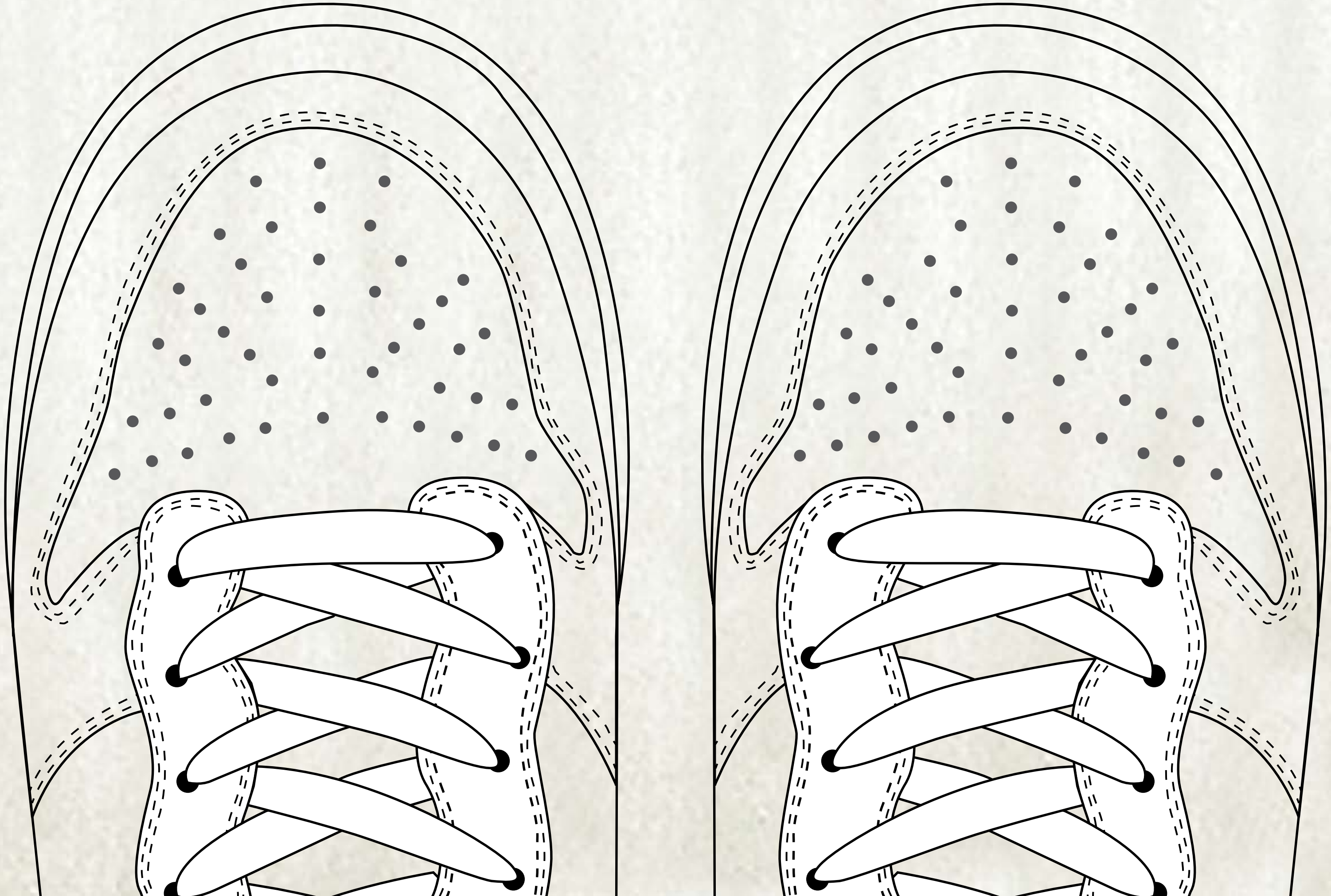
CHINA SPORTS INTERNATIONAL LIMITED

Reaching for the next level

Annual report 2008



Contents

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
tional labels.

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 are pleased to announce the Group ended FY2008 with strong results as revenue and net profit after tax both rose to record high of approximately RMB 1,859.7 million and RMB 184.9 million respectively. "

DEAR SHAREHOLDERS,

We are pleased to announce the Group ended FY2008 with strong results as revenue and net profit after tax both rose to record high of approximately RMB 1,859.7 million and RMB 184.9 million respectively.

FY2008 was an unprecedented year in many ways for the Chinese and global economies. Ahead of the Beijing Olympics held in August 2008, the Chinese economy continued to expand rapidly during the first half of the year, boosting demand for sporting goods and other consumer products. But global economies deteriorated during the second half of the year due to the worsening global financial crisis. This has negatively impacted the Chinese economy, thus casting a pall over its growth.

However, the Chinese economy is still expected to post single-digit growth in the coming year that will support the growth of the sporting goods market in the PRC. The Group will continue to invest and expand its business operations as it has a healthy balance sheet with over approximately RMB 544 million of cash and cash equivalents as at 31 December 2008. The Group will take this opportunity to grow its market share, especially in second, third and fourth tier cities in the PRC through its on-going investments and efforts in brand building, network expansion and product development.

OPERATING AND PERFORMANCE HIGHLIGHTS

Strong demand for products of China Sports' flagship brand – YELI – boosted revenue by approximately 54.1% to approximately RMB1,859.7 million in FY2008 from approximately RMB1,207.1 million in FY2007.

This exponential increase of revenue translates into an 46.2% rise in gross profit from approximately RMB264.3 million in FY2007 to approximately RMB386.3 million in FY2008. Net profit after tax rose approximately 19.2% to approximately RMB184.9 million in FY08 from approximately RMB155.1 million in FY07.

Earnings per share in FY08 was approximately RMB0.2745 based on enlarged share base of 673,700,000 shares after sub-division of shares compared to approximately RMB0.2740 based on weighted average of 565,206,849 shares in FY07. Net asset value per share as at 31 December 2008 was approximately RMB1.13. While it is prudent to conserve cash during this uncertain period, the directors are, nevertheless, recommending a final dividend of approximately RMB0.0275 per share.

We attribute our robust growth to a few factors. Firstly, the successful upgrading and expanding of our distribution network have gained us a wider reach and bigger audience.

Secondly, the ability to raise Average Selling Price (ASP) of YELI footwear due to growing YELI brand value.

Thirdly, the launch of YELI accessories during the second half of FY2008 was well received, thus enhancing our revenue stream.

Lastly, the strong sales surge of both YELI footwear and YELI apparel has contributed to overall growth in profits.

OUTLOOK FOR 2009

From 2007 to 2008, our point of sales across the PRC increased from over 2000 to over 2260. In view of the near term economic uncertainty, we will be prudent in our expansion plans and will selectively expand our geographical reach with the opening of more new generation specialty stores located at street level.

We believe these YELI specialty stores with high visibility will help us in our brand-building exercise and contribute to enhancing brand-awareness. Simultaneously, they act as platforms to introduce our increasingly varied array of footwear, apparel, and other accessories.

Through improved visibility of the YELI brand and YELI stores, we expect to attract the attention of new distributors from other provinces of the PRC, and gain a foothold in new markets where there is room for a YELI presence.

OUR BRANDING EXERCISE

We are excited about our new advertising campaign involving Fahrenheit – a high profile Asian band who will be endorsing YELI products in the PRC for a period of two years. We chose this group for their trendy, vibrant and youthful appeal which we believe will reach out to our target audience while enabling us to expand our market share in the PRC.

Under the terms of the agreement, Fahrenheit will appear in TV commercials and print advertisements to endorse the YELI brand in the PRC market while also being featured on YELI product packaging and promotional materials.

YELI new advertising campaign featuring the band will be launched nationwide across the PRC in the later half of 2009, enabling our group to leverage on their popularity to boost brand awareness and loyalty. This will in turn support our group's expansion plans in the Chinese market.

ACKNOWLEDGEMENTS

I would like to extend my appreciation and sincere thanks to my shareholders, fellow directors on the Board, suppliers, and staff – without your belief in us, your support, your diligence, the success we have enjoyed thus far would have been impossible. With your unwavering faith and commitment in the coming year, we are confident we are capable of emerging from possible challenges stronger than before.

LIN SHAOXIONG
Chairman & CEO


MULTIPLY OUR
STRENGTHS

WE ARE CONSTANTLY INNOVATING A BROADER RANGE OF FOOTWEAR AND TRENDIER APPAREL TO FULFILL GROWING DEMAND IN THE PRC FOR SPORTSWEAR THAT NOT ONLY PERFORMS, BUT ALSO APPEALS.

Operations Review

REVENUE

For the year ended 31 December 2008 ("FY2008"), the Group recorded revenue of approximately RMB 1,859.7 million, an increase of approximately RMB 652.6 million or 54.1% over revenue of approximately RMB 1,207.1 million for the previous year ("FY2007"). The increase in revenue in FY2008 was mainly attributable to:

(i) the expansion of our distribution network;
(ii) the upgrade and opening of our specialty stores;
(iii) the increase in the average selling price ("ASP") of our footwear products;
(iv) the launch of YELI accessories in the second half of FY2008 and
(v) the increase in sales of YELI apparel.

In FY2008, sales of YELI products increased by approximately RMB 524.2 million year on year mainly due to the successful implementation of our Group's strategy to build up awareness and enhance the YELI brand value. The proportion of sales of YELI products further increased to approximately 79% of total revenue in FY2008 compared to approximately 78% in FY2007.

In FY2008, sales of YELI footwear increased by approximately 50.8% to approximately RMB1,109.2 million from approximately RMB735.7 million in FY2007. YELI footwear contributed approximately 76% to YELI revenue in FY2008 compared to approximately 78% in FY2007. Sales of the higher margin YELI apparel surged approximately 69.5% to approximately RMB348.1 million in FY2008 from approximately RMB205.4 million in FY2007. YELI apparel contribution to YELI revenue rose approximately to 23% in FY2008 from approximately 22% in FY2007. YELI accessories recorded revenue of approximately RMB8.0 million during the second half of FY2008 and contributed to approximately 1% of YELI revenue in FY2008.

COST OF GOODS SOLDS

In line with the increase in revenue, our cost of sales increased by approximately RMB 530.7 million or 56.3% from approximately RMB 942.8 million in FY2007 to approximately RMB 1,473.5 million in FY2008. The subcontracting cost (including raw materials) of the footwear products, apparel and accessories increased by approximately RMB 284.6 million or 77.9% from approximately RMB 365.4 million in FY2007 to approximately RMB 650.0 million in FY2008. The increase was mainly due to the increase in sales of apparel and accessories (production of which are completely outsourced) and increase in sales volume of footwear products (part of its production were outsourced).

In FY2008, our gross profit increased by approximately RMB 122.0 million or 46.2% to approximately RMB 386.3 million from RMB 264.3 million in FY2007. Our gross profit margin decreased to approximately 20.8% in FY2008 from approximately 21.9% in FY2007. The decrease in gross profit margin of our YELI footwear products was mainly attributable to higher subcontracting costs. The decrease was partially offset by the increase in the gross profit margins of YELI apparel products. The low gross profit margin contributed by YELI accessories was due mainly to the initial setup and development cost incurred for this new range of product and thus the unit overhead for the product was high. The gross profit margin for YELI accessories is expected to improve once we achieve the optimum sales quantities.

OTHER OPERATING INCOME

Other operating income comprises of interest income from bank deposits and exchange differences. The higher other operating income in FY2007 was mainly due to an exchange gain of approximately RMB 6.8 million resulting from translating proceeds from IPO exercise. Excluding the impact of foreign exchange fluctuation in FY2008, interest income increased by approximately RMB 1.9 million as compared to FY2007 due to higher cash balances maintained in FY2008.

OPERATING EXPENSES

In FY2008 operating expenses increased by approximately RMB 79.0 million or 133.2% to approximately RMB 138.3 million from approximately RMB 59.3 million in FY2007. As a percentage of revenue, operating expenses increased to approximately 7.4% in FY2008 from approximately 4.9% in FY2007. The increase was due to higher selling and distribution costs in FY2008 which increased by approximately RMB 71.1 million or 166.3% to approximately RMB 113.9 million from approximately RMB 42.8 million in FY2007.

In FY2008, the Group intensified its advertising and promotion ("A&P") activities in order to grow YELI brand value. As a result, the Group incurred A&P expenses of approximately RMB 65.6 million and approximately RMB 28.0 million for the upgrading and opening of YELI specialty stores. Selling and distribution costs accounted for approximately 6.1% of Group revenue in FY2008, up from approximately 3.5% in FY2007.

Administrative expenses increased by approximately RMB 1.8 million or 11.2% from approximately RMB 16.5 million in FY2007 to approximately RMB 18.3 million in FY2008. The increase was due to higher provision for the executive directors" performance bonus and related expenses of approximately RMB 2.1 million and the arranger fee and related expenses for the bank loan taken up by the Company in FY2008 of approximately RMB 1.0 million. Other operating expenses increased by approximately RMB 6.1 million mainly due to the one time write-off of intangible asset and property, plant and equipment.

FINANCE COSTS

Finance costs in FY2008 increased by approximately RMB 0.3 million or 52.2% from approximately RMB 0.6 million in FY2007 to approximately RMB 0.9 million in FY2008. The increase was due mainly to higher bank borrowings obtained in FY2008.

INCOME TAX

Income tax expense increased by approximately RMB 7.9 million or 13.7% from approximately RMB 57.5 million in FY2007 to approximately RMB 65.3 million in FY2008. The increase was due mainly to the higher profit before tax in FY2008. The effective tax rate of 26.1% in FY2008 which is 0.9% lower than FY2007 is the result of reduction in the PRC corporate tax rate in FY2008.

CURRENT ASSETS

Inventories, comprised mainly of raw materials, increased by approximately RMB 3.9 million from approximately RMB 22.3 million as at 31 December 2007 to approximately RMB 26.2 million as at 31 December 2008. The increase was mainly to cope with the increased production to meet expected growth in demand from customers in the coming quarter.

Trade receivables increased from approximately RMB 215.6 million as at 31 December 2007 to approximately RMB 281.2 million as at 31 December 2008. The increase is in line with our Group revenue growth and longer credit term granted to our distributors to align with market conditions.

As at 31 December 2008, we had cash and cash equivalents of approximately RMB 544.6 million. The increase in cash and cash equivalents was due mainly to the net cash generated from operating activities.

The cash and cash equivalents were mainly bank deposits denominated in RMB. As at 31December 2008, we did not enter into any financial derivatives arrangements because our operations are mainly in PRC and our main operational currency is RMB.

CURRENT LIABILITIES

Trade payables and bills payables increased from approximately RMB 62.2 million as at 31 December 2007 to approximately RMB 107.3 million as at 31 December 2008. This was due to the increase in purchases of raw material to cope with increased production in order to meet the anticipated increase in demand from customers and the better payment terms from our suppliers.

Accrued liabilities, other payables and amount owing to director (included wages payables, accrued utilities expenses) increased from approximately RMB 40.4 million as at 31 December 2007 to approximately RMB 54.6 million as at 31 December 2008. The increase was consistent with the increase in the level of activities .

As at 31 December 2008, we had bank loans of approximately RMB 40.9 million. The increase is due to a new bank loan of approximately RMB 33.9 million obtained by the Group in 2008.

NEW SUBSIDIARY

The Group's new wholly-owned subsidiary, Yeli Sports (China) Co., Ltd ("Yeli China") has qualified as a wholly-owned foreign entity and would be entitled to tax exemption for 2009. The Group's own branded YELI related business is being gradually transferred to Yeli China. As such, the impact of tax savings on the Group's net profit is expected to increase in the financial year ending 31 December 2009 ("FY09") when Yeli China's profit rises.

EXPANDING AND UPGRADING DISTRIBUTION NETWORK

The Group's total point of sales increased from over 2000 in FY2007 to over 2260 in FY2008. Majority of the point of sales added in FY2008 were the new generation specialty stores located at street level and with larger display area. We believe the larger new generation specialty stores will help to increase YELI brand visibility and provide a good platform to introduce our expanding product range for footwear and apparels as well as the new accessories product line. The improved visibility of YELI brand and YELI stores is expected to attract new distributors from other provinces in the PRC which are not penetrated by us yet.

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

	FY2008	FY2007	Growth
Point of sales	Over 2,260*#	Over 2,000*	13%

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

 # Includes approximately 400 YELI specialty stores.

BUILDING BRAND VALUE

In February 2009, the Group announced that it has appointed one of Asia' hottest boy bands, Fahrenheit (飞轮海), as the YELI brand spokespersons. Under the terms of the agreement, Fahrenheit will appear in both TV and print advertisements to endorse the YELI brand in the PRC market for a period of two years. Fahrenheit will also be featured on product packaging and promotional materials for the YELI brand.

Once the new advertising campaign featuring Fahrenheit is launched nationwide in the later part of FY09, the Group will be able to leverage on their popularity in the PRC and across Asia to enhance consumer awareness of and loyalty to the YELI brand. This in turn will facilitate the on-going and long term expansion plan of the Group in the PRC market.

USE OF IPO PROCEEDS

As at 28 February 2009, the net proceeds from the Company's initial public offering has been utilised as follows:

No.	Planned Usage	IPO Proceeds (RMB million)	Cumulative Amount used (RMB million)	Balance (RMB million)
1	Acquistion and/or construction of new manufacturing facilities, addition of new production lines and upgrading of manufacturing facilities	110.1	81.5	28.6
2	Advertising and promotion activities	40.0	40.0	0.0
3	Expansion of distribution network and increase of sales channel	40.0	40.0	0.0
4	Enhance product design and development efforts	30.0	16.8	13.2
5	General working capital	153.7	153.7	0.0
		373.8	**332.0**	**41.8**

The use of proceeds is in accordance with the stated use and in accordance with the percentage allocated as set out in the Company's Prospectus dated 9 July 2007.

OUR PROSPECTS ARE BRIGHT AS DEMAND FOR SPORTING WEAR IN THE PRC IS CHARGED TO GROW, BOOSTED BY THE 2010 GUANGZHOU ASIAN GAMES AND THE 2011 SHENZEN WORLD UNIVERSITY GAMES.

POISED to WIN

Our prospects are bright as demand for sporting wear in the PRC is charged to grow, boosted by the 2010 Guangzhou Asian Games and the 2011 Shenzen World University Games.


Mr Lin Shaoxiong


Mr Lin Shaoqin

Board of Directors


Ms Lai Chin Yee


Mr Tham Hock Chee


Mr Sam Kok Yin

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.

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 was a member of the Tax Advisory Committee of the Ministry of Finance from September 2004 to September 2006. She also served as a council member of the Council on Corporate Disclosure and Governance (CCDG) from December 2006 to August 2007. Ms Lai holds 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. 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 also an independent director of China Zaino International Ltd, a company listed on the Singapore Exchange. Mr Sam is currently a director of Perennial Advisory Pte. Ltd., a company involved in investments and financial consultancy. He started his career as a practising Advocate and Solicitor in 2001. Mr Sam 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 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)

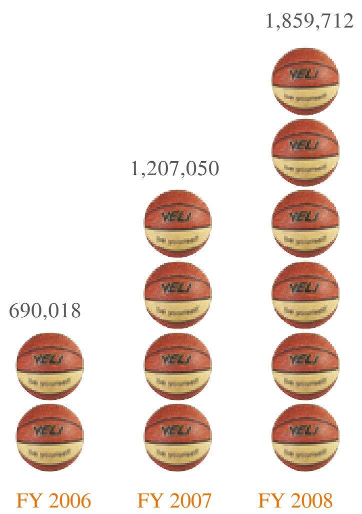
Mr Xu joined as our Human Resources Manager in 2008. He is mainly responsible for all our human resources matters. Before joining us, he had taken various positions in human resources department in different industries. He graduated from the University of Jeimei (集美大学).

Xie Liangcheng (谢良成)

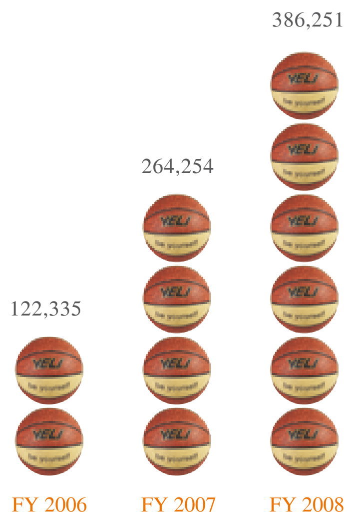
He joined Hengfa (Fujian) Light Industry Development Co., Limited as Assistant Technical Manager in February 2008 and was subsequently promoted to become Technical and Quality Assurance Manager on 30 December 2008. He is mainly involved in providing technical advice on the production of footwear and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

Financial Highlights

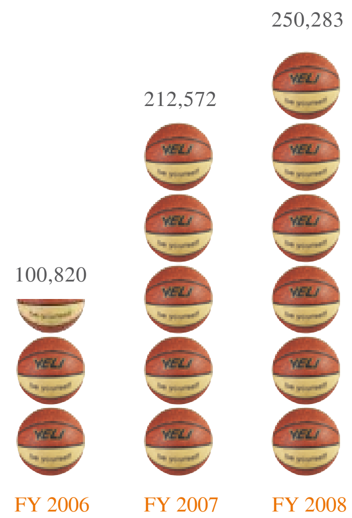
Revenue
(RMB'000)



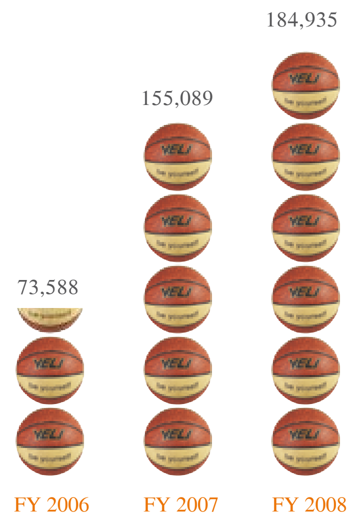
Gross Profit
(RMB'000)



Profit Before Income Tax
(RMB'000)



Profit After Income Tax
(RMB'000)




advertising and promotion activities while increasing our points of sale and new
enhance the visibility of the YELI brand, thus enhancing its value and gain
CONNECT
with the GAME
self

WE CONTINUALLY STRENGTHEN ADVERTISING AND PROMOTION ACTIVITIES WHILE INCREASING OUR POINTS OF SALE AND NEW GENERATION SPECIALTY STORES TO ENHANCE THE VISIBILITY OF THE YELI BRAND, THUS ENHANCING ITS VALUE AND GAIN MARKET SHARE.

Fahrenheit (飞轮海) our brand ambassador

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 the Management remains accountable to the Board.

The Board of Directors comprises:

CG Guideline 4.6

		Date of Appointment	Date of last re-election	Date of Resignation
Mr Lin Shaoxiong	(Executive Chairman and CEO)	9 April 2007	N.A.	N.A.
Mr Lin Shaoqin	(Executive Director)	10 April 2007	28 April 2008	N.A.
Mr Lin Yongjian	(Non-Executive Director)	4 June 2007	28 April 2008	30 May 2008
Ms Lai Chin Yee	(Lead Independent Director)	4 June 2007	28 April 2008	N.A.
Mr Tham Hock Chee	(Independent Director)	4 June 2007	28 April 2008	N.A.
Mr Sam Kok Yin	(Independent Director)	4 June 2007	28 April 2008	N.A.

The detailed profiles of the Directors are set out on page 11 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 the 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 (as defined in Chapter 9 of the Listing Manual) (each, an "IPT") of a material nature. CG Guideline 1.5

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. CG Guideline 1.6

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

To assist the Board in the discharge of its responsibilities, the Board has established 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

	Board		Audit Committee		Remuneration Committee		Nominating Committee	
Name	**Meetings held**	**Meetings attended**	**Meetings held**	**Meetings attended**	**Meetings held**	**Meetings attended**	**Meetings held**	**Meetings attended**
Mr Lin Shaoxiong	6	6	6	2*	2	–	1	–
Mr Lin Shaoqin	6	4	6	–	2	–	1	–
Ms Lai Chin Yee	6	6	6	6	2	2	1	1
Mr Tham Hock Chee	6	6	6	6	2	2	1	1
Mr Sam Kok Yin	6	6	6	5	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 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 skills critical to the Group's business to enable the Board to make sound and well-considered decisions. CG Guidelines 2.1 and 4.3

The NC's review of the independence of each Director for financial year 2008 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.

Corporate Governance Report

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

Although all the Directors have an equal responsibility for the Group's operations, the role of these Independent Directors is particularly important in ensuring that the strategies proposed by Management are constructively challenged, fully discussed and examined, and take account of the long term interests, of the Shareholders, having regard to the interests of employees, customers, suppliers and the many communities in which the Group conducts business. The 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 Executive Chairman and CEO. In view of Mr Lin Shaoxiong's concurrent appointment as our Executive Chairman and CEO, we have appointed Ms Lai Chin Yee as our Lead Independent Director, pursuant to the recommendation in Commentary 3.3 of the Code. In accordance with the recommendation in the said Commentary 3.3, the Lead Independent Director will be available to the Shareholders where they have concerns which contact through the normal channels of our Executive Chairman and CEO has failed to resolve or for which such contact is inappropriate.

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. CG Guideline 3.2

The Chairman's role with regard to the Board proceedings is as follows:

- 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.

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 2008. 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 not 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;

- to recommend to the Board internal guidelines to address the competing time commitments faced by Directors who serve on multiple boards;

- to assist the Board to implement a process for assessing the effectiveness of the Board as a whole and for assessing the contribution of each individual Director to the effectiveness of the Board;

- to decide how the Board's performance may be evaluated and propose objective performance criteria. Such performance criteria, which allow for comparison with industry peers, should be approved by the Board and address how the Board has enhanced long term shareholders' value. These performance criteria should not be changed from year to year, and where circumstances deem it necessary for any of the criteria to be changed, the onus should be on the Board to justify this decision. In addition to any relevant performance criteria which the Board may propose, the performance evaluation should also consider the Company's share price performance over a 5 year period vis-à-vis the Singapore Straits Times Index and a benchmark index of its industry peers;

  The Chairman of the NC should act on the results of the performance evaluation and where appropriate, propose new members be appointed to the Board or seek the resignation of Directors, in consultation with the NC; and

- 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 is eligible for re-election. CG Guideline 4.5

In its search, nomination and selection for new Directors, the NC identifies the key attributes that an incoming Director should have, based on a matrix of the CG Guideline 4.5 attributes of the existing Board and the requirements of the Group. After endorsement by the Board of the key attributes, the NC taps on the resources of Directors' personal contacts and recommendations of potential candidates, and goes through a short-listing process. If candidates identified from this process are 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 independence of the following Directors, 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 is, where necessary, in attendance at the Board meetings. The Company Secretaries or their representatives attend all Board meetings and meetings of the Audit, Nominating and Remuneration Committees. The Company Secretaries administer, attend and prepare minutes of Board and Board Committees meetings, and assist the Chairman in ensuring that Board procedures are followed in accordance with the Company's Bye-laws so that the Board functions effectively. CG Guidelines 6.1, 6.2 and 6.3

Corporate Governance Report

Each Director has the right to seek independent legal and other professional advice, where necessary, in order to fulfill 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 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.

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

- 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 2008. 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 should 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 the Shareholders' approval at the Annual General Meetings. CG Guideline 8.2

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. CG Guideline 8.3 Commentary 8.6

DISCLOSURE ON REMUNERATION

CG Guidelines 9.1, 9.2 and 9.4

Directors	Salary %	Bonus %	Benefits %	Director Fees %	Total %
Above $250,000 and below $500,000					
Lin Shaoxiong	38	62	–	–	100
Lin Shaoqin	55	44	1	–	100
Below or equal to $250,000					
Lin Yongjian (resigned on 30 May 2008)	–	–	–	–	–
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	92	8	–	–	100
Kang Weisheng	73	6	21	–	100
Xu Tianhui (appointed on 15 January 2008)	72	7	21	–	100
Xie Liangchen (promoted on 30 December 2008)	NM	NM	NM	NM	NM
Cao Faquan (resigned on 15 December 2008)	72	7	21	–	100
Fu Chengzhong	72	7	21	–	100

* NM represent for not material

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 FY2008.

The Group does not have any employee share option schemes.

(C) ACCOUNTABILITY AND AUDIT

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

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

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 non-executive and Independent Directors: CG Guidelines 11.1 and 11.8

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 six 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 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: CG Guideline 11.3

- to review with the external auditors: CG Guidelines 11.4, 11.6, 11.8 and 12.1

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

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

(c) their audit report; and

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

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

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

  (a) significant financial reporting issues and judgements;

  (b) changes in accounting policies and practices;

  (c) major risk areas;

  (d) significant adjustments resulting from the audit;

  (e) the going concern statement;

  (f) compliance with accounting standards;

  (g) audit qualifications (if any);

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

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

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

- to meet with the external auditors and 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;

- 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. 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;

- 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;

Corporate Governance Report

- to recommend to the Board the appointment, re-appointment, removal and matters arising from the resignation of the external auditors, and approve the remuneration and terms of engagement of the external auditors;

- to review all other existing and future IPTs not having been approved by the Shareholders to ensure that they are carried out at arm's length basis and on normal commercial terms and are not prejudicial to the interests of the Company and minority Shareholders;

- to review all IPTs to ensure compliance with Chapter 9 of the Listing Manual;

- where appropriate, to update the SGX-ST on any findings of the independent accounting firm commissioned to review the adequacy of the Group's existing system of internal controls relating to IPT review procedures, and any follow up action taken by the AC, if any;

- to review the payment terms for IPTs (not previously approved by the Shareholders) on a quarterly basis;

- to review IPTs, including but not restricted to, comment in annual report as to whether the IPTs are conducted in accordance with the review procedures;

- to review any potential conflict of interest;

- to review the hedging policies, all types of instruments used for hedging as well as the foreign exchange policies and practices of the Group;

- to review the reporting structure relating to the Group's accounting function and conduct semi-annual meetings with the 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

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

Corporate Governance Report

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

The Company has outsourced the internal audit functions to Cachet Certified Public Accountants Limited. It has performed and implemented internal reviews, to ensure that the system of internal controls maintained by the Company is sufficient to provide reasonable assurance that the Company's assets are safeguarded against loss from unauthorised use or disposal; transactions are properly authorised and proper financial records are being maintained. CG Guidelines 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 has adequate resources 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 the 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 will receive the annual report and notice of Annual General Meeting ("AGM"). At general meetings of shareholders, the Shareholders will be given the opportunity to voice their views and ask Directors or Management questions regarding the Company's affairs. The Chairmen of the Audit, Remuneration and Nominating Committees will normally be present at the 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 the Shareholders.

CG Guidelines 15.1 and 15.3

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-ST Rule 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

Apart from those related party transactions disclosed in the Note 18 and Note 24 of the audited financial statements, there were no material contracts of the Company or its subsidiary involving the interest of any director or controlling shareholder subsisting at the end of the financial year ended 31 December 2008.

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.

INTERESTED PERSON TRANSACTIONS

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

The following is the aggregate value of all transactions with interested persons (as defined in Chapter 9 of the Listing Manual) for the financial year ended 31 December 2008:-

Name of interested person	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than S$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)	Aggregate value of all interested perons transactions conducted during the financial year under review under shareholders' mandate pursuant to Rule 920 (excluding transactions less than S$100,000)
	RMB	
Lin Shaoxiong (Executive Director and CEO) (1) (2)	40,901,000	–
Li Tung Kwo (Substantial Shareholder) (1)	33,901,000	–
Lin Yongjian (2)	7,000,000	–

(1) Lin Shaoxiong and Li Tung Kwo has jointly pledged their shares to secure a term loan and provided personal guarantees for the Company during the financial year ended 31 December 2008. We have not paid any form of consideration to Lin Shaoxiong and Li Tung Kwo for the provision of the share pledge or the guarantees.

(2) Lin Shaoxiong and Lin Yongjian (the father of Mr Lin Shaoxiong and Mr Lin Shaoqin and a director of our wholly owned subsidiary Hengfa (Fujian) Light Industry Development Co., Ltd.) has jointly provided personal guarantees to secure our banking facility during the financial year ended 31 December 2008. We have not paid any form of consideration to Lin Shaoxiong and Lin Yongjian for the provision of the personal guarantees.

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 2008.

Names of directors

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

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

At the forthcoming Annual General Meeting, Lin Shaoxiong and Lai Chin Yee will be retiring pursuant to Bye-law 85(6) of the Company's Bye-laws and, being eligible, offer themselves for re-election.

Arrangements to acquire shares or debentures

During and at the end of the financial year, neither the Company nor its subsidiaries was a party to any arrangement 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' 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:

	Holding registered in the name of director		Holding in which director is deemed to have an interest	
	As at 1.1.2008	**As at 31.12.2008 and 21.1.2009#**	As at 1.1.2008	**As at 31.12.2008 and 21.1.2009**
	Number of ordinary shares of HK$0.08 each	Number of ordinary shares of HK$0.04 each	Number of ordinary shares of HK$0.08 each	Number of ordinary shares of HK$0.04 each
The Company - China Sports International Limited				
Lin Shaoxiong	113,000,000	**226,000,000***	–	–

* During the financial year ended 31 December 2008, 140,000,000 ordinary shares of HK$0.04 each were pledged to a bank to secure a bank facility granted to the Company (Note 18).

\# There is no changes to the above shareholding as at 21 January 2009.

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose objects are or one of whose object is to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures, of the Company or any other corporate body.

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 performs the functions set out in the SGX Listing Manual and the Code of Corporate Governance. In performing its functions, the Committee reviewed the following:

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

(ii) the quarterly financial information and the balance sheet of the Company and the consolidated financial statements of the Group for the financial year ended 31 December 2008 as well as the auditors' report thereon; and

(iii) interested person transactions (as defined in Chapter 9 of the Listing Manual of the Singapore Exchange).

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

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

Independent auditors

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

On behalf of the Directors

LIN SHAOXIONG

LIN SHAOQIN

Dated: 28 February 2009

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. The 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 of the Company and of the Group, 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 2008 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 2009

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 2008, the income statement, statement of changes in equity and cash flow statement of the Group for the financial year ended 31 December 2008, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Singapore Financial Reporting Standards. This responsibility includes:

(a) devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguard against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets;

(b) selecting and applying appropriate accounting policies; and

(c) 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 management, as well as evaluating the overall presentation of the financial statements.

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

Independent Auditors' Report

To the Members of China Sports International Limited

Opinion

In our opinion, the consolidated financial statements of the Group and the balance sheets 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 2008 and the results, changes in equity and cash flows of the Group for the financial year ended 31 December 2008.

Foo Kon Tan Grant Thornton
Public Accountants and
Certified Public Accountants

Wong Kian Kok
Partner in charge of the audit
Date of appointment: 9 April 2007

Singapore, 28 February 2009

Balance Sheets

As at 31 December 2008

	Note	The Company 31 December 2008 RMB'000	The Company 31 December 2007 RMB'000	The Group 31 December 2008 RMB'000	The Group 31 December 2007 RMB'000
ASSETS					
Non-Current Assets					
Intangible assets	5	**–**	–	**2,864**	8,571
Property, plant and equipment	6	**18**	4	**106,227**	60,384
Subsidiaries	7	**406,617**	375,222	**–**	–
		406,635	375,226	**109,091**	68,955
Current Assets					
Inventories	8	**–**	–	**26,156**	22,309
Trade receivables	9	**–**	–	**281,216**	215,636
Prepayment and deposits	10	**18**	2	**9,469**	9,380
Amount due from a subsidiary	11	**34,001**	31,327	**–**	–
Fixed deposit	12	**–**	–	**3,000**	–
Cash and cash equivalents	13	**4,252**	9,554	**544,597**	418,354
		38,271	40,883	**864,438**	665,679
Total assets		**444,906**	416,109	**973,529**	734,634

Balance Sheets

As at 31 December 2008

	Note	The Company 31 December 2008 RMB'000	The Company 31 December 2007 RMB'000	The Group 31 December 2008 RMB'000	The Group 31 December 2007 RMB'000
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	14	**26,419**	26,419	**26,419**	26,419
Reserves	15	**376,523**	387,520	**735,948**	582,289
Total equity		**402,942**	413,939	**762,367**	608,708
Current Liabilities					
Trade and bills payables	16	**–**	–	**107,278**	62,234
Accrued liabilities and other payables	17	**8,063**	2,170	**54,613**	40,378
Interest-bearing bank borrowings	18	**33,901**	–	**40,901**	8,560
Income tax payable		**–**	–	**8,370**	14,754
		41,964	2,170	**211,162**	125,926
Total equity and liabilities		**444,906**	416,109	**973,529**	734,634

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

Consolidated Income Statement

Year ended 31 December 2008

	Note	**31 December 2008 RMB'000**	31 December 2007 RMB'000
Revenue	3	**1,859,712**	1,207,050
Cost of sales		**(1,473,461)**	(942,796)
Gross profit		**386,251**	264,254
Other income	3	**3,256**	8,184
Selling and distribution costs	4	**(113,903)**	(42,768)
Administrative expenses		**(18,341)**	(16,485)
Other operating expenses		**(6,076)**	(19)
Finance costs	19	**(904)**	(594)
Profit before taxation	20	**250,283**	212,572
Taxation	21	**(65,348)**	(57,483)
Profit after taxation for the year attributable to shareholders		**184,935**	155,089
Earnings per share (RMB cents)			
- Basic and diluted	22	**27.45**	27.40

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

Consolidated Statement of Changes in Equity

Year ended 31 December 2008

	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000	Currency translation reserve RMB'000	Statutory reserve RMB'000	Retained profits RMB'000	Total RMB'000
Balance at 1 January 2007	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
Currency translation reserve	–	–	–	51	–	–	51
Net profit recognised directly in equity	–	–	–	51	–	–	51
Net profit for the year	–	–	–	–	–	184,935	184,935
Total recognised income and expense for the year	–	–	–	51	–	184,935	184,986
Payment of dividends (Note 23)	–	–	–	–	–	(31,327)	(31,327)
Transfer to statutory reserve	–	–	–	–	19,604	(19,604)	–
Balance at 31 December 2008	**26,419**	**390,641**	**801**	**(2,377)**	**55,437**	**291,446**	**762,367**

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

Consolidated Cash Flow Statement

Year ended 31 December 2008

	31 December 2008 RMB'000	31 December 2007 RMB'000
Cash Flows from Operating Activities		
Profit before taxation	**250,283**	212,572
Adjustments for:		
Depreciation of property, plant and equipment	**34,150**	2,658
Amortisation of intangible assets	**823**	135
Amortisation of land use rights	**63**	64
Property, plant and equipment written off	**893**	–
Intangible asset written off	**5,056**	–
Gain on disposal of property, plant and equipment	**–**	(73)
Interest expense	**904**	594
Interest income	**(3,215)**	(1,294)
Operating profit before working capital changes	**288,957**	214,656
Change in operating assets and liabilities		
- inventories	**(3,847)**	(12,400)
- trade receivables	**(65,580)**	(126,035)
- other receivables	**(89)**	(8,580)
- trade and bills payables	**39,044**	17,164
- other payables	**(20,761)**	13,315
Net cash generated from operations	**237,724**	98,120
Interest received	**3,215**	1,294
Interest paid	**(904)**	(594)
Income tax paid	**(71,732)**	(49,675)
Net cash generated from operating activities	**168,303**	49,145

Consolidated Cash Flow Statement

Year ended 31 December 2008

	31 December 2008 RMB'000	31 December 2007 RMB'000
Cash Flows from Investing Activities		
Acquisition of intangible assets	**(235)**	(6,015)
Acquisition of property, plant and equipment (Note A)	**(80,741)**	(30,709)
Proceeds from disposal of property, plant and equipment	**–**	493
Net cash used in investing activities	**(80,976)**	(36,231)
Cash Flows from Financing Activities		
Fixed deposit pledged	**(3,000)**	1,540
Increase in amount owing to directors	**17,579**	–
Increase in bills payable to bank	**6,000**	–
Advances from third party	**17,640**	–
Proceeds from short-term loan	**40,901**	8,560
Repayment of short-term loan	**(8,560)**	(8,150)
Proceeds from issue of shares	**–**	417,510
Issue of share expense	**–**	(19,390)
Payment of dividend	**(31,327)**	–
Net cash generated from financing activities	**39,233**	400,070
Net increase in cash and cash equivalents	**126,560**	412,984
Cash and cash equivalents at beginning of year	**418,354**	5,370
Effect of exchange rate fluctuation	**(317)**	–
Cash and cash equivalents at end of year (Note 13)	**544,597**	418,354

Note A:

During the financial year, the Group acquired property, plant and equipment with an aggregate cost of RMB80,888,000 (2007 - RMB46,743,000) of which RMB147,000 (2007 - RMB16,034,000) remains outstanding in other payable as at year end (Note 17).

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 2008 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 is domiciled in Bermuda. The registered office is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

The principal activity of the Company is that of an investment holding company. The principal activities of the subsidiaries are stated in Note 7.

2(a) Basis of preparation

The financial statements are prepared in accordance with Singapore Financial Reporting Standards ("FRS") including related Interpretations promulgated by the Accounting Standards Council ("ASC"). The financial statements have been prepared under the historical cost convention, unless otherwise stated.

Significant accounting estimates and judgements

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

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

(i) Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Management estimates the useful lives of property, plant and equipment to be within 2 to 20 years. The carrying amounts of the Company's and the Group's property, plant and equipment as at 31 December 2008 were RMB18,000 and RMB106,227,000 respectively. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

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

Significant accounting estimates and judgements (Cont'd)

(ii) 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 reassesses the estimations at the balance sheet date.

(iii) Impairment of trade receivables

The Group's management assesses the collectbility 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.

(iv) Impairment of plant and equipment

The Group assesses 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.

(v) 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.

2(b) Interpretations and amendments to published standards effective in 2008

On 1 January 2008, the Group adopted the new or amended FRS and Interpretations to FRS ("INT FRS") that are mandatory for application from that date. This includes the following FRS and INT FRS which are relevant to the Group:

INT FRS 111	FRS 102- Group and Treasury Share Transaction
INT FRS 112	Service Concession Arrangements
INT FRS 114	The Limit on the Defined Benefit Asset, Minimum Funding Requirements and their Interaction

Notes to the Financial Statements

2(b) Interpretations and amendments to published standards effective in 2008

The Group has adopted all the new and amended FRS and INT FRS that are relevant to its operation and effective for annual periods beginning on or after 1 January 2008. The adoption of these new/revised FRS and INT FRS did not result in substantial changes to the Group's accounting policies or any significant impact on these financial statements.

2(c) FRS not yet effective

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

FRS 1 (Revised 2008)	Presentation of Financial Statements
Amendments to FRS 1 (Revised 2008)	Amendments relating to puttable financial instruments and obligations arising on liquidation
FRS 23 (Revised)	Borrowing costs
Amendments to FRS 27	Amendments relating to cost of an investment in a subsidiary, jointly controlled entity or associate
Amendments to FRS 32	Amendments relating to puttable financial instruments and obligations arising on liquidation
Amendments to FRS 101	Amendments relating to cost of an investment in a subsidiary, jointly controlled entity or associate
Amendments to FRS 102	Amendments relating to vesting conditions and cancellation
FRS 108	Operating Segments
Improvements to FRSs 2008	

FRS 1 (Revised 2008) will become effective for the Group's financial statements for the year ending 31 December 2009. The revised standard requires an entity to present, in a statement of changes in equity, all owner changes in equity. All non-owner changes in equity (i.e. Comprehensive income) are required to be presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). Components of comprehensive income are not permitted to be presented in the statement of changes in equity. In addition, a statement of financial position is required at the beginning of the earliest comparative period following a change in accounting policy, the correction of an error or the reclassification of items in the financial statements. FRS 1 (Revised 2008) does not have any impact on the Group's financial position or results.

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

FRS 108 supersedes FRS 14 Segment Reporting and requires the Group to report the financial performance of its operating segments based on the information used internally by management for evaluating segment performance and deciding on allocation of resources. Such information may be different from the information included in the financial statements, and the basis of its preparation and reconciliation to the amounts recognised in the financial statements shall be disclosed.

Notes to the Financial Statements

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

The Group will apply FRS 108 from 1 January 2009 and provide comparative information that conforms to the requirements of FRS 108. The Group expects the new operating segments to be significantly different from business segments currently disclosed and expects more information to be disclosed under FRS 108.

2(d) Summary of significant accounting policies

Consolidation

The financial statements of the Group include the financial statements of the Company and its subsidiaries made up to the end of the financial year. Information on the subsidiaries is given in Note 7.

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.

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.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

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 consolidated financial statements reflect external transactions and balances only. The results of subsidiaries acquired or disposed of during the financial year are included or excluded from the consolidated income statement from the effective date in which control is transferred to the Group.

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

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

No depreciation is provided on construction in progress.

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

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.

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

Land use rights

Land use rights are stated at cost less accumulated amortisation and impairment losses, if any. 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 as follows:

Patent and licenses	10 years
Computer software	5 years

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

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

Research and development costs

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

Impairment of non-financial assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of the Group's property, plant and equipment and intangible 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 at the higher of the asset's value in use or its net selling price.

Value in use is the present value of the future cash flows expected to be derived from the asset calculated using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Notes to the Financial Statements

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

Impairment of non-financial assets (Cont'd)

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is charged to the combined income statement in the period 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 combined income statement in the period in which it arises.

Financial Instruments

Financial assets and financial liabilities are financial instruments which fall under the scope of FRS 39, Financial Instruments: Recognition and Measurement. Financial instruments other than hedging instruments can be divided into the following categories: financial assets or financial liabilities at fair value through income statement, held-to-maturity investments, loan and receivables and available-for-sale financial assets.

Effective interest rate method is used to calculate the amortised cost of a financial instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument, or where appropriate, a shorter period.

(i) <u>Financial Assets</u>

Financial assets are assigned to the different categories of financial instruments by the directors 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.

<u>Recognition of financial assets</u>

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

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

Financial Instruments (Cont'd)

(i) Financial Assets (Cont'd)

Impairment of financial assets

At each of the balance sheet date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

In subsequent period, if the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through the combined income statement to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would had been had the impairment not been recognised.

De-recognition of financial assets

The Group de-recognises financial assets when the contractual rights to the cash flows from the financial asset expire or it transfers the financial assets and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred assets, the Group recognises its retained interest in the assets and associated liability for amounts it may have to pay. If Group retains substantially all the risk and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognised a collateralised borrowing for the proceeds received.

Loan and receivables

Trade and other receivables with fixed or determinable payments that are not quoted in an active market are classified as "loan and receivables".

Loan and receivables are measured on initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method less impairment. Appropriate allowances for estimated irrecoverable amounts are recognised in the combined 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.

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

Financial Instruments (Cont'd)

(ii) Financial Liabilities

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

De-recognition of financial liabilities

The Group de-recognises a financial liability when, and only when the Group's obligations expire or are discharged or cancelled.

Trade payables, accrued liabilities and other payables

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

Subsidiaries

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

Shares in subsidiaries are stated at cost less allowance for any impairment losses on an individual subsidiary basis.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost incurred in bringing each product to its present location and conditions are accounted for as follows:

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

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

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

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

Cash and cash equivalents

For the purpose of the combined cash flow statement, cash and cash equivalents comprise cash on hand and at banks which have a short maturity of generally within three months.

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.

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 account the principal outstanding and the effective interest rate applicable.

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

Income tax

Income tax for the period comprises current and deferred tax.

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

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

Deferred 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 assets and liabilities in a transaction that is not a business combination and that affects neither the tax profit nor the accounting profit.

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 period 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.

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

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

- Where the VAT incurred on a purchase of assets or services is not recoverable from the tax authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- Receivables and payables that are stated with the amount of VAT included.

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

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 subsidiaries of the Company in The People's Republic of China are required to contribute a certain percentage of the basic salaries of its employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the 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, Theme way Limited and YELI (Hong kong) Company Limited are 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.

(ii) Transactions and balances

Foreign currency transactions are translated into the respective 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.

(iii) Group companies

For the purposes of presenting financial statements in Renminbi, the results and financial positions of the Company, Theme Way Limited, and YELI (Hong Kong) Company Limited 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 currency translation reserve.

Notes to the Financial Statements

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

Functional currencies (Cont'd)

(iv) Share capital

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

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 directors/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 off as incurred.

2(d) 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.

Notes to the Financial Statements

3 Revenue and other income

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

The Group	**31 December 2008 RMB'000**	31 December 2007 RMB'000
Revenue		
Sales of goods	**1,859,712**	1,207,050
Other income		
Interest income	**3,215**	1,294
Sundry income	**41**	–
Gain on disposal of property, plant and equipment	**–**	73
Exchange gain	**–**	6,817
	3,256	8,184

4 Selling and distribution costs

Included in the selling and distribution costs is advertising and promotion expenses of RMB65,641,000 (2007 - RMB28,910,000).

5 Intangible assets

The Group	Land use rights RMB'000	Patent RMB'000	Software RMB'000	Total RMB'000
Cost				
At 1 January 2007	3,173	–	–	3,173
Additions	–	6,015	–	6,015
At 31 December 2007	3,173	6,015	–	9,188
Additions	–	62	173	235
Written off	–	(6,000)	–	(6,000)
At 31 December 2008	**3,173**	**77**	**173**	**3,423**
Accumulated amortisation				
At 1 January 2007	418	–	–	418
Amortisation for the year	64	135	–	199
At 31 December 2007	482	135	–	617
Amortisation for the year	63	812	11	886
Written off	–	(944)	–	(944)
At 31 December 2008	**545**	**3**	**11**	**559**
Net book value				
At 31 December 2008	**2,628**	**74**	**162**	**2,864**
At 31 December 2007	2,691	5,880	–	8,571

Land use rights held by the Group with net book value of RMB2,628,000 (2007 - RMB2,691,000) as at 31 December 2008 were pledged to a bank to secure a bank borrowing granted to the Group (Note 18).

Notes to the Financial Statements

6 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
Additions	16
At 31 December 2008	**20**
Accumulated depreciation	
At 27 March 2007	–
Depreciation for the period	–
At 31 December 2007	–
Depreciation for the year	2
At 31 December 2008	**2**
Net book value	
At 31 December 2008	**18**
At 31 December 2007	4

6 Property, plant and equipment (Cont'd)

The Group	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Outlet fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
Cost							
At 1 January 2007	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
Exchange difference on translation	–	–	(3)	–	–	–	(3)
Additions	19,346	4,578	812	–	56,152	–	80,888
Reclassification	10,510	–	–	–	–	(10,510)	–
Disposals/Written off	–	(6,713)	(410)	–	–	–	(7,123)
At 31 December 2008	**48,042**	**39,189**	**4,861**	**1,808**	**56,152**	**–**	**150,052**
Accumulated depreciation							
At 1 January 2007	6,819	7,241	1,269	–	–	–	15,329
Depreciation for the year	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
Exchange difference on translation	–	–	(1)	–	–	–	(1)
Depreciation for the year	1,491	3,772	486	325	28,076	–	34,150
Disposals/Written off	–	(5,861)	(369)	–	–	–	(6,230)
At 31 December 2008	**9,128**	**4,608**	**1,579**	**434**	**28,076**	**–**	**43,825**
Net book value							
At 31 December 2008	**38,914**	**34,581**	**3,282**	**1,374**	**28,076**	**–**	**106,227**
At 31 December 2007	10,549	34,627	2,999	1,699	–	10,510	60,384

Notes to the Financial Statements

6 Property, plant and equipment (Cont'd)

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 RMB9,480,000 (2007 - RMB10,278,000) as at 31 December 2008 were pledged to a bank to secure a bank borrowing granted to the Group (Note 18).

	The Company		The Group	
Depreciation expenses	**31 December 2008 RMB'000**	31 December 2007 RMB'000	**31 December 2008 RMB'000**	31 December 2007 RMB'000
Depreciation expenses charged to:				
Cost of sales	**–**	–	**5,371**	2,464
Administrative expenses	**2**	–	**703**	194
Selling and distribution costs	**–**	–	**28,076**	–
	2	–	**34,150**	2,658

7 Subsidiaries

The Company	**31 December 2008 RMB'000**	31 December 2007 RMB'000
Unquoted equity investment, at cost	**18,072**	18,072
Amount owing by subsidiary	**388,545**	357,150
	406,617	375,222

The amount 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 within one year. Because they represent net investments, with indeterminable repayments, fair valuation is not appropriate.

7 Subsidiaries (Cont'd)

The subsidiaries are:

Name	Country of incorporation/ principal place of business	Cost of investment 2008 RMB'000	Cost of investment 2007 RMB'000	Percentage of equity held 2008 %	Percentage of equity held 2007 %	Principal activities
Held by the Company:						
Theme Way Limited [1]	Hong Kong	**18,072**	18,072	**100**	100	Investment holding
Held by Theme Way Limited:						
Hengfa (Fujian) Light Industry Development Co., Ltd [2] 恒发(福建)轻工业发展有限公司 ("Hengfa Light Industry")	The People's Republic of China	**–**	–	**100**	100	Design, manufacture and sales of sports fashion footwear and apparel
YELI (Hong Kong) Company Limited [1] ("YELI Hong Kong")	Hong Kong	**–**	–	**100**	100	Investment holding
YELI Sports (China) Co., Ltd (formerly known as YELI (China) Co., Ltd) [2][3] 野力体育（中国）有限公司 ("YELI China")	The People's Republic of China	**–**	–	**–**	100	Production of casual shoes, sport shoes, apparels, footwear-making material, bags and badminton products. The Company has not commenced operations
Held by YELI (Hong Kong) Company Limited:						
YELI Sports (China) Co., Ltd (formerly known as YELI (China) Co., Ltd) [2][3] 野力体育（中国）有限公司 ("YELI China")	The People's Republic of China	**–**	–	**100**	–	Production of casual shoes, sport shoes, apparels, footwear-making material, 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) Pursuant to the share transfer agreement between Theme Way Limited and YELI Hong Kong dated 14 April 2008, YELI Hong Kong acquired YELI China on 30 May 2008. The consideration for the acquisition was HK$45,880,000, such amount being equivalent to the partly paid-up registered capital of YELI China. On 11 December 2008, a further subscription consideration of HK$38,000,000 was injected into YELI China.

Notes to the Financial Statements

8 Inventories

The Group	**31 December 2008 RMB'000**	31 December 2007 RMB'000
Raw materials	**12,902**	8,645
Work-in-progress	**1,896**	1,525
Finished goods	**11,358**	12,139
	26,156	22,309
Cost of inventories included in cost of sales	**1,275,096**	836,502

9 Trade receivables

The Group	**31 December 2008 RMB'000**	31 December 2007 RMB'000
Trade receivables	**281,216**	215,636

Trade receivables generally have credit terms of 90 days (2007 - 90 days). The carrying amount of trade receivables is denominated in Renminbi.

9 Trade receivables (Cont'd)

The ageing analysis of trade receivables past due but not impaired is as follows:

The Group	31 December 2008 RMB'000	31 December 2007 RMB'000
Not past due	**281,216**	215,636
Past due 0 to 3 months	**–**	–
Past due 3 to 6 months	**–**	–
Past due over 6 months	**–**	–
	281,216	215,636

The Group believes that no impairment allowance is necessary in respect of trade receivables not past due.

10 Prepayment and deposits

	The Company		The Group	
	31 December 2008 RMB'000	31 December 2007 RMB'000	**31 December 2008 RMB'000**	31 December 2007 RMB'000
Prepayment	**18**	2	**18**	2
Deposits	**–**	–	**9,451**	9,378
	18	2	**9,469**	9,380

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

10 Prepayment and deposits (Cont'd)

Prepayments and deposits are denominated in the following currencies:

	The Company		The Group	
	31 December 2008 RMB'000	31 December 2007 RMB'000	**31 December 2008 RMB'000**	31 December 2007 RMB'000
Renminbi	**–**	–	**9,451**	9,378
Singapore dollar	**18**	2	**18**	2
	18	2	**9,469**	9,380

11 Amount due from a subsidiary

The Company	**31 December 2008 RMB'000**	31 December 2007 RMB'000
Amount due from a subsidiary (non-trade)	**34,001**	31,327

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

12 Fixed deposit

The Group	**31 December 2008 RMB'000**	31 December 2007 RMB'000
Fixed deposit	**3,000**	–

The fixed deposit is pledged to a bank to secure a banking facility granted to a subsidiary (Note 18). The fixed deposit has an effective interest rate of 2.8% per annum (2007 - Nil). Interest rate is repriced at an interval of six months.

Fixed deposit pledged is denominated in Renminbi.

13 Cash and cash equivalents

	The Company		The Group	
	31 December 2008 RMB'000	31 December 2007 RMB'000	**31 December 2008 RMB'000**	31 December 2007 RMB'000
Fixed deposit with maturity less than 3 months	**3,419**	8,844	**3,419**	8,844
Cash at banks	**833**	710	**541,107**	409,492
Cash on hand	**–**	–	**71**	18
	4,252	9,554	**544,597**	418,354

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.

Notes to the Financial Statements

13 Cash and cash equivalents (Cont'd)

Cash and cash equivalents are denominated in the following currencies:

	The Company		The Group	
	31 December 2008 RMB'000	31 December 2007 RMB'000	**31 December 2008 RMB'000**	31 December 2007 RMB'000
Hong Kong dollar	**–**	–	**98**	1
Renminbi	**–**	–	**540,245**	396,901
Singapore dollar	**4,252**	9,554	**4,252**	9,554
United States dollar	**–**	–	**2**	11,898
	4,252	9,554	**544,597**	418,354

The effective interest rates for fixed deposit is 1.3% per annum (2007 - 2.3% per annum). Interest rate is repriced at interval of three months.

14 Share capital

The Company and The Group Issued and fully paid:	No. of ordinary shares **31 December 2008** **'000**	No. of ordinary shares 31 December 2007 '000	Amount **31 December 2008** **RMB'000**	Amount 31 December 2007 RMB'000
Balance at beginning of year	**336,850**	–	**26,419**	–
Issued nil-paid ordinary shares of HK$1.00 each upon incorporation	**–**	20	**–**	–
Issued of shares for acquisition of Theme Way Limited	**–**	17,980	**–**	17,742
Subscription by Pre-IPO investors	**–**	948	**–**	923
Total	**336,850**	18,948	**26,419**	18,665
Sub-division of one ordinary share into 25 ordinary shares	**–**	473,700	**–**	18,665
Consolidation of two ordinary share into 1 ordinary share	**–**	236,850	**–**	18,665
New shares issued pursuant to the IPO	**–**	100,000	**–**	7,754
Sub-division of one ordinary share into 2 ordinary shares	**673,700**	–	**–**	–
Balance at year end	**673,700**	336,850	**26,419**	26,419

During the financial year, the shareholders of the Company approved the sub-division of every one ordinary shares of HK$0.08 in the authorised and issued share capital of the Company into two ordinary shares of HK$0.04 each in the capital of the Company.

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 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.

15 Reserves

	Note	The Company 31 December 2008 RMB'000	The Company 31 December 2007 RMB'000	The Group 31 December 2008 RMB'000	The Group 31 December 2007 RMB'000
Share premium		**390,641**	390,641	**390,641**	390,641
Statutory reserve	(a)	**–**	–	**55,437**	35,833
Merger reserve	(b)	**–**	–	**801**	801
Currency translation reserve	(c)	**330**	330	**(2,377)**	(2,428)
(Accumulated losses) / retained profits		**(14,448)**	(3,451)	**291,446**	157,442
		376,523	387,520	**735,948**	582,289
Represented by:					
Distributable		**(14,448)**	(3,451)	**291,446**	157,442
Non-distributable		**390,971**	390,971	**444,502**	424,847
		376,523	387,520	**735,948**	582,289

(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. The reserve is not available for distribution to the shareholders of the entity.

(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.

15 Reserves (Cont'd)

(c) Currency translation reserve

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

16 Trade and bills payables

The Group	**31 December 2008 RMB'000**	31 December 2007 RMB'000
Trade payables	**101,278**	62,234
Bills payables	**6,000**	–
	107,278	62,234

Trade payables generally have credit terms of 90 days (2007 - 90 days). The carrying amount of trade and bills payables is denominated in Renminbi.

17 Accrued liabilities and other payables

	The Company		The Group	
	31 December 2008 RMB'000	31 December 2007 RMB'000	**31 December 2008 RMB'000**	31 December 2007 RMB'000
Accrued liabilities	**1,028**	1,460	**5,562**	8,011
Advances from a third party	**–**	–	**17,640**	–
Amount owing to directors	**6,299**	200	**17,779**	200
Other payables	**736**	510	**8,184**	10,390
Other payable for acquisition of property, plant and equipment	**–**	–	**147**	16,034
VAT payable	**–**	–	**5,301**	5,743
	8,063	2,170	**54,613**	40,378

The advances from a third party and amount owing to directors are unsecured, interest free and repayable on demand.

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

	The Company		The Group	
	31 December 2008 RMB'000	31 December 2007 RMB'000	**31 December 2008 RMB'000**	31 December 2007 RMB'000
Hong Kong dollar	**332**	–	**22,526**	5,069
Renminbi	**6,220**	710	**30,576**	33,849
Singapore dollar	**1,360**	1,460	**1,360**	1,460
United States dollar	**151**	–	**151**	–
	8,063	2,170	**54,613**	40,378

18 Interest-bearing bank borrowings

	The Company		The Group	
	31 December 2008 RMB'000	31 December 2007 RMB'000	**31 December 2008 RMB'000**	31 December 2007 RMB'000
Bank borrowings (secured)	**33,901**	–	**40,901**	8,560

Interest-bearing bank borrowings are denominated in the following currencies:

	The Company		The Group	
	31 December 2008 RMB'000	31 December 2007 RMB'000	**31 December 2008 RMB'000**	31 December 2007 RMB'000
Renminbi	**–**	–	**7,000**	8,560
United States dollar	**33,901**	–	**33,901**	–
	33,901	–	**40,901**	8,560

Bank borrowings are repayable within one year.

(a) The Renminbi borrowing is secured by:

(i) a mortgage of certain property, plant and equipment of a subsidiary (Note 6)

(ii) a mortgage of the land use rights of a subsidiary (Note 5); and

(iii) a personal guarantee by certain directors of the Group.

18 Interest-bearing bank borrowings (Cont'd)

(b) As at 31 December 2008, the United States dollar borrowing is secured by way of a pledge of 280,000,000 ordinary shares of the Company registered in the name of certain directors of the Group (Note 24).

The outstanding bank borrowings of the Group exposed to interest rate risk were as follow:

	The Company		The Group	
	31 December 2008 RMB'000	31 December 2007 RMB'000	**31 December 2008 RMB'000**	31 December 2007 RMB'000
At effective interest rate of 7.1% per annum (2007 - 7.75% per annum)	**33,901**	–	**40,901**	8,560

19 Finance costs

	The Company		The Group	
	31 December 2008 RMB'000	31 December 2007 RMB'000	**31 December 2008 RMB'000**	31 December 2007 RMB'000
Interest charges on bank borrowings	**301**	–	**904**	594

20 Profit before taxation

The Group	Note	31 December 2008 RMB'000	31 December 2007 RMB'000
Profit before taxation is arrived at after charging/ (crediting):			
Amortisation of intangible assets	5	**823**	135
Amortisation of land use rights	5	**63**	64
Depreciation of property, plant and equipment	6	**34,150**	2,658
Directors' fees		**664**	556
Directors' remuneration			
- salaries and related cost		**3,661**	840
- retirement scheme contribution		**18**	16
Exchange loss/ (gain)		**112**	(6,817)
Gain on disposal of property, plant and equipment		**–**	(73)
Intangible asset written off	5	**5,056**	–
Interest income		**(3,215)**	(1,294)
Inventories charged to cost of sales	8	**1,275,096**	836,502
Key management personnel			
- salaries and related cost		**1,133**	1,435
- retirement scheme contribution		**67**	50
Minimum lease payments under operating leases		**2,460**	1,618
Other than key management personnel			
- salaries and related cost		**27,432**	24,531
- retirement scheme contribution		**7,577**	6,123
Property, plant and equipment written off		**893**	–
Research and development expenses		**4,495**	3,573
Share issue expense		**–**	3,685

Notes to the Financial Statements

21 Taxation

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

The Group	**31 December 2008 RMB'000**	31 December 2007 RMB'000
Profit before taxation	**250,283**	212,572
Tax at statutory rate of 25% (2007 – 27%)	**62,571**	57,394
Tax effect on non-taxable items	**–**	(844)
Tax effect on non-deductible expenses	**2,777**	932
Difference in tax rate	**–**	1
	65,348	57,483

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 previously enjoys a reduced tax rate of 24% charged by the State Tax Bureau of Jinjiang City, Fujian Province and a local income tax rate of 3% charged by the Jinjiang Local Tax Bureau. With effect from 1 January 2008, the provision for The People's Republic of China income tax is calculated based on the statutory income tax rate of 25%.

22 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 673,700,000 shares (2007- 565,207,000 shares) during the financial year. The Company's share splits of 336,850,000 shares were assumed to be in issue throughout the entire period in 2007. There is no potential dilution on earning.

23 Dividends

The Company and The Group	**31 December 2008 RMB'000**	31 December 2007 RMB'000
Final dividend paid in respect of the previous financial year of RMB0.093* (2007 - Nil) per share	**31,327**	–

* Based on the number of issued ordinary shares of the Company prior to the share split exercise.

24 Related party transactions

During the financial year, the following directors of the Group have pledged their respective shares of the Company registered in their name to secure a banking facility (Note 18) granted to the Company:

The Company	**31 December 2008**	31 December 2007
	No. of ordinary share of	
	HK$0.04 each	**HK$0.08 each**
Lin Shaoxiong	140,000,000	Nil
Li Tung Kwo	140,000,000	Nil

Notes to the Financial Statements

25 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 2008 RMB'000**	31 December 2007 RMB'000
Within one year	**1,835**	2,460
In the second to fifth years	**960**	2,795
	2,795	5,255

The leases on the Group's office and hostel, and factory premises on which rentals are payable will expire on 30 July 2009 and 31 December 2015, subject to an option to renew, and the current rent payable on the leases are RMB125,000 and RMB80,000 per month respectively which are subject to revision on renewal.

(b) Capital expenditure

The Group	**31 December 2008 RMB'000**	31 December 2007 RMB'000
Capital expenditure contracted for construction of plant but not provided for	**–**	5,000
Capital expenditure contracted for acquisition of machiney but not provided for	**4,625**	4,625
	4,625	9,625

25 Commitments (Cont'd)

(c) Capital commitments

The Group has unpaid contribution in a subsidiary, YELI China as follows:

The Group	**31 December 2008 RMB'000**	31 December 2007 RMB'000
Unpaid capital contribution in a subsidiary		
– Contributable on or before 13 December 2009 (HK$66,120,000)	**58,318**	–

26 Financial risk management objectives and policies

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

As at 31 December 2008, 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 interest-bearing bank borrowings.

26.1 Foreign currency risk

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

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

As at 31 December 2008, the non-Renminbi assets and liabilities of the Group are mainly fixed deposits in Singapore dollar and interest-bearing bank borrowings in United States dollar respectively. The Group has not entered into any forward exchange contract to hedge its exposure to foreign exchange risk.

Notes to the Financial Statements

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

26.1 Foreign currency risk (Cont'd)

The Group's exposure to foreign currency risk is as follows:

The Group	As at 31 December 2008 USD'000
Interest-bearing bank borrowings	5,000
	SGD'000
Fixed deposits	718

Sensitivity analysis for foreign currency risk

(a) A 5% weakening of the United States dollar against the Renminbi as at 31 December 2008 would increase the profit for the year by the amount shown below:

	As at 31 December 2008 RMB'000
United States dollar	11

A 5% strengthening of the United States dollar against the Renminbi as at 31 December 2008 would have the equal but opposite effect on the above currency of the amount shown above.

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

26.1 Foreign currency risk (Cont'd)

(b) A 5% weakening of the Singapore dollar against the Renminbi as at 31 December 2008 would decrease the profit for the year by the amount shown below:

	As at 31 December 2008 RMB'000
Singapore dollar	3

A 5% strengthening of the Singapore dollar against the Renminbi as at 31 December 2008 would have the equal but opposite effect on the above currency of the amount shown above.

26.2 Interest rate risk

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

The Company's and the Group's exposure to interest rate risk arises primarily from their loans and borrowings. All of the Company's and the Group's loan and borrowings are less than 12 months (2007 - less than 12 months) from the balance sheet date.

Sensitivity analysis for interest rate risk

The Group's exposure to interest risk is as follows:

(a) At the balance sheet date, if Renminbi interest rate had been 75 (2007 - 75) basis points lower or higher with all other variables held constant, the Group's profit net of tax would have been RMB31,000 (2007- RMB44,000) higher or lower, arising mainly as a result of lower or higher interest expense on floating rate borrowings and higher or lower interest income from fixed deposits.

(b) At the balance sheet date, if Singapore dollar interest rate had been 75 (2007 - 75) basis points lower or higher with all other variables held constant, the Group's profit net of tax would have been RMB36,000 (2007 - RMB7,000) higher or lower, arising mainly as a result of higher or lower interest income from fixed deposits.

(c) At the balance sheet date, if United States dollar interest rate had been 75 (2007 - 75) basis points lower or higher with all other variables held constant, the Group's profit net of tax would have been RMB31,000 (2007 - RMBNil) higher or lower, arising mainly as a result of lower or higher interest expense on floating rate borrowings.

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

26.3 Credit risk

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

For bank deposits, a majority of the cash at banks is held with reputable financial institution in The People's Republic of China.

For trade receivables, management has a credit control policy in place. Credit evaluations are performed on all customers requiring credit over a certain amount. Transactions are conducted with customers with appropriate credit histories. The credit risk and amount outstanding is monitored on an 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 trade receivables of the Group comprise 3 debtors (2007 - 1 debtor) that individually represented 10 -20% of trade receivables.

Further details of credit risks on trade receivables are disclosed in Note 9.

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

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

26.4 Liquidity risk

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

The Group	**Less than 1 year RMB'000**
At 31 December 2008	
Trade, bills and other payables	161,891
Interest-bearing bank borrowings	40,901
	202,792
At 31 December 2007	
Trade, bills and other payables	102,612
Interest-bearing bank borrowings	8,560
	111,172
The Company	
At 31 December 2008	
Trade and other payables	8,063
Interest-bearing bank borrowings	33,901
	41,964
At 31 December 2007	
Trade and other payables	2,170

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

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

26.5 Market price risk

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

27 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.

The Group monitors capital on the basis of the carrying amount of equity plus its borrowings, less cash and cash equivalents as presented on the face of the balance sheet.

28 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.

29 Events after balance sheet date

The Company and The Group

At the forthcoming Annual General Meeting, a final dividend of RMB0.0275 per ordinary share amounting to approximately RMB18,527,000 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 2009.

30 Comparative information

Certain comparative figure has been reclassified to conform with the current year presentation. The amount reclassified is not significant.

Statistics of Shareholdings

As at 16 March 2009

Authorised Share Capital	:	HK$500,000,000
Issued and fully paid-up capital	:	HK$26,948,000
Class of equity securities	:	Number of equity securities
Ordinary Shares	:	673,700,000 Ordinary Shares of HK$0.04 each
Treasury Shares	:	Nil
Voting Rights	:	One vote per share (excluding treasury shares)

STATISTICS OF SHAREHOLDINGS

Size of Shareholding	Number of Shareholders	%	Number of Shares	%
1 - 999	9	0.36	3,794	0.00
1,000 - 10,000	940	37.26	6,609,727	0.98
10,001 - 1,000,000	1,552	61.51	96,735,446	14.36
1,000,001 and above	22	0.87	570,351,033	84.66
	2,523	100.00	673,700,000	100.00

SUBSTANTIAL SHAREHOLDERS
(As recorded in the Register of Substantial Shareholders)

	Direct Interest	%	Deemed Interest	%
Lin Shaoxiong[(1)]	226,000,000	33.55	–	–
Li Tung Kwo[(2)]	161,300,000	23.94	–	–

The percentage of shareholding above is computed based on the total issued shares of 673,700,000 excluding treasury shares.

Notes:

(1) Lin Shaoxiong's shares of 226,000,000 in the share capital of the Company are held in the name of nominee, UOB Kay Hian Pte Ltd.

(2) Li Tung Kwo is solely a passive investor with no executive role in the Company and is not related to any of our Directors or Executive Officers. His shares of 161,300,000 in the share capital of the Company are held in the name of nominee, UOB Kay Hian Pte Ltd.

Statistics of Shareholdings

As at 16 March 2009

TWENTY LARGEST SHAREHOLDERS

No.	Name of Shareholders	Number of Shares	%
1.	UOB KAY HIAN PTE LTD	390,993,000	58.04
2.	HSBC (SINGAPORE) NOMINEES PTE LTD	46,178,000	6.85
3.	DBS NOMINEES PTE LTD	33,906,490	5.03
4.	RICOO STRATEGIC LONG TERM HOLDINGS LIMITED	18,960,000	2.81
5.	RAFFLES NOMINEES PTE LTD	10,893,000	1.62
6.	DBSN SERVICES PTE LTD	10,073,333	1.50
7.	OCBC SECURITIES PRIVATE LTD	9,286,450	1.38
8.	CITIBANK NOMINEES SINGAPORE PTE LTD	9,125,000	1.35
9.	YEAP LAM HONG	8,158,000	1.21
10.	PHILLIP SECURITIES PTE LTD	4,260,000	0.63
11.	DBS VICKERS SECURITIES (S) PTE LTD	3,928,000	0.58
12.	KIM ENG SECURITIES PTE LTD	3,491,000	0.52
13.	TAN CHUAN ANN	3,000,000	0.45
14.	HONG LEONG FINANCE NOMINEES PTE LTD	2,908,000	0.43
15.	AMFRASER SECURITIES PTE LTD	2,302,000	0.34
16.	CIMB-GK SECURITIES PTE LTD	2,248,450	0.33
17.	HO YEW MUN	2,128,310	0.32
18.	LIM & TAN SECURITIES PTE LTD	2,005,000	0.30
19.	SOCIETE GENERALE SINGAPORE BRANCH	1,800,000	0.27
20.	GOH KHOON LIM	1,780,000	0.26
		567,424,033	84.22

PERCENTAGE OF SHAREHOLDING IN PUBLIC'S HANDS

42.51% of the Company's shares are held in the hands of public. Accordingly, the Company has complied with Rule 723 of the Listing Manual of the SGX-ST.

Notice of Annual General Meeting

CHINA SPORTS INTERNATIONAL LIMITED
(Company Registration No. 39798)
(Incorporated in Bermuda)
(the "Company")

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at Orchard Room, Level 4, Raffles City Convention Centre, Swissotel the Stamford, 2 Stamford Road Singapore 178882 on Tuesday, 28 April 2009 at 10:30 a.m. for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and the Audited Accounts of the Company and the Group for the year ended 31 December 2008 together with the Auditors' Report thereon. **(Resolution 1)**

2. To declare a first and final dividend of RMB 0.0275 (approximately equivalent to S$0.00612 per ordinary share for the year ended 31 December 2008 (2007: RMB 0.0465 per ordinary share approximately equivalent to S$0.0093). **(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 Shaoxiong **(Resolution 3)**
   Ms Lai Chin Yee **(Resolution 4)**
   [See Explanatory Note (i)]

4. To approve the payment of Directors' fees of S$140,000 for the year ended 31 December 2008 (2007: S$110,000). **(Resolution 5)**

5. To re-appoint Messrs Foo Kon Tan Grant Thornton as the Auditors of the Company and to authorise the Directors of the Company to fix their remuneration. **(Resolution 6)**

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 resolutions as Ordinary Resolutions, with or without any modifications:

7. **Authority to issue shares in the capital of the Company pursuant to Bye-law 12(3) of the Bye-laws of the Company and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited**

Notice of Annual General Meeting

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

(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,

(the "***Share Issue Mandate***")

provided that:

(1) Save for sub-paragraph (2) below, the aggregate number of shares (including shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution) and Instruments to be issued pursuant to this Resolution shall not exceed 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 (3) below), of which the aggregate number of shares and Instruments to be issued other than on a pro rata basis to existing shareholders of the Company shall not exceed twenty per centum (20%) of the total number of issued shares (excluding treasury shares) in the capital of the Company (as calculated in accordance with sub-paragraph (3) below);

(2) the aggregate number of shares (including shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution) and Instruments to be issued to existing shareholders via a pro-rata renounceable rights issue pursuant to this Resolution shall not exceed one hundred per centum (100%) of the total number of issued shares (excluding treasury shares) in the capital of the Company (as calculated in accordance with sub-paragraph (3) below);

(3) (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-paragraphs (1) and (2) above, the percentage of the total number of issued shares and Instruments shall be based on the 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 consolidation or subdivision of shares;

(4) in exercising the Share Issue Mandate 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

Notice of Annual General Meeting

(5) unless revoked or varied by the Company in a general meeting, the Share Issue Mandate 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 7)**

8. **Authority to issue shares and Instruments other than on a pro rata basis at a discount not exceeding 20 per centum (20%)**

That subject to and pursuant to the Share Issue Mandate being obtained in Resolution 7 above, approval be and is hereby given to the Directors of the Company to issue shares (including shares to be issued in pursuance of the Instruments, made or granted pursuant to the Share Issue Mandate) other than on a pro rata basis at an issue price per share as the Directors of the Company may in their absolute discretion deem fit provided that such price shall not represent a discount of more than 20 per centum (20%) to the weighted average price per share determined in accordance with the requirements of the SGX-ST;

[See Explanatory Note (iii)] **(Resolution 8)**

NOTICE OF BOOKS CLOSURE

NOTICE IS HEREBY GIVEN that the Share Transfer Books and Register of Members of the Company will be closed on 13 May 2009 for the purpose of determining the entitlements of the Company's shareholders ("Shareholders") for the preparation of dividend warrants.

For the avoidance of doubt, in the case where the registered Shareholder is the Central Depository (Pte) Limited ("CDP") the dividend warrants shall be issued to the CDP and credited to the depositors' securities accounts with the CDP in proportion to the number of shares of the Company standing to the credit of each depositor's securities account with the CDP as at 5.00 p.m. (Singapore time) on 12 May 2009.

Duly completed registrable transfers received by the Company's Share Registrar, B.A.C.S. Private Limited, 63 Cantonment Road, Singapore 089758 up to 5.00 p.m. on 12 May 2009 will be registered to determine entitlements to the said dividend.

Payment of the dividend, if approved by the members at the Annual General Meeting to be held on 28 April 2009 will be made on 2 June 2009.

By Order of the Board

Nicole Tan Siew Ping/Long Hsueh Ching
Company Secretaries
Singapore, 13 April 2009

Notice of Annual General Meeting

Explanatory Notes:

(i) Ms Lai Chin Yee will, upon re-election as a Director of the Company, remain as Chairman of the Audit Committee, a member of the Nominating Committee and Remuneration Committee and will be considered independent.

(ii) The Ordinary Resolution 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% may be issued other than on a pro-rata basis to existing shareholders of the Company save that such number shall be up to 100% of the total number of issued shares (excluding treasury shares) in the capital of the Company in relation to a pro-rata renounceable rights issue to existing shareholders.

For determining the aggregate number of shares that may be issued, the percentage of issued shares in the capital of the Company will be calculated based on the total number of issued shares (excluding treasury shares) in the capital of the Company at the time 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 consolidation or subdivision of shares.

(iii) The Ordinary Resolution 8 above, if passed, will empower the Directors of the Company to issue shares (including shares to be issued in pursuance of the Instruments, made or granted pursuant to the Share Issue Mandate) other than on a pro-rata basis at a discount of not more than 20% to the weighted average price per share determined in accordance with the requirements of the SGX-ST.

Notes:

1. A registered Shareholder entitled to attend and vote at the Annual General Meeting is entitled to appoint not more than 2 proxies to attend and vote in his stead by completing the Shareholder Proxy Form. A proxy need not be a member of the Company.

2. A Depositor who is a natural person need not submit this Depository Proxy Form if he is attending the Annual General Meeting in person. A Depositor(s) may nominate not more than two appointees, who shall be natural persons, to attend and vote in his/her place as proxy by completing the Depository Proxy Form.

3. Where a Depositor(s) is a corporation and wishes to be represented at the Annual General Meeting, it must nominate an Appointee/Appointees to attend and vote as proxy at the Annual General Meeting by completing the Depository Proxy Form.

4. The duly completed Shareholder Proxy Form and Depository Proxy Form must be deposited at the office of the Singapore Share Transfer Agent, B.A.C.S Private Limited at 63 Cantonment Road, Singapore 089758, not less than forty-eight (48) hours before the time of the Meeting.

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Corporate Information

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

DIRECTORS

Mr Lin Shaoxiong
Mr Lin Shaoqin
Mr Lin Yongjian *(Resigned on 30 May 2008)*
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 Communications
The Bank of East Asia
Industrial Bank Co. Limited
China Merchant Bank
China Citic Bank
Quanzhou City Commercial Bank

AUDITORS

Foo Kon Tan Grant Thornton
Certified Public Accountants
47 Hill Street #05-01
Singapore Chinese Chamber of Commerce & Industry Building
Singapore 179365

- 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.

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Annual Report

www.chinasportsintl.com