase, 105% of the Average Closing Price (as hereinafter defined); and

(ii) in the case of an Off-market Purchase, up to 120% of the Highest Last Dealt Price (as hereinafter defined).

For the above purposes:

"**Average Closing Price**" means the average of the closing market prices of the Shares over the last 5 Market Days (a "Market Day" being a day on which the SGX-ST is open for trading in securities), on which transactions in the Shares were recorded, immediately before the day of the Market Purchase and deemed to be adjusted for any corporate action that occurs after the relevant 5 Market Days;

"**Highest Last Dealt Price**" means the highest price transacted for a Share as recorded on the Market Day on which there were trades in the Shares immediately preceding the day of the making of the offer pursuant to the Off-market Purchase; and

"**day of the making of the offer**" means the day on which the Company announces its intention to make an offer for the purchase of Shares from Shareholders, stating the purchase price (which shall not be more than the Maximum Price calculated on the foregoing basis) for each Share and the relevant terms of the equal access scheme for effecting the Off-market Purchase;

(d) the directors of the Company or any one of them be and are authorised to deal with the Shares purchased or acquired by the Company pursuant to the Share Buy-back Mandate in any manner as they think fit, which is permissible under the Bermuda Companies Act and the Listing Manual; and

(e) the directors of the Company and/or any of them be and are authorised to complete and do all such acts and things (including executing such documents as may be required) as they and/or he may consider necessary, expedient, incidental or in the interests of the Company to give effect to the transactions contemplated and/or authorised by **this Resolution**.

7. To transact any other business which may properly be transacted at an Annual General Meeting.

By Order of the Board

Nicole Tan Siew Ping
Company Secretary

Singapore
12 April 2013

Explanatory Notes:

(i) Mr Tham Hock Chee will, upon re-election as a director of the Company, remain as Chairman of the Remuneration Committee, a member of the Nominating Committee and Audit Committee and will be considered independent.

(ii) **Resolution 7**, if passed, will empower the directors of the Company, from the date of this meeting until the date of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to issue shares, make or grant instruments convertible into shares and to issue shares pursuant to such instruments, up to a number not exceeding, in total, 50% of the total number of issued shares (excluding treasury shares) in the capital of the Company, of which up to 20% may be issued other than on a pro rata basis to existing shareholders of the Company.

For determining the aggregate number of shares that may be issued, the percentage of issued shares in the capital of the Company will be calculated based on the total number of issued shares (excluding treasury shares) in the capital of the Company at the time **Resolution 7** is passed after adjusting for new shares arising from the conversion or exercise of the Instruments or any convertible securities, the exercise of share options or the vesting of share awards outstanding or subsisting at the time when **Resolution 7** is passed and any subsequent bonus issue, consolidation or subdivision of shares.

Notes:

1. A registered Shareholder entitled to attend and vote at the annual general meeting ("**AGM**") is entitled to appoint not more than two proxies to attend and vote in his stead. A proxy needs not be a member of the Company.

2. If a registered Shareholder is unable to attend the AGM and wished to appoint a proxy to attend and vote at the AGM in his stead, then he should complete and sign the relevant Shareholder Proxy Form and deposit the duly completed Shareholder Proxy Form at the office of the Company's Singapore Share Transfer Agent, B.A.C.S. Private Limited at 63 Cantonment Road, Singapore 089758 not later than 48 hours before the time appointed for the AGM.

3. A depositor registered and holding Shares through the CDP who/which is (i) an individual but is unable to attend the AGM personally and wishes to appoint a nominee to attend and vote; or (ii) a corporation, must complete, sign and return the Depository Proxy Form and deposit the duly completed Depositor Proxy Form at the office of the Company's Singapore Share Transfer Agent, B.A.C.S. Private Limited at 63 Cantonment Road, Singapore 089758 not later than 48 hours before the time appointed for the AGM.

4. If a Shareholder who has Shares entered against his name in the Depository Register and Shares registered in his name in the Register of Members is unable to attend the AGM and wishes to appoint a proxy, he should use the Depositor Proxy Form and the Shareholder Proxy Form, respectively, for the Shares entered against his name in the Depository Register and Shares registered in his name in the Register of Members.

5. A Depositor who is an individual and who wishes to attend the AGM in person need not take any further action and can attend and vote at the AGM as CDP's proxy without the lodgement of any proxy form.

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