CHINA SPORTS INTERNATIONAL LIMITED

Annual Report 2007

About Us

WE ARE PRINCIPALLY ENGAGED IN THE DESIGN, MANUFACTURE AND SALE OF SPORTS FASHION FOOTWEAR AND THE DESIGN AND SALE OF SPORTS FASHION APPAREL UNDER OUR OWN YELI BRAND. IN ADDITION, WE ALSO PRODUCE SHOES FOR OUR OEM CUSTOMERS UNDER INTERNATIONAL LABELS.

Chairman's Statement

"We achieved record revenue of RMB1,207.1 million which constituted a 74.9% growth as compared with RMB690.0 million in FY2006. We also achieved an increase of 110.7% in profit after income tax from RMB73.6 million in FY2006 to RMB155.1 million in FY2007."

DEAR SHAREHOLDERS

FY2007 has been an exciting and eventful year for our Group. We successfully listed on the Singapore Stock Exchange on 18 July 2007. During our invitation period, we hosted a 3 days outdoor event at the Raffles Green, which was well received by many corporate and public investors. The invitation was approximately 7.9 times subscribed.

We have utilised RMB238.3 million of the IPO proceeds as of 31 December 2007 on acquisition of new manufacturing facilities, advertising and promotion activities, expansion of distribution network, enhancement of product design and development efforts and general working capital.

OPERATING AND FINANCIAL PERFORMANCE

It has been a fruitful year for us in 2007, we achieved record revenue of RMB1,207.1 million which constituted a 74.9% growth as compared with RMB690.0 million in FY2006. We also achieved an increase of 110.7% in profit after income tax from RMB73.6 million in FY2006 to RMB155.1 million in FY2007.

In September 2007, we launched a TV advertising campaign through Hunan TV (湖南卫视) which is one of the most popular TV channels in the PRC. There is a popular game show called 勇往直前 ("Yong Wang Zhi Qian") where celebrities from the PRC and Hong Kong compete in outdoor and indoor games. We were the main title sponsor for the game show and our advertisements were broadcasted between Hunan TV's programs. The result of this advertising campaign has been very encouraging as reflected in our revenue growth of 76.3% in 4Q07 against 4Q06. We have also received proposals from new distributors expressing interest to market our YELI products since the launch of the TV advertising campaign.

OUTLOOK FOR 2008

China sportswear market is expected to have a growth rate of more than 20% per annum, exceeding US$6.2 billion in 2008 according industry sources. I believe that the Beijing 2008 Olympics will drive a rising interest in sporting activities and thus a greater demand for

sportswear. According to unofficial estimates, 500 million people will be participating regularly in some kind of sports or fitness program in the PRC by 2010.

In addition to the 2008 Beijing Olympics games, China will also be hosting other prominent sporting events such as the East Asian Games in Hong Kong, the 11th National Games in Shandong in 2009, the 16th Asian Games in Guangzhou in 2010, and the World University Games in Shenzhen in 2011. As a result, the interest in sports and demand for sporting goods is expected to continue rising.

FUTURE PLANS

With the Beijing 2008 Olympics drawing near, we will continue to explore various forms of advertising avenues to grow our YELI brand value and market share. Recently, we signed an agreement to become the official sponsor for sportswear, apparel and accessories for the Slovak Republic Olympic team during the Beijing 2008 Olympics Games. In addition, our YELI brand logo will be linked to two of the leading websites, www.sohu.com and www.sports.cn, which are the main platforms for Beijing 2008 Olympics related news. Internet advertising banners will also be featured in both websites, increasing our YELI brand exposure and visibility. Apart from HunanTV, we will also start to advertise through the national channel CCTV in 2008.

We will continue to focus on product development and enhancement, advertisement as well as network expansion in 2008. With the recent headcount expansion in our product development team, we will introduce new and broader range of footwear and apparel with trendy and fashionable designs. In addition, we also have plans to launch another high margin product line, accessories in 2008.

APPRECIATION

Finally, I would like to take this opportunity to express my sincere gratitude to my fellow directors on the Board, the management, all the staff and business partners for their invaluable support. I would also like to thank our shareholders who have shown tremendous faith and unwavering support since our listing in July 2007. We are poised to achieve great performance in the coming year and I look forward to your continuing support as we leap towards greater heights in 2008.

Thank you.

Lin Shaoxiong
Chairman & CEO

GROWING OUR SHARE OF THE SPORTS FASHION MARKET BY OFFERING A WIDER PRODUCT RANGE

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GROWING OUR SHARE OF THE SPORTS FASHION MARKET BY OFFERING A WIDER PRODUCT RANGE

OPERATIONS REVIEW

REVENUE

For the year ended 31 December 2007 (“FY2007”), the Group recorded revenue of approximately RMB 1,207.1 million, an increase of approximately RMB 517.1 million or 74.9% over revenue of approximately RMB 690.0 million for the previous year. The increase in revenue was attributable to the expansion of our distribution network and the increase in the average selling price of our footwear products and the increase in sales of YELI apparel.

In FY2007, sales of YELI products increased by approximately RMB 515.6 million due mainly to the successful implementation of our Group’s strategy to increase the sale of our YELI products. The proportion of sales of YELI products over total sales increased to approximately 78% in FY2007 from 62% in FY2006.

In FY2007, our YELI apparel sales was approximately RMB 205.40 million which represented 22% of YELI revenue or approximately 17% of our total revenue as compared to only approximately 2% of our total revenue in FY2006.

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

	FY2007	FY2006	Growth
Point of Sales	Over 2,000*	Over 1,500*	33%

* The above numbers were compiled by aggregating the number of sales outlets provided by each of our distributors.

Average selling price (“ASP”) of footwear:

RMB	FY2007	FY2006	Growth
YELI	63.4	50.3	26%
OEM	63.4	35.2	80%

The distribution network for our YELI products in PRC increased from over 1,500 sales points in FY2006 to more than 2,000 sales points as at 31 December 2007. With the increasing awareness of our YELI brand, we were able to increase the ASP of our YELI footwear products in FY2007 by approximately 26% over FY2006. The ASP of OEM product had also increased by 80% over FY2006. The significant increase was due to our Group‘s strategy of only maintaining the production of OEM products with higher margins.

COST OF GOODS SOLDS AND GROSS PROFIT MARGIN

In line with the increase in revenue, our cost of sales increased by approximately RMB 375.1 million or 66.1% from approximately RMB 567.7 million in FY2006 to approximately RMB 942.8 million in FY2007.

Our gross profit increased by approximately RMB 142.0 million or 116.1% from approximately RMB 122.3 million in FY2006 to approximately RMB 264.3 million in FY2007. Our gross profit margin increased from approximately 17.7% in FY2006 to approximately 21.9% in FY2007. The increase was mainly attributable to the increase in sales of YELI apparel which had higher margins as compared to our footwear products and the improvement in gross profit margins of our footwear products (for both YELI and OEM products) as a result of higher ASP.

OTHER OPERATING INCOME

Other operating income mainly comprises exchange gains arising from foreign currency denominated transactions.

OPERATING EXPENSES

Operating expenses increased by approximately RMB 38.3 million or 182.4% from approximately RMB 21.0 million in FY2006 to approximately RMB 59.3 million in FY2007. At a percentage of revenue, operating expenses have increased to approximately 4.9% in FY2007 from 3.0% in FY2006.

Selling and distribution costs increased by approximately RMB 26.8 million or 167.5% from approximately RMB 16.0 million in FY2006 to approximately RMB 42.8 millions in FY2007. The increase was mainly due to advertising and promotion expenses of approximately RMB 28.9 million incurred for promoting our products to increase our YELI brand value. Selling and distribution costs accounted for approximately 3.5% of our revenue in FY2007 up from 2.3% in FY2006.

Administrative expenses increased by approximately RMB 11.4 million or 224% from approximately RMB 5.1 million in FY2006 to approximately RMB 16.5 million in FY2007. The increase was due mainly to listing expenses of approximately RMB 3.7 million (including audit fee during IPO), payroll of key management personnel and the directors’ remuneration of approximately RMB 1.5 million, relocation expenses of approximately RMB 3.0 million and approximately RMB 0.6

million incurred for the rental of our new office.

FINANCE COSTS

Finance costs in FY2007 were approximately RMB 0.6 million, similar to FY2006.

INCOME TAX

Income tax expense increased by approximately RMB 30.3 million or 111.4% from approximately RMB 27.2 million in FY2006 to approximately RMB 57.5 million in FY2007. The increase was due mainly to the increase in profit before tax in FY2007. The effective tax rate in FY2007 was approximately 27% which was similar to FY2006.

CURRENT ASSETS

Inventories, comprised mainly of raw materials and finished goods, increased by approximately RMB 12.3 million from approximately RMB 10.0 million as at 31 December 2006 to approximately RMB 22.3 million as at 31 December 2007. The increase was in anticipation of the expected increase in demand from customers in 2008.

Trade receivables increased from approximately RMB 89.6 million as at 31 December 2006 to approximately RMB 215.6 million as at 31 December 2007 due mainly to the increase in our revenue and longer credit terms given to our distributors to align with market conditions.

CURRENT LIABILITIES

Trade payables and bills payables increased from approximately RMB 45.1 million as at 31 December 2006 to approximately RMB 62.2 million as at 31 December 2007. The increase was due to the increase in purchases of raw materials to meet the anticipated increase in demand from customers. This was in line with the increase in our inventories.

Accruals and other payables increased from approximately RMB 9.4 million as at 31 December 2006 to approximately RMB 40.4 million as at 31 December 2007. The increase was due to capital expenditure incurred for the expansion of its operations to meet the increase in demand from customers.

As at 31 December 2007, we had cash and bank balances and bank borrowings of approximately RMB 418.4 million and RMB 8.6 million respectively. The increase in cash and bank balances was due mainly to net cash inflow generated from operations and funds raised from the IPO of our Company in July 2007 of approximately RMB 447.3 million. Our bank borrowings remained fairly constant over the past two financial years.

CAPABILITIES ENHANCEMENT

We have added two additional production lines in March and May 2007 to increase our production capacity to meet increased demand.

SUCCESSFUL LISTING IN SGX

On 18 July 2007, China Sports International Limited have successfully listed in SGX.

OUR GROWTH STRATEGIES

We believe that the strategies adopted by the Group highlighted below will enlarge our Group's business and further enhance our brand value.

PRODUCT DESIGN ENHANCEMENT

After we have listed, we have continued to strengthen the product development team with headcount expansion and will continue to introduce new and broader range of footwear and apparel with trendy and fashionable designs which appeal to our target consumers.

ADVERTISING AND PROMOTION ENHANCEMENT

In September 2007, we launched a TV advertising campaign through 湖南卫视 ("HunanTV"), which is one of the most popular TV channels in the PRC amongst the younger audience with entertaining programs such as singing competitions and reality shows. Our agreement with HunanTV included advertising in between HunanTV's programs as well as being a main title sponsor for a popular game show called 勇往直前 ("Yong Wang Zhi Qian"), where celebrities from the PRC and Hong Kong compete in outdoor and indoor games. The feedback and response from distributors since advertising through HunanTV has been encouraging. We have also received proposals from new distributors expressing interest to market our YELI products.

INCREASING OUR VISIBILITY WITH SPECIALTY STORES FOR OUR FASHION FOOTWEAR AND APPARELS

Trendy

INCREASING OUR VISIBILITY WITH SPECIALTY STORES FOR OUR FASHION FOOTWEAR AND APPARELS

Board Of Directors

Mr Lin Shaoxiong

Mr Lin Shaoqin

Mr Lin Yongjian

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 (晋江市青年商会) from 2005 to 2007 and Fujian Province Footwear Association (福建省鞋协会) from 2006 to 2007. He has also been the Honorary Chairman of the Quanzhou City Sino-foreign Association (泉州市中外联谊协会) 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.

Mr Lin Yongjian (林永建)

Non-executive Director

He was appointed onto the Board of Directors of our Company on 4 June 2007. He has more than 15 years of experience in the shoe manufacturing industry. His industry experience and contacts with the business community and authorities are invaluable to our Group, allowing us to establish strong and favourable working relationships with our customers and suppliers. Mr Lin Yongjian started his career in the footwear industry in 1984, learning various aspects of the business. In 1992, he established Yangdai Shoes Factory (洋埭制鞋厂) on his own, which undertook production of footwear for many different local brands. Subsequently in 1997, he set up Nolasco (Philippines) in the Philippines before returning to the PRC in 1998 to set up Hengfa Light Industry. He has led the growth and development of Hengfa Light Industry for the past nine years. Mr Lin Yongjian graduated from the Yangdai Secondary School (Private) in 1967.

Ms Lai Chin Yee

Mr Tham Hock Chee

Mr Sam Kok Yin

Ms Lai Chin Yee (黎静仪)

Independent Director

She was appointed as our Lead Independent Director on 4 June 2007. She has more than 20 years of experience in auditing, taxation, finance and accounting. She is currently the Finance Director of Qian Hu Corporation Limited, a company listed on the Singapore Exchange ("SGX-ST") Prior to joining Qian Hu Corporation Limited in 2000, Ms Lai was an auditor with international accounting firms since 1987. She graduated with a Bachelor degree in Accountancy from the National University of Singapore and is a Fellow of the Institute of Certified Public Accountant of Singapore (FCPA).

Mr Tham Hock Chee (谭学持)

Independent Director

Mr Tham was appointed as our Independent Director on 4 June 2007. He is also an independent director of Sunpower Group Ltd, a company listed on the SGX-ST. 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 he was responsible 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 Sam Kok Yin (沈国贤)

Independent Director

Mr Sam was appointed as our Independent Director on 4 June 2007. He is currently also a director of Perennial Advisory Pte. Ltd., a company involved in investments and financial consultancy. Mr Sam started his career as a practising Advocate and Solicitor in 2001. He was a Director, and also headed the China Practice, at Yeo Wee Kiong Law Corporation before he left legal practice on 31 March 2007. In 2004, he was appointed as a Singapore-China Young Business Ambassador as part of a program organised by the Singapore International Foundation. He holds an honours degree in law from the National University of Singapore.

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 and an Associate in the Hong Kong Institute of Chartered Secretaries and Institute of Chartered Secretaries and Administrators.

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 Cao Faquan (曹发全)

Mr Cao joined Hengfa Light Industry Limited as Production Assistant since 2000. In 2004, he was appointed as our Human Resource Manager and was redesignated to our Technical and Assurance Manager effective from 15 January 2008. He mainly involved for providing technical advice on production of the footwear and ensuring the production quality of our footwear. Before joining our Group, he had been in the footwear industry more than 6 years. He graduated from Longyan City Occupation Secondary School (龙岩市职业中专学校) in 1992.

Mr Fu Chengzhong (傅成忠)

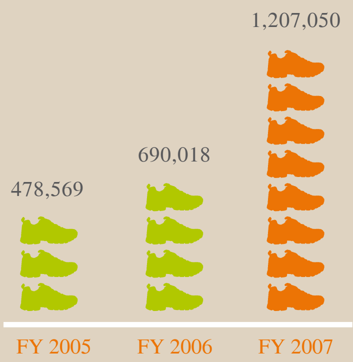
Mr Fu is our Production Manager. He is responsible for overseeing our Group's overall production activities. He joined us as an Assistant General Manager at our Group's inception in 1998, and was later appointed Human Resources Manager in 2003. In 2004, he relinquished his position as Human Resources 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 Xu Tianhui (许天惠)

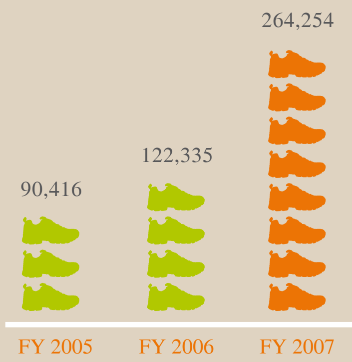
Mr Xu joined as our Human Resources Manager in 2008. He is mainly responsible for all our human resources matters. Before joining us, he had taken various positions in human resources department in different industries. He graduated from the University of Jeimei (集美大学).

Financial Highlights

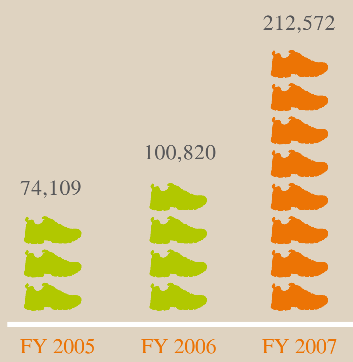
Revenue (RMB'000)



Gross Profit (RMB'000)

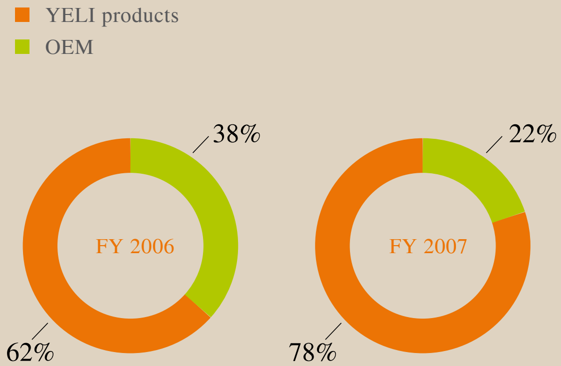


Profit Before Income Tax (RMB'000)

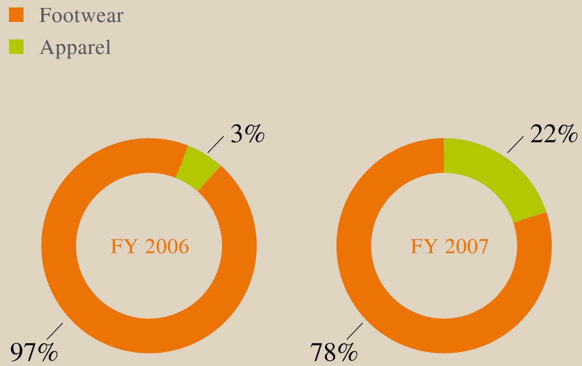


Profit After Income Tax (RMB'000)

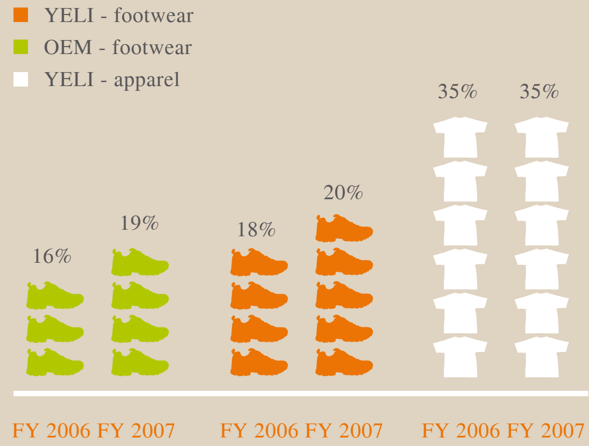
Breakdown of Revenue by Business Lines



Breakdown of YELI revenue by product segment



Gross Profit Margin by products



GROWING OUR SHARE OF THE SPORTS FASHION MARKET BY OFFERING A WIDER PRODUCT RANGE

Lively

BUILDING AWARENESS OF OUR YELI BRAND THROUGH ADVERTISING ON TV AND RAISING OUR PROFILE AT SPORTING EVENTS

Corporate Information

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

DIRECTORS

Mr Lin Shaoxiong
Mr Lin Shaoqin
Mr Lin Yongjian
Ms Lai Chin Yee *(Lead Independent Director)*
Mr Tham Hock Chee *(Independent Director)*
Mr Sam Kok Yin *(Independent Director)*

AUDIT COMMITTEE

Ms Lai Chin Yee *(Chairman)*
Mr Sam Kok Yin
Mr Tham Hock Chee

REMUNERATION COMMITTEE

Mr Tham Hock Chee *(Chairman)*
Ms Lai Chin Yee
Mr Sam Kok Yin

NOMINATING COMMITTEE

Mr Sam Kok Yin *(Chairman)*
Ms Lai Chin Yee
Mr Tham Hock Chee

SECRETARIES

Ms Nicole Tan Siew Ping
Ms Long Hsueh Ching

SHARE REGISTRAR

B.A.C.S. Private Limited
63 Cantonment Road
Singapore 089758

BANKERS

Agricultural Bank of China
Bank of China
China Citic Bank
Industrial Bank Co. Limited
Quanzhou City Commercial Bank
The Bank of East Asia Limited
China Merchants Bank

AUDITORS

Foo Kon Tan Grant Thornton
Certified Public Accountants
47 Hill Street #05-01
Singapore Chinese Chamber of Commerce & Industry Building
Singapore 179365
Partner-in-charge: Mr Wong Kian Kok
(appointed since financial year 2007)

- The initial public offering of the Company was sponsored by Stirling Coleman Capital Limited. Stirling Coleman Capital Limited assumes no responsibility for the contents of this Annual Report.

Corporate Governance Report

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 2005 (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 success of the company. The Board works with Management to achieve this, and Management remains accountable to the Board.

The Board of Directors comprises:

CG Guideline 4.6

		Date of Appointment	Date of last re-election
Mr Lin Shaoxiong	(Executive Chairman and CEO)	9 April 2007	N.A.
Mr Lin Shaoqin	(Executive Director)	10 April 2007	N.A.
Mr Lin Yongjian	(Non-Executive Director)	4 June 2007	N.A.
Ms Lai Chin Yee	(Lead Independent Director)	4 June 2007	N.A.
Mr Tham Hock Chee	(Independent Director)	4 June 2007	N.A.
Mr Sam Kok Yin	(Independent Director)	4 June 2007	N.A.

The detailed profiles of the directors are set out on page 10 of this Annual Report.

Corporate Governance Report

The Board's role is to:

- provide entrepreneurial leadership, set strategic aims, and ensure that the necessary financial and human resources are in place for the Group to meet its objectives; CG Guideline 1.1
- establish a framework of prudent and effective controls which enables risk to be assessed and managed;
- review Management performance; and
- set the Group's values and standards, and ensure that obligations to shareholders and others are understood and met.

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.

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 acquisition and disposal, corporate or financial restructuring, mergers and acquisitions, share issuance, dividends policy and major corporate policies on key areas of operation, the release of quarterly, half yearly and full year results and interested person transactions of a material nature. CG Guidelines 1.5, 1.6 and 1.7

The Board also ensures that incoming new Directors are familiarised with the Group's businesses and corporate governance practices upon their appointment to facilitate the effective discharge of their duties.

A formal letter is provided to each director upon his appointment, setting out the director's duties and obligations.

To assist the Board in the discharge of its responsibilities, the Board has established Audit Committee ("AC"), Remuneration Committee ("RC"), and Nominating Committee ("NC"). These 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

Corporate Governance Report

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

Name	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	2	2	1*	1*	N.A	N.A	N.A	N.A
Mr Lin Shaoqin	2	1	N.A	N.A	N.A	N.A	N.A	N.A
Mr Lin Yongjian	2	0	N.A	N.A	N.A	N.A	N.A	N.A
Ms Lai Chin Yee	2	2	2	2	2	2	1	1
Mr Tham Hock Chee	2	2	2	2	2	2	1	1
Mr Sam Kok Yin	2	2	2	2	2	2	1	1

* 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. No individual or small group of individuals should be allowed to dominate the Board's decision making.

The Board comprises two executive Directors, one non-executive Director and three independent non-executive Directors.

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 possess the relevant background, experience and knowledge in business, legal, finance and management skill critical to the Group's business to enable the Board to make sound and well-considered decisions.

Principle 2, CG Guidelines 2.1 and 4.3

The NC's review of the independence of each Director for financial year 2007 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 judgment on corporate affairs and provide the Management with a diverse and objective perspective on issue, and further, that no individual or small group of individuals dominate the Board's decision making process.

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 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. The Board and NC have strived to ensure that members possess the background, experience, knowledge and skills necessary to promote China Sports' business and governance process, so as to enable the Board to make balanced and well-considered decisions. The Board and the NC are of the view that its directors as a group possess the necessary competencies necessary to lead and govern the Company effectively.

CG Guideline 2.4

Corporate Governance Report

Although all the directors have an equal responsibility for the Group's operations, the role of these independent non-executive 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, not only of the shareholders, but also of employees, customers, suppliers and the many communities in which the Group conducts business. The non-executive directors help to develop proposals on strategy. The non-executive directors also review the performance of Management in meeting agreed goals and objectives, and monitor the reporting of performance.

CG Guideline 2.5

Principle 3: There should be a clear division of responsibilities at the top of the company – the working of the Board and the executive responsibility of the company's business – which will ensure a balance of power and authority, such that no one individual represents a considerable concentration of power.

There is a clear division of responsibilities at the top management 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 executive management performance on a periodic basis.

CG Guidelines 3.1. 3.2 and 3.3

Mr Lin Shaoxiong is our Chairman and CEO. In view of Mr Lin Shaoxiong's concurrent appointment as our Chairman and CEO, we have appointed Ms Lai Chin Yee as our lead Independent Director, pursuant to the recommendations in Commentary 3.3 of the Code of Corporate Governance 2005. In accordance with the recommendations in the said Commentary 3.3, the lead independent director will be available to shareholders where they have concerns which contact through the normal channels of our Chairman and CEO has failed to resolve or for which such contact is inappropriate.

The Chairman's primary function is to manage the business of the Board and the Board committees, and to promote harmonious relations with the shareholders. The Chairman's role with regard to the Board proceedings is as follows:

CG Guideline 3.2

- to schedule meetings that enable the Board to perform its duties responsibly while not interfering with the flow of the Group's operations;
- to prepare meeting agenda;
- to exercise control over quality, quantity and timeliness of the flow of information between Management and the Board;
- to assist in ensuring compliance with the Group's guidelines on corporate governance; and
- to monitor communications and relations between the Company and its shareholders, between the Board and Management, and between executive and non-executive directors and independent and non-independent directors, with a view to encouraging constructive relations and dialogue amongst them.

Corporate Governance Report

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

Nominating Committee

The NC comprises the following non-executive and independent directors: CG Guideline 4.1

Mr Sam Kok Yin (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 last financial year ended 31 December 2007. The Chairman of the NC is neither a substantial shareholder of the Company nor directly associated with a substantial shareholder of the Company. 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 Guideline 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;
- to review, assess and recommend nominees or candidates for appointment or election to the Board, having regard to his requisite qualifications and competency and whether or not he is independent and in the case of a re-nomination, to his contribution and performance (e.g. attendance, preparedness, participation and candour);

Corporate Governance Report

- to determine, on an annual basis, if a Director is independent bearing in mind the circumstances set forth in Guideline 2.1 of 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 should be considered independent. Conversely, the NC has the discretion to determine that a director is non-independent even if the said director does not fall under the circumstances set forth in Guideline 2.1 of the Code;
- to make recommendations to the Board for the continuation (or not) in services of any Director who has reached the age of seventy (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 duties as a Director, particularly when he has multiple board representations;

  The NC shall 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;
- the NC shall 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;
- 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 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 are eligible for re-election. CG Guideline 4.5

Corporate Governance Report

In its search, nomination and selection process for new directors, the NC identifies the key attributes that an incoming director should have, based on a matrix of the 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 shortlisting process. If candidates identified from this process are not suitable, 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.

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 views in this regard.

CG Guideline 5.4

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 Guideline 2.1 of the Code and any other salient factors. Following its annual review, the NC has endorsed the following independence status of Mr Sam Kok Yin, Mr Tham Hock Chee and Ms Lai Chin Yee.

CG Guideline 4.3

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.

CG Guideline 4.4

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

The Board has implemented a process 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 of the Board's performance and effectiveness as a whole and carried out a review of the independence of Directors.

CG Guidelines 5.1 and 5.2

Principle 6: In order to fulfil their responsibilities, Board members should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis.

The Board has separate and independent access to senior management and the Company Secretaries 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 in advance of meetings for them to be adequately prepared for meetings and senior management are, where necessary, in attendance at the Board meetings. A Company Secretary attends all Board meetings and meetings of the Audit, Nominating and Remuneration Committees. The Company Secretaries administer, attend and prepare minutes of Board and Board Committee meetings, and assist the Chairman in ensuring that Board procedures are followed and reviewed in accordance with the Company's Bye-laws so that the Board functions effectively and the relevant rules and regulations applicable to the Company are complied with.

CG Guidelines 6.1, 6.2 and 6.3

Corporate Governance Report

Each director has the right to seek independent legal and other professional advice, where necessary, in order to fulfil their duties and responsibilities as directors. Any expense incurred in this aspect shall be borne by the Group. CG Guideline 6.5

The Board receives from the 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 circulates quarterly financial reports to the AC which includes the income statement, balance sheet and cash flow statement of the Group, transactions between the Group and any interested person (namely, the Directors or any of the Controlling Shareholders or their Associates) and latest corporate developments. CG Guideline 10.2

(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. Principle 7

Remuneration Committee

The RC comprises the following non-executive and independent directors: CG Guideline 7.1

Mr Tham Hock Chee (Chairman)
Mr Sam Kok Yin
Ms Lai Chin Yee

The principal responsibilities of the RC are:

- 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/those reporting directly to the Chairman/CEO of the Group/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 and Directors. CG Guideline 7.2

Corporate Governance Report

- 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.

- 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.

The RC meets at least once annually and had full attendance by its committee members during the last financial year ended 31 December 2007. The RC has adopted its own terms of reference in compliance with the Code that describes the responsibilities of the members.

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

Principle 8: The level of remuneration should be appropriate to attract, retain and motivate the directors needed to run the company successfully but companies should avoid paying more than is necessary for this purpose. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance.

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

In structuring a compensation framework for executive Directors and key executives, the Committee seeks to link a proportion of executive compensation to the Group's performance. The RC's recommendation are made in consultation with the Chairman of the Board and submitted for endorsement by the entire Board. CG Guideline 8.1

An appropriate and attractive level of remuneration has been set to attract, retain and motivate Directors and staff. The remuneration package of the key executives is made up of both fixed and variable components, and the remuneration of key executives and executive Directors is based on the performance of the Group as a whole and their individual performance. Annual increments and adjustments to remuneration are reviewed and approved taking into account the results of the annual review made by the Executive Directors and the various heads of department. All Non-Executive Directors are paid Directors' fees that are subject to shareholders' approval at the Annual General Meetings. CG Guideline 8.2

Guideline 8.3
Commentary 8.6

The service contracts for executive directors are for fixed appointment periods which are not excessively long and they do not contain onerous removal clauses. Notice periods are generally six months or less in service contracts for executive directors and in the terms of employment of senior management. The RC is responsible for reviewing the compensation commitments, if any, that the directors' contracts of service entail in the event of early termination.

Corporate Governance Report

DISCLOSURE ON REMUNERATION

Principle 9, Guidelines 9.1, 9.2 and 9.4

Directors	Salary %	Bonus %	Benefits %	Director Fees %	Total %
Below $250,000					
Lin Shaoxiong	100	–	–	–	100
Lin Shaoqin	100	–	–	–	100
Lin Yongjian	–	–	–	–	–
Lai Chin Yee	–	–	–	100	100
Tham Hock Chee	–	–	–	100	100
Sam Kok Yin	–	–	–	100	100
Key Executives	**Salary %**	**Bonus %**	**Benefits %**	**Director Fees %**	**Total %**
Below $250,000					
Alex Chan Chiu Hung	100	–	–	–	100
Kang Weisheng	89	6	5	–	100
Cao Faquan	91	7	2	–	100
Fu Chengzhong	91	8	1	–	100

Immediate Family members of Directors or CEO

CG Guideline 9.3

There are no immediate family members of Directors or CEO in employment with the Group and whose remuneration exceeds S$150,000 during FY2007.

(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 updates 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

Corporate Governance Report

Principle 11: The Board should establish an Audit Committee (“AC”) with written terms of reference, which clearly set out its authority and duties.

Audit Committee

The AC comprises the following Directors:

CG Guidelines 11.8 and 11.1

Ms Lai Chin Yee (Chairman)
Mr Tham Hock Chee
Mr Sam Kok Yin

The AC has adopted its own terms of reference in compliance with the Code that describes the responsibilities of the members.

The AC held two meetings during the financial year. These meetings were attended by the Chief Financial Officer, the CEO and external auditors were also present at the relevant junctures during these meetings.

CG Guideline 11.5

The AC comprises three Directors, all are independent.

CG Guideline 11.1

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.

CG Guideline 11.2

The AC has written Terms of Reference endorsed by the Board, setting out their duties and responsibilities. The AC is authorised by the Board to investigate any matter within its Terms of Reference and has full access to, and co-operation of the Management, with full discretion to invite any director or executive officer to attend its meetings. It has reasonable resources to enable it to discharge its functions properly. 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:

Principle 11 and CG Guideline 11.3

CG Guidelines 11.4, 11.6, 11.8 and 12.1.

- to review with the external auditors:

  (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.

Corporate Governance Report

- 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 would 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 with the internal auditors without the presence of Management, at least annually, to discuss any problems and concerns they may have. The external auditor has 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;

Corporate Governance Report

- 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;

- 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 as set out in Guideline 12.1 of the Code of Corporate Governance. Guideline 12.1 states that the AC should review the adequacy of the Company's internal financial controls, operational control and compliance controls, and risk management policies and systems established by the Management (collectively "the 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;

- 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;

- 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;

Corporate Governance Report

- 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 interested person transactions (as defined in Chapter 9 of the Listing Manual) (each, an "IPT") 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;
- 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 (in the event trade transactions with Interested Persons in aggregate account for more than 5% of the total sales or purchases in the preceding year, as the case may be), and any follow up action taken by the AC, if any;
- to review the payment terms for IPTs (not previously approved by 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 Chief Financial Officer to ensure that the Chief Financial Officer 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

Corporate Governance Report

- to undertake generally such other functions and duties as may be required by law or the Listing Manual, and by such amendments made thereto from time to time;

Apart from the duties listed above, the AC shall commission and review the findings of internal investigations in to 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 a material impact on our Company's operating results and/or financial position.

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 incorrect 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 a recurrence and (iii) administrative, disciplinary, civil or other actions that are initiated following the completion of investigations are appropriate, balanced and fair.

Management has put in place, and the AC has endorsed, arrangements by which staff of the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The objective for such arrangement is to ensure independent investigation of such matters and for appropriate follow-up action.

CG Guideline 11.7

The AC is satisfied with the independence and objectivity of the external auditors and recommends to the Board the nominating of the external auditors for re-appointment. The AC has conducted an annual review of all non-audit services provided by the auditors and is satisfied that the nature and extent of such services do not affect the independence of the external auditors.

CG Guidelines 11.6 and 11.4(a)

Principle 12: The Board should ensure that the Management maintains a sound system of internal controls to safeguard the shareholders' investments and the company's assets.

Principle 13: The company should establish an internal audit function that is independent of the activities it audits.

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, and for reviewing the adequacy and integrity of those systems on an annual basis. It should be noted, however, that such systems are designed to manage rather than to eliminate the risk of failure to achieve business objectives. In addition, it should be noted that any system can provide only reasonable, and not absolute, assurance against material misstatement of loss, and include the safeguarding of assets, the maintenance of proper accounting records, the reliability of financial information, compliance with appropriate legislation, regulation and best practice, and the identification and containment of business risk.

CG Guideline 12.1

Corporate Governance Report

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.

Principle 11 and 13
CG Guidelines 13.1 and 13.2

The internal auditors have a direct and primary reporting line to the AC 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 is adequately resourced and has appropriate standing within the Company.

CG Guideline 13.3

The AC and the Board have reviewed the Company's risk assessment based on the reports of the internal auditors and external auditors and are assured that adequate internal controls, including financial, operational and compliance control and risk management, are in place.

CG Guidelines 12.1 and 12.2

(D) COMMUNICATION WITH SHAREHOLDERS

Principle 14: Companies should engage in regular, effective and fair communication with shareholders.

Principle 15: Companies should encourage greater shareholder participation at Annual General Meetings and allow shareholders the opportunity to communicate their views on various matters affecting the company.

The Company recognises the importance of providing the Board with a continual flow of relevant information on an accurate and timely basis so that it can discharge its duties effectively. It also believes in timely, fair and adequate disclosure of relevant information to shareholders and investors so that they will be apprised of developments that may have a material impact on the Company's securities. The Company does not practice selective disclosure. All information of the Company is published through the SGXNET and where appropriate, through media releases. 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/**.

CG Guidelines 14.1 and 14.2

All shareholders of the Company will receive the annual report and notice of Annual General Meeting (AGM). At general meetings of shareholders, 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 Audit, Remuneration and Nominating Committees will normally be present at AGM to answer any questions relating to the work of these Committees. The external auditors will be also present at the AGM to assist the Directors in answering questions from shareholders.

CG Guidelines 15.1 and 15.3

Corporate Governance Report

The Group believes in encouraging shareholders' participation at general meetings. 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). CG Guideline 15.1

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 15.2

DEALINGS IN SECURITIES

The Company acknowledges the importance to adopt its own internal Code of Conduct on Dealings in Securities 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 (18) of the Listing Manual of the SGX-ST. SGX 1207 (18)

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

Save as disclosed in the on page 112 of Company's Prospectus dated 9 July 2007, 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 2007.

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.

Financial Contents

Directors' Report

The directors submit this report to the members together with the audited consolidated financial statements of the Group and balance sheet of the Company for financial year ended 31 December 2007.

Names of directors

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

Lin Shaoxiong	
Lin Shaoqin	
Lin Yongjian	
Lai Chin Yee	(Lead Independent Director)
Sam Kok Yin	(Independent Director)
Tham Hock Chee	(Independent Director)

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 the object of which 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.

Directors' Report

Directors' interest in shares or debentures

According to the Register of Directors' Shareholdings, none of the directors who held office at the end of the financial year was interested in shares or debentures of the Company and its related corporations except as follows:

	Number of ordinary shares Shares registered in the name of director	
	As at date of appointment	**As at 31 December 2007 and 21 January 2008**
The Company - China Sports International Limited		
Lin Shaoxiong	10,000	**113,000,000**
Li Tung Kwo (resigned on 10 April 2007)	10,000	**100,650,000**

Share options

No options were granted during the financial year to take up unissued shares of the Company or of its subsidiary.

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

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

Audit Committee

The Audit Committee comprises the following members:

Lai Chin Yee (Chairman)
Sam Kok Yin
Tham Hock Chee

Directors' Report

The Audit Committee carried out its function in accordance with the Listing Manual of the Singapore Exchange Trading Limited ("SGX-ST") and the Code of Corporate Governance.

Functions performed by the Audit Committee are described in the report on Corporate Governance included in the Annual Report.

The Audit Committee nominated Foo Kon Tan Grant Thornton for re-appointment as external auditors of the Company at the forthcoming Annual General Meeting.

Independent Auditors

The independent auditors, Foo Kon Tan Grant Thornton, Certified Public Accountants, have expressed their willingness to accept re-appointment.

On behalf of the Directors

LIN SHAOXIONG

LIN SHAOQIN

Dated: 28 February 2008

Statement by Directors

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of Singapore Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

In the opinion of the directors, the accompanying balance sheets, consolidated income statement, consolidated statement of changes in equity and the consolidated cash flow statement, together with the notes thereon, are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the results of the business, 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

LIN SHAOXIONG

LIN SHAOQIN

Dated: 28 February 2008

Independent Auditors' Report

to the Members of China Sports International Limited

We have audited the accompanying financial statements of China Sports International Limited ("the Company") and its subsidiaries ("the Group"), which comprise the balance sheets of the Company and of the Group as at 31 December 2007, the income statement, statement of changes in equity and cash flow statement of the Group for the financial year ended 31 December 2007, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of Singapore Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' 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 the audit to obtain reasonable assurance 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 auditors' 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 directors, 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 balance sheet of the Company are properly drawn up in accordance with the provisions of Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and the results, changes in equity and cash flows of the Group for the financial year ended 31 December 2007.

Foo Kon Tan Grant Thornton
Certified Public Accountants
Partner in charge: Wong Kian Kok
Singapore, 28 February 2008

Balance Sheets

		The Company	The Group	
		31 December 2007	31 December 2007	31 December 2006
	Note	RMB'000	RMB'000	RMB'000
ASSETS				
Non-Current				
Property, plant and equipment	7	**4**	**60,384**	16,718
Intangible assets	8	**–**	**8,571**	2,755
Subsidiaries	9	**375,222**	**–**	–
		375,226	**68,955**	19,473
Current				
Inventories	10	**–**	**22,309**	9,909
Trade receivables	11	**–**	**215,636**	89,601
Other receivables	12	**2**	**9,380**	800
Amount due from a subsidiary	13	**31,327**	**–**	–
Cash and cash equivalents	14	**9,554**	**418,354**	6,910
		40,883	**665,679**	107,220
Total assets		**416,109**	**734,634**	126,693
EQUITY AND LIABILITIES				
Capital and reserves				
Share capital	15	**26,419**	**26,419**	18,874
Reserves	16	**387,520**	**582,289**	38,252
Total equity		**413,939**	**608,708**	57,126
Non-Current Liabilities				
Deferred tax liabilities	17	**–**	**1,794**	–
		–	**1,794**	–

Balance Sheets

	Note	The Company 31 December 2007 RMB'000	The Group 31 December 2007 RMB'000	The Group 31 December 2006 RMB'000
Current Liabilities				
Trade and bills payables	18	–	**62,234**	45,070
Other payables	19	**2,170**	**40,378**	9,401
Borrowings	20	–	**8,560**	8,150
Tax payable		–	**12,960**	6,946
		2,170	**124,132**	69,567
Total equity and liabilities		**416,109**	**734,634**	126,693

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

Consolidated Income Statement

	Note	31 December 2007 RMB'000	31 December 2006 RMB'000
Revenue	5	**1,207,050**	690,018
Cost of sales		**(942,796)**	(567,683)
Gross profit		**264,254**	122,335
Other operating income	5	**8,184**	119
Selling and distribution expenses	6	**(42,768)**	(15,978)
Administrative expenses		**(16,504)**	(5,063)
Finance cost	21	**(594)**	(593)
Profit before taxation	22	**212,572**	100,820
Income tax expense	23	**(57,483)**	(27,232)
Profit after taxation for the year attributable to shareholders		**155,089**	73,588
Earnings per share (RMB cents)			
- Basic	25	**54.90**	31.07

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

Consolidated Statement of Changes in Equity

	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000	Exchange reserve RMB'000	Statutory reserve RMB'000	Retained profits RMB'000	Total RMB'000
Balance at 1 January 2006	8,462	66	–	–	12,939	5,059	26,526
Net profit for the year	–	–	–	–	–	73,588	73,588
Total recognised income for the year	–	–	–	–	–	73,588	73,588
Issue of share capital	10,412	–	–	–	–	–	10,412
Transfer to statutory reserves	–	–	–	–	7,363	(7,363)	–
Dividend of RMB2.97 per share declared and paid	–	–	–	–	–	(53,400)	(53,400)
Balance at 31 December 2006	18,874	66	–	–	20,302	17,884	57,126
Merger reserve arising from acquisition of subsidiary	–	–	801	–	–	–	801
Currency translation reserve	–	–	–	(2,428)	–	–	(2,428)
Net profit/(loss) recognised directly in equity	–	–	801	(2,428)	–	–	(1,627)
Net profit for the year	–	–	–	–	–	155,089	155,089
Total recognised income and expense for the year	–	–	801	(2,428)	–	155,089	153,462
Adjustment of share capital arising from reorganisation	(1,132)	(66)	–	–	–	–	(1,198)
Arising from pre-IPO investors	923	17,234	–	–	–	–	18,157
Arising from public listing	7,754	373,407	–	–	–	–	381,161
Transfer to statutory reserve	–	–	–	–	15,531	(15,531)	–
Balance at 31 December 2007	**26,419**	**390,641**	**801**	**(2,428)**	**35,833**	**157,442**	**608,708**

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

Consolidated Cash Flow Statement

	31 December 2007 RMB'000	31 December 2006 RMB'000
Cash Flows from Operating Activities		
Profit before taxation	**212,572**	100,820
Adjustments for:		
Depreciation of property, plant and equipment	**2,658**	1,921
Amortisation of intangible assets	**199**	57
Gain on disposal of property, plant and equipment	**(73)**	–
Interest expense	**594**	593
Interest income	**(1,294)**	(119)
Exchange difference in translation	**(1,628)**	–
Operating profit before working capital changes	**213,028**	103,272
Change in operating assets and liabilities		
- inventories	**(12,400)**	16,823
- trade receivables	**(126,035)**	(46,789)
- other receivables	**(8,580)**	(800)
- trade and bills payables	**17,164**	5,494
- other payables	**14,943**	2,018
Net cash generated from operations	**98,120**	80,018
Interest received	**1,294**	119
Interest paid	**(594)**	(593)
Income tax paid	**(49,675)**	(25,079)
Net cash generated from operating activities	**49,145**	54,465
Cash Flows from Investing Activities		
Acquisition of intangible assets	**(6,015)**	(707)
Acquisition of property, plant and equipment (Note A)	**(30,709)**	–
Bank deposit pledged	**1,540**	(1,540)
Proceeds from disposal of property, plant and equipment	**493**	–
Net cash used in investing activities	**(34,691)**	(2,247)

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

Consolidated Cash Flow Statement

	31 December 2007 RMB'000	31 December 2006 RMB'000
Cash Flows from Financing Activities		
Proceeds from short-term loan	**8,560**	7,600
Repayment of short-term loan	**(8,150)**	(14,140)
Proceeds from issue of shares	**417,510**	10,412
Issue of share expense	**(19,390)**	–
Payment of dividend	**–**	(53,400)
Net cash generated from/(used in) financing activities	**398,530**	(49,528)
Net increase in cash and cash equivalents	**412,984**	2,690
Cash and cash equivalents at beginning of year	**5,370**	2,680
Cash and cash equivalents at end of year (Note 14)	**418,354**	5,370

Note A: During the financial year, the Group acquired property, plant and equipment with an aggregate cost of RMB46,743,070 (2006: Nil) of which RMB16,034,375 remains outstanding as at year end (Note 19).

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

Notes to the Financial Statements

1 General information

The financial statements of the Company and of the Group for the year ended 31 December 2007 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 the Initial Public Offering ("IPO").

The Company 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 subsidiary are stated in Note 9.

2 The Reorganisation

The Company was incorporated in Bermuda on 27 March 2007 under the Bermuda Companies Act as an exempted company with limited liability.

At the date of incorporation, the authorised share capital of the Company was HK$100,000 comprising 100,000 ordinary shares of HK$1.00 each with 20,000 ordinary shares of HK$1.00 each were issued nil-paid to Lin Shaoxiong and Li Tung Kwo.

A reorganisation exercise was undertaken by the Group to rationalise the corporate structure for the Invitation ("the Reorganisation"). Pursuant to the Reorganisation, the following changes were made to the Company's share capital:

(a) On 10 April 2007, the authorised share capital of the Company was increased from HK$100,000 comprising 100,000 ordinary shares of HK$1.00 each to HK$50,000,000 comprising 50,000,000 ordinary shares of HK$1.00 each;

(b) Pursuant to the Share Swap Agreement dated 10 April 2007, in consideration for the acquisition of Theme Way Limited ("Themeway (HK)") from Lin Shaoxiong and Li Tung Kwo, the Company issued on 10 April 2007 17,980,000 ordinary shares of HK$1.00 each credited as fully paid to Lin Shaoxiong and Li Tung Kwo and credited as fully paid, the 20,000 ordinary shares of HK$1.00 each in the capital of the Company held by Lin Shaoxiong and Li Tung Kwo, which had been previously issued nil-paid;

Notes to the Financial Statements

2 The Reorganisation (cont'd)

(c) Pursuant to a sale and purchase agreement dated 23 February 2007, on 12 April 2007 Li Tung Kwo transferred to Ricco Strategic Long Term Holdings Limited and Colinton Investment Limited 758,400 and 189,600 shares of HK$1.00 each in the Company respectively for an aggregate purchase consideration of HK$948,000; and

(d) Pursuant to a subscription agreement dated 5 April 2007, the Pre-IPO Investors subscribed for an aggregate of 948,000 shares of HK$1.00 in the capital of the Company for an aggregate subscription consideration of S$3,570,000 (the "Subscription"), whereby such shares were issued on 4 June 2007.

Following the Reorganisation Exercise, the Company's Share Capital was HK$18,948,000 comprising 18,948,000 ordinary shares of HK$1.00 each.

The shareholders of the Company approved and undertook the following:

i) increased the authorised share capital of our Company from HK$50,000,000 divided into 50,000,000 ordinary shares of HK$1.00 each to HK$500,000,000 divided into 500,000,000 ordinary shares of HK$1.00 each;

ii) subdivided every one ordinary share of HK$1.00 each in the authorised and issued share capital of our Company into 25 ordinary shares of HK$0.04 each; and

iii) consolidated every two ordinary shares of HK$0.04 each in the authorised and issued share capital of our Company into one ordinary share of HK$0.08 each.

whereupon the number of issued shares in the Company was 236,850,000 ordinary shares of HK$0.08 each.

Subsequent to the initial public offering exercise of the Company where 100,000,000 new shares were allotted the issued and paid-up share capital of the Company increased to HK$26,948,000 comprising 336,850,000 shares of HK$0.08 each.

Notes to the Financial Statements

3(a) Basis of preparation

In accordance with the provisions of Recommended Accounting Practice No. 12 ("RAP 12"), the Consolidated Financial Statements of China Sports International Limited ("the Company") and its subsidiaries (collectively referred to as "the Group") are presented on a full year basis ended on 31 December 2007 as if the Company is in existence throughout the reported financial period notwithstanding the fact that the first financial period of the Company is less than 12 months from the date of its incorporation as in substance the combined entities are continuing to trade as before but with a new legal parent.

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:

(i) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. Management will reassess the estimations at the balance sheet date.

(ii) Impairment of trade receivables

The Group's management assesses the collectibility of trade receivables. This estimate is based on the credit history of the Group's customers and the current market condition. Management reassesses the impairment loss at the balance sheet date.

(iii) Impairment of plant and equipment

The Group assess annually whether plant and equipment have any indication of impairment in accordance with the accounting policy. The recoverable amounts of plant and equipment have been determined based on value-in-use calculations. These calculations require the use of judgement and estimates.

Notes to the Financial Statements

3(a) Basis of preparation (cont'd)

Significant accounting estimates and judgements (cont'd)

(iv) Impairment in 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.

3(b) Interpretations and amendments to published standards effective in 2007

On the date of incorporation, the Group adopted the new or amended FRS and Interpretations to FRS ("INT FRS") that are mandatory for application on that date. This includes the following FRS and INT FRS which are relevant to the Group:

FRS 1 (Amendment)	Amendments relating to Capital Disclosures
FRS 107	Financial Instruments: Disclosures
INT FRS 107	Applying the Restatement Approach under FRS 29 Financial Reporting in Hyperinflationary Economies
INT FRS 108	Scope of FRS 102
INT FRS 109	Reassessment of Embedded Derivatives
INT FRS 110	Interim Financial Reporting and Impairment

The adoption of the above FRS and INT FRS, where relevant to the Group did not result in substantial changes to the Group's accounting policies nor any significant impact on these financial statements. FRS 107 and the complementary amended FRS 1 introduce new disclosures relating to financial instruments and capital respectively.

(A) Adoption of FRS 107

The Group has adopted FRS 107 with effect from annual years beginning on or after 1 January 2007. The new standard has resulted in an expansion of the disclosures in these financial statements regarding the Group's financial instruments. The Group has also presented information regarding its objectives, policies and processes for managing capital as required by the amendments to FRS 1 which are effective from annual years beginning on or after 1 January 2007.

Notes to the Financial Statements

3(c) FRS not effective

At the date of authorisation of these financial statements, the following FRS and INT FRS were issued but not yet effective:

		Effective date (Annual periods beginning on or after)
FRS 108	Operating Segments	1 January 2009
INT FRS 111	FRS 102 – Group and Treasury Share Transactions	1 March 2007
INT FRS 112	Service Concession Arrangements	1 January 2008

The directors do not anticipate that the adoption of these FRS and INT FRS in future years will have a material impact on the financial statements of the Group, except for FRS 108 as indicated below:

FRS 108 replaces FRS 14 Segment Reporting. In doing so it extends the scope of segment reporting. It requires the identification of operating segments based on internal reports that are regularly reviewed by the entity chief operating decision maker in order to allocate resources to the segment and assess its performance. It requires amongst others, reconciliations of total reportable segment revenue, total profit or loss, total assets, and other amounts disclosed for reportable segments to corresponding amounts in the entity interim financial statements and an explanation of how segment profit or loss and segment assets are measured for each reportable segment.

4 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 the subsidiaries is given in Note 9.

The consolidated financial statements of the Group have been prepared using the historical cost method similar to the "pooling-of-interest" 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 current period.

Notes to the Financial Statements

4 Summary of significant accounting policies (cont'd)

Consolidation (cont'd)

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

Acquisitions of subsidiaries, if any are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

Where accounting policies of a subsidiary do not conform with those of the Company, adjustments are made on consolidation when the amounts involved are considered significant to the Group.

All inter-company balances and significant inter-company transactions and resulting unrealised profits or losses are eliminated on consolidation and the consolidation financial statements reflect external transactions and balances only.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost or valuation 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	10 years
Furniture, fixtures and office equipment	5 to 20 years
Motor vehicles	5 years

No depreciation is provided on properties under construction.

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. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Notes to the Financial Statements

4 Summary of significant accounting policies (cont'd)

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

If there is a change in the level of usage and technological developments affecting the useful lives and the residual values of these assets, the residual values, useful lives and depreciation method will be reviewed and adjusted as appropriate at each balance sheet date.

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.

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

The gain or loss on disposal or retirement of an item of property, plant and equipment recognised in the income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Land use rights

Land use rights are stated at cost less accumulated amortisation and any impairment losses. Amortisation is calculated on the straight-line basis to write off the cost of the land use rights over the lease terms.

Intangible assets

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

Amortisation is computed utilising the straight-line method to write off the cost of these patents over the estimated useful lives of 7 to 10 years.

Notes to the Financial Statements

4 Summary of significant accounting policies (cont'd)

Impairment of non-financial assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of the Company's and the Group's non-financial assets or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value-in-use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the year in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the income statement in the year in which it arises.

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 or 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.

The Company and the Group do not have any investments and accordingly, there are no investments to be classified as financial assets at fair value through profit or loss, assets held-to-maturity or available-for-sale.

Notes to the Financial Statements

4 Summary of significant accounting policies (cont'd)

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 Company and the Group provide 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 balance sheet date. These are classified as non-current assets.

Loans and receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method less allowance for impairment. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Loans and receivables include amount due from subsidiary, trade receivables, other receivables and deposits.

Cash and cash equivalents

For the purpose of the cash flow statements, cash and cash equivalents comprise cash on hand and in banks and fixed deposits which have a short maturity of generally within three months, less bank overdrafts which are repayable on demand.

For the purpose of the balance sheet classification, cash and bank balances comprise cash on hand and fixed deposits repayable on demand with any banks or other financial institutions.

Financial liabilities

The Group and the Company's financial liabilities include trade and other payables and borrowings.

Financial liabilities are recognised when the Company and the Group become a party to the contractual agreements of the instrument. All interest related charges are recognised as an expense in "finance cost" in the income statement.

Trade and bills payables are initially measured at fair value, and subsequently measured at amortised cost, using the effective interest rate method.

Notes to the Financial Statements

4 Summary of significant accounting policies (cont'd)

Financial liabilities (cont'd)

Loans and borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost, which is the initial fair value less any principal repayment. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the year of the borrowings using the effective interest method.

The interest expense is chargeable on the amortised cost over the year of the borrowings using the effective interest method.

Inventories

Inventories are carried at the lower of cost and net realisable value. Cost comprises direct materials computed using weighted average method and, where applicable, direct labour and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling prices in the ordinary course of business less the estimated costs necessary to make the sale.

Provisions

Provisions are recognised when present obligations will probably lead to an outflow of economic resources from the Group which can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the balance sheet date, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognised as a separate asset, not exceeding the amount of the related provision.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a while. In addition, long term provisions are discounted to their present values, where time value of money is material. All provisions are reviewed at the balance sheet date and adjusted to reflect the current best estimates.

In those cases where the possible outflow of economic resources as a result of present obligations is considered impossible or remote, or the amount to be provided for cannot be measured reliably, no contingent liability is recognised in the balance sheet, unless assumed in the course of a business combination.

Notes to the Financial Statements

4 Summary of significant accounting policies (cont'd)

Recognition of revenue

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes on the following bases:

(i) Sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(ii) Interest income, on a time proportion basis taking into accounts the principal outstanding and the effective interest rate applicable.

Income tax

Income tax for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

The People's Republic of China corporate income tax is provided at rates applicable to an enterprise in The People's Republic of China on income for financial reporting purpose, adjusted for income and expenses items which are not assessable or deductible for income tax purposes.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Notes to the Financial Statements

4 Summary of significant accounting policies (cont'd)

Income tax (cont'd)

The carrying amount of deferred tax assets is reviewed at the balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred tax assets and liabilities are not discounted. Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Retirement benefits scheme

Pursuant to the relevant regulations of The People's Republic of China government, the Group participates in a local municipal government retirement benefits scheme (the "Scheme"), whereby the subsidiary of the Company in The People's Republic of China is 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 subsidiary of the Company. The only obligation of the Group with respect to the Scheme is to pay the ongoing 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.

Functional currencies

i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company and Themeway (HK) is Hong Kong dollars and its subsidiaries are Renminbi. The Group's principal operations are predominantly conducted in The People's Republic of China and thus the financial statements are presented in Renminbi, being the currency that best reflects the economic substance of the underlying events and circumstances relevant to the Group.

Notes to the Financial Statements

4 Summary of significant accounting policies (cont'd)

Functional currencies (cont'd)

ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(iii) Group companies

For the purposes of presenting financial statements in Renminbi, the results and financial positions of the Company and Themeway (HK) that has functional currency different from the presentation currency is translated into the presentation currency as follows:

(1) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(2) Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(3) All resulting currency translation differences are recognised in the exchange translation reserve.

(iv) Share capital

Share capital of the Company and of the Group is translated at the historical rate on the date of each transaction.

Notes to the Financial Statements

4 Summary of significant accounting policies (cont'd)

Related parties

A party is considered to be related to the Group if:

(i) directly, or indirectly through one or more intermediaries, the party (1) controls, is controlled, or is under common control with, the Company/Group; (2) has an interest in the Company that gives it significant influence over the Company/Group; or (3) has joint control over the Company/Group;

(ii) the party is an associate;

(iii) the party is a jointly-controlled entity;

(iv) the party is a member of the key management personnel of the Company or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Company/Group, or of any entity that is a related party of the Company/Group.

Operating leases

Operating lease payments are recognised as an expense on a straight-line basis. Affiliated costs, such as maintenance and insurance, are expensed as incurred.

Financial instruments

Financial instruments carried on the balance sheets include cash and bank balances, financial assets and financial liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item. These instruments are recognised when contracted for.

Disclosures on financial risk management are provided in Note 28.

Notes to the Financial Statements

4 Summary of significant accounting policies (cont'd)

Segment reporting

No separate analysis of segment information by business or geographical segment is presented as the Group's major business comprises the manufacture and sales of sports shoes and apparels. The Group's revenue, expenses, results, assets and liabilities and capital expenditure are principally attributable to a single geographical region, which is The People's Republic of China.

Equity

Ordinary shares are classified as equity. Share capital is determined using nominal value of shares that have been issued. Any transaction cost associated with the issuing of shares is deducted from the proceeds (net of any related income tax benefits) to the extent that they are incidental cost directly attributable to the equity transaction.

Retained earnings include all current and prior year results as determined in the consolidated income statements.

5 Revenue and other income

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

The Group	**31 December 2007 RMB'000**	31 December 2006 RMB'000
Revenue		
Sales of goods	**1,207,050**	690,018
Other operating income		
Interest income	**1,294**	119
Gain on disposal of property, plant and equipment	**73**	–
Exchange gain	**6,817**	–
	8,184	119

Notes to the Financial Statements

6 Selling and distribution expenses

Included in the selling and distribution expenses is advertising and promotion expenses of RMB28,909,636 (2006: RMB5,168,009).

7 Property, plant and equipment

The Company	Furniture, fixtures and office equipment RMB'000
Cost	
At 27 March 2007	–
Additions	4
At 31 December 2007	4
Accumulated depreciation / impairment losses	
At 27 March 2007	–
Depreciation	–
At 31 December 2007	–
Net book value	
At 31 December 2007	**4**

Notes to the Financial Statements

7 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	Construction in progress RMB'000	Total RMB'000
Cost						
At 1 January 2006 and 31 December 2006	18,186	11,053	2,808	–	–	32,047
Additions	–	32,771	1,654	1,808	10,510	46,743
Disposals	–	(2,500)	–	–	–	(2,500)
At 31 December 2007	**18,186**	**41,324**	**4,462**	**1,808**	**10,510**	**76,290**
Accumulated depreciation / impairment losses						
At 1 January 2006	6,001	6,246	1,161	–	–	13,408
Depreciation	818	995	108	–	–	1,921
At 31 December 2006	6,819	7,241	1,269	–	–	15,329
Depreciation	818	1,537	194	109	–	2,658
Disposals	–	(2,081)	–	–	–	(2,081)
At 31 December 2007	**7,637**	**6,697**	**1,463**	**109**	**–**	**15,906**
Net book value						
At 31 December 2007	**10,549**	**34,627**	**2,999**	**1,699**	**10,510**	**60,384**
At 31 December 2006	11,367	3,812	1,539	–	–	16,718

All property, plant and equipment held by the Group are located in The People's Republic of China. Certain property, plant and equipment with net book value of RMB10,277,600 (2006: RMB15,179,000) as at 31 December 2007 were pledged to a bank to secure bank loans granted to the Group (Note 20).

Notes to the Financial Statements

7 Property, plant and equipment (cont'd)

Depreciation expenses

The Group	31 December 2007 RMB'000	31 December 2006 RMB'000
Depreciation expense charged to:		
Cost of sales	**2,464**	1,921
Administrative expenses	**194**	–
	2,658	1,921

8 Intangible assets

The Group	Land use rights RMB'000	Patent RMB'000	Total RMB'000
Cost			
At 1 January 2006	2,466	–	2,466
Additions	707	–	707
At 31 December 2006	3,173	–	3,173
Additions	–	6,015	6,015
At 31 December 2007	**3,173**	**6,015**	**9,188**
Accumulated amortisation / impairment losses			
At 1 January 2006	361	–	361
Amortisation	57	–	57
At 31 December 2006	418	–	418
Amortisation for the year	64	135	199
At 31 December 2007	**482**	**135**	**617**
Net book value			
At 31 December 2007	**2,691**	**5,880**	**8,571**
At 31 December 2006	2,755	–	2,755

Notes to the Financial Statements

8 Intangible assets (cont'd)

Land use rights held by the Group with net book value of RMB2,691,364 (2006: RMB2,754,848) as at 31 December 2007 were pledged to a bank to secure bank loans granted to the Group (Note 20).

9 Subsidiaries

The Company	31 December 2007 RMB'000
Unquoted equity investment, at cost	18,072
Amounts owing by subsidiary	357,150
	375,222

The amounts owing by subsidiary on long-term loan account are an extension of the Company's net investment in the subsidiary. These are unsecured, interest-free and are not expected to be repaid in near term.

Notes to the Financial Statements

9 Subsidiaries (cont'd)

The subsidiaries are:

Name	Country of incorporation / place of business	Cost of investment 2007 RMB'000	Cost of investment 2006 RMB'000	Percentage of equity held 2007	Percentage of equity held 2006	Principal activities
Held by the Company:						
Theme Way Limited [1]	Hong Kong	**18,072**	–	**100%**	–	Investment holding
		HK$'000	HK$'000			
Held by Theme Way Limited:						
Hengfa (Fujian) Light Industry Development Co., Ltd [2] 恒发(福建)轻工业发展有限公司 ("Hengfa Light Industry")	The People's Republic of China	**18,000**	18,000	**100%**	100%	Design, manufacture and sales of sports fashion footwear and apparel
Quanzhou YELI Sport Things Co., Ltd [2][3] 泉州市野力体育用品有限公司 ("Quanzhou YELI")	The People's Republic of China	**13,880**	–	**100%**	–	Production of casual shoes, sports shoes, apparel, footwear-making materials, bags and badminton products. The Company has not commenced operations.

(1) Audited by Lau & Au Yeung C.P.A. Limited.

(2) Audited by Foo Kon Tan Grant Thornton for the purpose of FRS reporting.

(3) Quanzhou YELI was acquired on 17 April 2007.

Notes to the Financial Statements

10 Inventories

The Group	31 December 2007 RMB'000	31 December 2006 RMB'000
Raw materials	**8,645**	4,136
Work-in-progress	**1,525**	1,301
Finished goods	**12,139**	4,472
	22,309	9,909

11 Trade receivables

The Group	31 December 2007 RMB'000	31 December 2006 RMB'000
Trade receivables	**215,636**	89,601

Trade receivables generally have credit terms of 90 days (2006: 30-60 days). The carrying amount of trade receivables is denominated in Renminbi.

12 Other receivables

	The Company	The Group	
	31 December 2007 RMB'000	31 December 2007 RMB'000	31 December 2006 RMB'000
Prepayment	**2**	**2**	800
Deposits	**–**	**9,378**	–
	2	**9,380**	800

Deposits represent payment of deposits for the acquisition of property, plant and equipment.

Notes to the Financial Statements

12 Other receivables (cont'd)

Other receivables are denominated in the following currencies:

	The Company	The Group	
	31 December 2007 RMB'000	**31 December 2007 RMB'000**	31 December 2006 RMB'000
Renminbi	**–**	**9,378**	800
Singapore dollar	**2**	**2**	–
	2	**9,380**	800

13 Amount due from a subsidiary

The Company	**31 December 2007 RMB '000**
Amount due from a subsidiary (non-trade)	**31,327**

Amount due from subsidiary is unsecured, interest-free and repayable on demand.

Notes to the Financial Statements

14 Cash and cash equivalents

	The Company	The Group	
	31 December 2007 RMB'000	**31 December 2007 RMB'000**	31 December 2006 RMB'000
Fixed deposits with maturity less than 3 months	**8,844**	**8,844**	–
Bank deposits pledged	**–**	**–**	1,540
Cash at banks	**710**	**409,492**	5,305
Cash on hand	**–**	**18**	65
	9,554	**418,354**	6,910

The Renminbi is not freely convertible into foreign currencies. Under The People's Republic of China 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.

For the purpose of presenting consolidated cash flow statements, the consolidated cash and cash equivalents comprises the following:

	The Company	The Group	
	31 December 2007 RMB'000	**31 December 2007 RMB'000**	31 December 2006 RMB'000
Fixed deposits with maturity less than 3 months	**8,844**	**8,844**	–
Cash at banks	**710**	**409,492**	5,305
Cash on hand	**–**	**18**	65
	9,554	**418,354**	5,370

Notes to the Financial Statements

14 Cash and cash equivalents (cont'd)

Cash and cash equivalents are denominated in the following currencies:

	The Company	The Group	
	31 December 2007 RMB'000	31 December 2007 RMB'000	31 December 2006 RMB'000
Hong Kong dollar	–	1	–
Renminbi	–	396,901	6,910
Singapore dollar	9,554	9,554	–
United States dollar	–	11,898	–
	9,554	418,354	6,910

The fixed deposits have an average maturity of 33 days (2006: 133 days) from the end of the financial year with the weighted average effective interest rate in Singapore dollar of 2.34% (2006: 0.72%).

15 Share capital

The Company	31 December 2007	31 December 2007
	Number of shares ('000)	HK$'000
Authorised:		
At date of incorporation with ordinary share of HK$1.00	100	100
Increase of 49,900,000 ordinary shares of HK$1.00	49,900	49,900
Increase of 450,000,000 ordinary shares of HK$1.00	450,000	450,000
	500,000	500,000

Notes to the Financial Statements

15 Share capital (cont'd)

The Company	31 December 2007	31 December 2007
	Number of shares ('000)	HK$'000
Sub-division of one ordinary share into 25 ordinary shares of HK$0.04	12,500,000	500,000
Consolidation of two ordinary shares into 1 ordinary share of HK$0.08	6,250,000	500,000
	Number of shares '000	RMB'000
Issued and fully paid:		
Issued nil-paid ordinary shares of HK$1.00 each upon incorporation	20	–
Acquisition of Theme Way Limited	17,980	17,742
Subscription by Pre-IPO Investors	948	923
Total	18,948	18,665
Sub-division of one ordinary share into 25 ordinary shares	473,700	18,665
Consolidation of two ordinary shares into 1 ordinary share	236,850	18,665
New shares issued pursuant to the IPO	100,000	7,754
Balance at end of year	336,850	26,419

During the financial year, the Company issue 336,850,000 (2006: Nil) ordinary shares for a total consideration of HK$18,000,000 for shares and S$83,570,000 for cash. The newly issued shares rank pari passu in all respects with the previously issued shares.

According to the 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 the 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.

Notes to the Financial Statements

16 Reserves

	Note	The Company 31 December 2007 RMB'000	The Group 31 December 2007 RMB'000	The Group 31 December 2006 RMB'000
Share premium		**390,641**	**390,641**	66
Statutory reserve	(a)	**–**	**35,833**	20,302
Merger reserve	(b)	**–**	**801**	–
Exchange fluctuation reserve	(c)	**330**	**(2,429)**	–
Retained profits		**(3,451)**	**157,443**	17,884
		387,520	**582,289**	38,252
Represented by:				
Distributable		**(3,451)**	**157,443**	17,884
Non-distributable		**390,971**	**424,846**	20,368
		387,520	**582,289**	38,252

(a) Statutory reserve

In accordance with the accounting regulations of The People's Republic of China, the subsidiaries of the Company established in The People's Republic of China are required to transfer 10% of its profit after taxation prepared in accordance with the accounting regulation in The People's Republic of China 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.

(b) 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.

(c) Exchange fluctuation reserve

Exchange fluctuation reserve arises from the translation of foreign subsidiaries' assets and liabilities.

Notes to the Financial Statements

17 Deferred taxation

The Group	31 December 2007 RMB'000	31 December 2006 RMB'000
Balance at beginning	**–**	–
Transfer to income statement (Note 23)	**1,794**	–
Balance at end	**1,794**	–

The balance comprises tax on the temporary differences arising from exchange gain (2006: Nil).

18 Trade and bills payables

The Group	31 December 2007 RMB'000	31 December 2006 RMB'000
Trade payables	**62,234**	42,870
Bills payables	**–**	2,200
	62,234	45,070

Trade payables generally have credit terms of 90 days (2006: 30-60 days). The carrying amount of trade payables is denominated in Renminbi.

Notes to the Financial Statements

19 Other payables

	The Company	The Group	
	31 December 2007 RMB'000	**31 December 2007 RMB'000**	31 December 2006 RMB'000
Accrual liabilities	**1,460**	**8,011**	5,363
Amount owing to directors	**200**	**200**	3
Consideration for acquisition of subsidiary	**–**	**4,530**	–
Other payables	**510**	**5,860**	1,290
Other payable for acquisition of property, plant and equipment	**–**	**16,034**	–
VAT payable	**–**	**5,743**	2,745
	2,170	**40,378**	9,401

The amount owing to directors is unsecured and interest free and repayable on demand.

Other payables are denominated in the following currencies:

	The Company	The Group	
	31 December 2007 RMB'000	**31 December 2007 RMB'000**	31 December 2006 RMB'000
Hong Kong dollar	**–**	**5,069**	38
Renminbi	**710**	**33,849**	9,363
Singapore dollar	**1,460**	**1,460**	–
	2,170	**40,378**	9,401

Notes to the Financial Statements

20 Borrowings

The Group	31 December 2007 RMB'000	31 December 2006 RMB'000
Bank loans (secured)	**8,560**	8,150

Bank loans are repayable within one year.

The loans are secured by:

(a) a mortgage of the properties of a subsidiary; and

(b) a mortgage of the land use rights of a subsidiary.

Short term bank loans bear effective interest rate of 7.75% (2006: 6.83%) per annum as at 31 December 2007. The bank loans are fixed rate loans and denominated in Renminbi. The carrying amounts of the bank loans approximate their fair value.

21 Finance cost

The Group	31 December 2007 RMB'000	31 December 2006 RMB'000
Interest charges on bank loans	**594**	593

Notes to the Financial Statements

22 Profit before taxation

The Group	31 December 2007 RMB'000	31 December 2006 RMB'000
Profit before taxation is arrived at after charging:		
Depreciation	**2,658**	1,921
Amortisation of land use rights	**64**	57
Amortisation of intangible assets	**135**	–
Minimum lease payments under operating leases	**1,618**	966
Directors' fees	**556**	–
Directors' remuneration		
- salaries and related cost	**840**	–
Key management personnel		
- salaries and related cost	**1,435**	181
- retirement scheme contribution	**50**	13
Other than key management personnel		
- salaries and related cost	**24,531**	18,324
- retirement scheme contribution	**6,123**	4,907
Exchange gain	**(6,817)**	–
Interest income	**(1,294)**	(119)
Gain on disposal of property, plant and equipment	**(73)**	–
Inventories charged to cost of goods sold	**502,602**	362,117
Research and development expense	**3,573**	–
Share issue expense	**3,685**	1,618

Notes to the Financial Statements

23 Income tax expense

The Group	31 December 2007 RMB'000	31 December 2006 RMB'000
Provision for taxation in respect of profit for the year:		
- current taxation	**55,689**	27,232
- deferred taxation (Note 17)	**1,794**	–
	57,483	27,232

The provision for The People's Republic of China income tax is calculated based on the statutory income tax rate of 27% (2006: 27%) of the assessable income of Hengfa Light Industry as determined in accordance with the relevant People's Republic of China income tax rules and regulations for the year ended 31 December 2007.

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

The Group	31 December 2007 RMB'000	31 December 2006 RMB'000
Profit before taxation	**212,572**	100,820
Tax at statutory rate of 27%	**57,394**	27,221
Tax effect on non-taxable items	**(844)**	–
Non-deductible expenses	**932**	11
Difference in tax rate	**1**	–
	57,483	27,232

Wholly foreign-owned enterprises are subject to The People's Republic of China state and local income tax rates pursuant to the income tax laws of The People's Republic of China for foreign investment enterprises and foreign enterprises (the "Tax Laws"). Hengfa Light Industry presently enjoys a reduced tax rate of 24% charged by the State Tax Bureau of Jinjiang City, Fujian Province during the year of its business operations and a local income tax rate of 3% charged by the Jinjiang Local Tax Bureau.

Notes to the Financial Statements

24 Dividends

The Company

At the forthcoming Annual General Meeting, a final dividend of RMB0.093 per ordinary share amounting to RMB31,327,050 and a share split of one ordinary share of HK$0.08 each into two ordinary shares of HK$0.04 each will be proposed. These financial statements do not reflect these dividends payable, which will be accounted for as a reduction in equity as a distribution of retained profits in the financial year ending 31 December 2008. The proposed share split has no impact on the financial statement except that the number of authorised and issued and paid-up capital will increase by 336,850,000.

25 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 282,603,425 shares (2006: 236,850,000 shares) during the financial year. The Company's pre-Invitation share capital of 236,850,000 were assumed to be in issue throughout the entire period in 2006. There is no potential dilution on earning.

26 Significant related party transactions

The Company and its directors, Lin Shaoxiong and Li Tung Kwo entered into a sales and purchase agreement on 10 April 2007 ("the Share Swap Agreement"), pursuant to which the Company acquired from the directors, the entire issued and paid-up capital of Theme Way Limited of HK$18,000,002. The purchase consideration which was determined based on the paid-up capital of Theme Way Limited was satisfied by crediting as fully paid of the 20,000 ordinary shares of HK$1.00 each in the capital of the Company which has been issued nil-paid and the issuance of 17,980,000 ordinary shares of HK$1.00 each to Lin Shaoxiong and Li Tung Kwo in equal proportion.

Notes to the Financial Statements

27 Commitments

a) Operating leases commitments

The total future minimum lease payments of the Group under non-cancellable operating leases for business and assets of Hengfa Light Industry are as follows:

The Group	**31 December 2007 RMB '000**	31 December 2006 RMB '000
Within one year	**2,460**	990
In the second to fifth years	**2,795**	2,880
After five years	**–**	–
	5,255	3,870

b) Capital expenditure

	31 December 2007 RMB '000	31 December 2006 RMB '000
Capital expenditure contracted for construction of plant but not provided	**5,000**	–
Capital expenditure contracted for acquisition of machineries but not provided	**4,625**	–
	9,625	–

28 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.

Notes to the Financial Statements

28 Financial risk management objectives and policies (cont'd)

As at 31 December 2007, the Group's financial instruments mainly consisted of cash and cash equivalents, trade receivables, other receivables and deposits, trade payables, accrued liabilities and other payables, and bank borrowings.

28.1 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The business of the Group is mainly carried out in The People's Republic of China. Accordingly, the exposure to foreign exchange risk is minimal.

28.2 Cash flow and fair value interest rate risk

Cash flow interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Group's exposure to interest rate risk relates principally to its short-term deposits placed and short-term borrowings from financial institution.

28.3 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.

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 ongoing 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 ongoing 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 collectibility of all trade and other receivables. The Group has significant concentration of credit risk in relates to trade receivables as one of the customers forms 17% of total trade receivables amount.

Notes to the Financial Statements

28 Financial risk management objectives and policies (cont'd)

28.4 Liquidity risk

Liquidity or funding risk is the risk that an enterprise 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 Group manages its liquidity risk by ensuring the availability of adequate funds to meet all its obligations in a timely and cost-effective manner.

29 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; and

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

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 currently does not adopt any formal dividend policy.

30 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 balance sheet date would be significantly different from the values that would eventually be received or settled.

Notes to the Financial Statements

31 Statement of operations by segment

The Group

<u>Business segment</u>

The Group operates principally in a single business segment which involves the design, manufacture and sales of sports fashion footwear and apparels which has identical risk and returns.

<u>Geographical segment</u>

As the business of the Group is engaged primarily in The People's Republic of China, no reporting by geographical location of operations is presented.

32 Comparative

There are no comparative figures presented for the Company as the Company came into existence during the financial year.

Statistics of Shareholdings

as at 14 March 2008

Authorised share capital	:	HK$500,000,000
Issued and fully paid-up capital	:	HK$26,948,000
Class of shares	:	336,850,000 Ordinary shares of HK$0.08 each
Voting rights	:	One vote per share

STATISTICS OF SHAREHOLDINGS

Size of Shareholdings	No of Shareholders	%	No of Shares	%
1 - 999	6	0.42	1,730	0.00
1,000 - 10,000	1,037	73.08	5,807,024	1.72
10,001 - 1,000,000	357	25.16	20,674,390	6.14
1,000,001 and above	19	1.34	310,366,856	92.14
Total	1,419	100.00	336,850,000	100.00

Treasury Shares

-	Total Number of Ordinary Shares held in treasury (“Treasury Shares”)	:	0
-	Voting Right	:	None
-	Percentage of this holding against total number of issued shares excluding Treasury Shares	:	0%

Substantial Shareholders’ List as at 14 March 2008

	Number of Shares			
	Direct Interest	Deemed Interest	Total Interest	% of Issued Ordinary Share Capital of the Company
Li Tung Kwo (1)	100,650,000	–	100,650,000	29.88

(1) Li Tung Kwo is solely a passive investor with no executive role in our Company. He is not related to any of our Directors or Executive Officers.

Shareholding Held by Public as at 14 March 2008

Based on information available to the Company as at 14 March 2008, approximately 36.57% of the total number of issued ordinary shares excluding Treasury Shares in the capital of the Company is held by the public. Rule 723 of the Listing Manual issued by SGX-ST is therefore complied with.

Statistics of Shareholdings

as at 14 March 2008

LIST OF 20 LARGEST SHAREHOLDERS

No.	Name	No. of Shares	%
1	LIN SHAOXIONG	113,000,000	33.55
2	LI TUNG KWO	100,650,000	29.88
3	HSBC (SINGAPORE) NOMINEES PTE LTD	18,322,000	5.44
4	DBSN SERVICES PTE LTD	16,933,000	5.03
5	CITIBANK NOMINEES SINGAPORE PTE LTD	15,814,449	4.69
6	RICCO STRATEGIC LONG TERM HOLDINGS LIMITED	9,480,000	2.81
7	DBS NOMINEES PTE LTD	7,553,000	2.24
8	UNITED OVERSEAS BANK NOMINEES (PTE) LTD	5,759,250	1.71
9	YEAP LAM HONG	3,620,000	1.07
10	UOB KAY HIAN PTE LTD	3,484,400	1.03
11	SEE LOP FU JAMES @ SHI LAP FU JAMES	2,748,400	0.82
12	RAFFLES NOMINEES PTE LTD	2,285,000	0.68
13	MERRILL LYNCH (SINGAPORE) PTE LTD	2,120,585	0.63
14	HO YEW MUN	1,764,155	0.52
15	OCBC SECURITIES PRIVATE LTD	1,631,000	0.48
16	KIM ENG SECURITIES PTE. LTD.	1,449,000	0.43
17	SHIE YONG FAH	1,350,000	0.40
18	MORGAN STANELY ASIA (SINGAPORE) SECURITIES PTE LTD	1,283,617	0.38
19	PHILLIP SECURITIES PTE LTD	1,119,000	0.33
20	OVERSEA-CHINESE BANK NOMINEES PTE LTD	877,000	0.26
		311,243,856	92.38

Notice of Annual General Meeting

CHINA SPORTS INTERNATIONAL LIMITED

(Incorporated in Bermuda)
(Company Registration No.39798)

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of China Sports International Limited (the "Company") will be held at Raffles Hotel, 1 Beach Road, Singapore 189673 on Monday, 28 April 2008 at 10.30 a.m. for the following Resolutions:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and the Audited Accounts of the Company for the year ended 31 December 2007 together with the Auditors' Report thereon. **(Resolution 1)**

2. To declare first and final dividend of RMB 0.093 (approximately equivalent to S$0.0186) per ordinary share (before the proposed sub-division of the share of the Company) or RMB 0.0465 (approximately equivalent to S$0.0093) per ordinary share (after the proposed sub-division of the shares of the Company) (tax exempt one-tier) for the year ended 31 December 2007, as may be applicable.
[See Explanatory Note (i)] **(Resolution 2)**

3. To re-elect the following Directors of the Company retiring pursuant to Bye-law 85(6) of the Bye-laws of the Company:

Mr Lin Shaoqin	(Retiring under Bye-law 85(6))	**(Resolution 3)**
Mr Lin Yongjian	(Retiring under Bye-law 85(6))	**(Resolution 4)**
Ms Lai Chin Yee	(Retiring under * Bye-law 85(6))	**(Resolution 5)**
Mr Tham Hock Chee	(Retiring under * Bye-law 85(6))	**(Resolution 6)**
Mr Sam Kok Yin	(Retiring under * Bye-law 85(6))	**(Resolution 7)**

* Ms Lai Chin Yee will, upon re-election as Director of the Company, remain as Chairman of the Audit Committee and member of the Nominating Committee and Remuneration Committee and will be considered independent for the purposes of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited.

* Mr Tham Hock Chee will, upon re-election as Director of the Company, remain as Chairman of the Remuneration Committee and member of the Nominating Committee and the Audit Committee and will be considered independent for the purposes of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited.

* Mr Sam Kok Yin will, upon re-election as Director of the Company, remain as Chairman of the Nominating Committee and member of the Audit Committee and the Remuneration Committee and will be considered independent for the purposes of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited.

Notice of Annual General Meeting

4. To approve the payment of Directors' fees of S$110,000 for the year ended 31 December 2007. **(Resolution 8)**

5. To re-appoint Messers Foo Kon Tan Grant Thornton as the Auditors of the Company and to authorise the Directors of the Company to fix their remuneration. **(Resolution 9)**

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

AS SPECIAL BUSINESS

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

***7. Authority to issue shares up to 50 per centum (50%) of the total number of issued shares excluding treasury shares in the capital of the Company**

That pursuant to Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited, the Directors of the Company be empowered to

(a) (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:

(1) the aggregate number of shares and convertible securities (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 fifty per centum (50%) of the total number of issued shares excluding treasury shares in the capital of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of shares and convertible securities issued other than on a pro rata basis to existing shareholders of the Company shall not exceed twenty per centum (20%) of the total number of the total number of issued shares excluding treasury shares in the capital of the Company (as calculated in accordance with sub-paragraph (2) below);

Notice of Annual General Meeting

(2) (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 (1) above, the percentage of issued shares excluding treasury shares in the capital of the Company and Instruments shall be based on the Company's 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:

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

(b) 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

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

(1) 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

(2) 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)] **(Resolution 10)**

NOTICE OF BOOKS CLOSURE DATE

NOTICE IS HEREBY GVIEN THAT the Share Transfer Books and Register of Members of the Company will be closed on Thursday, 22 May 2008, for the purpose of determining members' entitlements to the dividend to be proposed at the Annual General Meeting of the Company to be held on 28 April 2008.

Duly completed registrable transfers in respect of the shares of the Company received by the Company's Share Transfer Agent in Singapore, B.A.C.S. Private Limited at 63 Cantonment Road, Singapore 089758 up to 5.00 p.m. on Thursday, 22 May 2008 will be registered to determine Members' entitlements to such dividends. Members whose Securities Accounts with The Central Depository (Pte) Ltd are credited with shares of the Company as at 5.00 p.m. on 22 May 2008 will be entitled to such proposed dividends.

The proposed dividends, if approved by Members at the Annual General Meeting, will be paid on Monday, 2 June 2008.

BY ORDER OF THE BOARD

Nicole Tan Siew Ping / Long Hsueh Ching
Company Secretaries
Singapore

11 April 2008

Notice of Annual General Meeting

***Notes:**

1. A registered Shareholder entitled to attend and vote at the annual general meeting ("AGM") is entitled to appoint not more than 2 proxies to attend and vote in his stead. A proxy need not be a member of the Company.
2. If a registered Shareholder is unable to attend the AGM and wishes 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 Depositor 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 lodgment of any proxy form.

Explanatory Notes:

*(i) The Ordinary resolution 2 in item 2 above if passed, in the event that the Proposed Sub-Division and the proposed final dividend are approved by Shareholders and if:

(a) the Books Closure Date for the Proposed Sub-Division is before the books closure date for the proposed final dividend, the entitlements of Shareholders to the proposed final dividend would be RMB0.0465 per ordinary share of HK$0.04 each held as at the books closure date of the proposed final dividend; or

(b) the Books Closure Date for the Proposed Sub-Division falls on or after the books closure date for the proposed final dividend, the entitlements of Shareholders to the proposed final dividend would be RMB0.093 per ordinary share of HK$0.08 each held as at the books closure date of the proposed final dividend.

*(ii) The Ordinary Resolution 10 in item 7 above, 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% of the total number of issued shares excluding treasury shares in the capital of the Company 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 total number of issued shares excluding treasury shares in the capital of the Company is based on the Company's total number of issued shares excluding treasury shares in the capital of the Company at the time this Ordinary Resolution 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 this Ordinary Resolution is passed and any subsequent bonus issue, consolidation or subdivision of shares.

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Annual Report

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