



QINGMEI GROUP HOLDINGS LIMITED

清美集團控股有限公司

(Incorporation in the Cayman Islands with registration number CT-230192)

FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT FOR THE THREE MONTHS ENDED 31 DECEMBER 2010

BOULTON CAPITAL ASIA PTE. LIMITED AND SAC CAPITAL PRIVATE LIMITED WERE THE JOINT ISSUE MANAGERS FOR THE INITIAL PUBLIC OFFERING OF QINGMEI GROUP HOLDINGS LIMITED (THE "COMPANY"). THIS ANNOUNCEMENT HAS BEEN PREPARED AND RELEASED BY THE COMPANY.

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

1(a) A statement of comprehensive income (for the group) together with a comparative statement for the corresponding period of the immediately preceding financial year

	Group					
	Three months ended			Six months ended		
	31.12.2010	31.12.2009	Change	31.12.2010	31.12.2009	Change
	(Unaudited)	(Unaudited)		(Unaudited)	(Unaudited)	
	RMB'000	RMB'000		RMB'000	RMB'000	
Revenue	303,937	316,347	-3.9%	607,881	572,403	6.2%
Cost of sales	(215,287)	(222,045)	-3.0%	(431,129)	(399,205)	8.0%
Gross profit	88,650	94,302	-6.0%	176,752	173,198	2.1%
Other income and gains	1,513	150	908.7%	8,680	387	2,142.9%
Selling and distribution expenses	(2,903)	(2,647)	9.7%	(5,831)	(5,562)	4.8%
Administrative expenses	(8,019)	(6,636)	20.8%	(15,799)	(13,163)	20.0%
Other expenses	(2,213)	(6,182)	-64.2%	(4,418)	(8,043)	-45.1%
Finance costs	(1,076)	(984)	9.3%	(2,321)	(2,127)	9.1%
Profit before income tax	75,952	78,003	-2.6%	157,063	144,690	8.6%
Income tax expense	(9,593)	(10,777)	-11.0%	(19,214)	(19,315)	-0.5%
Profit for the period	66,359	67,226	-1.3%	137,849	125,375	9.9%
Other comprehensive income for the period	-	-	N/A	-	-	N/A
Total comprehensive income for the period	66,359	67,226	-1.3%	137,849	125,375	9.9%
Earnings per share						
- Basic (RMB cents)	10.4	14.0		21.5	26.1	
- Diluted (RMB cents)	N/A	N/A		N/A	N/A	

Notes:

1. The Company was incorporated in the Cayman Islands on 28 August 2009 under the Companies Law of the Cayman Islands as an exempted company with limited liability and was listed on the Mainboard of the Singapore Exchange Securities Trading Limited (the “SGX-ST”) on 17 March 2010. The principal activity of the Company is an investment holding company.
2. On 3 March 2010, the Company completed its restructuring exercise as set out in the Company’s prospectus dated 8 March 2010 (the “Restructuring Exercise”) to rationalise the Group’s structure in preparation for the initial public offering of the Company’s shares on the Mainboard of the SGX-ST. Subsequently on 17 March 2010, the Company was admitted to the Official List of the SGX-ST.

The operations of the Company and its subsidiaries (collectively the “Group”) are carried out by Qingmei (China) Co., Ltd. (“Qingmei (PRC)”), a wholly foreign-owned enterprise, which was established with limited liabilities in the PRC on 29 April 2006. Since its incorporation, Qingmei (PRC) is indirectly wholly-owned by Qing Mei International Investment Limited (“Qingmei (BVI)”), a business company incorporated in the British Virgin Islands with limited liability. Pursuant to the Restructuring Exercise, the Company issued 480,000,000 shares to acquire the entire issued and paid up shares capital of Qingmei (BVI) and became the ultimate shareholder of Qingmei (PRC).

The Group is regarded as a continuing entity resulting from the Restructuring Exercise since the Company and Qingmei (BVI) were under common control before and immediately after the Restructuring Exercise. Consequently, immediately after the Restructuring Exercise, there was a continuation of the risks and benefits to the ultimate shareholders that existed prior to the Restructuring Exercise. Accordingly, the financial statements have been prepared as a reorganisation of business under common control as if the Restructuring Exercise was effective at the beginning of the earliest period presented.

Profit before income tax is determined after charging/(crediting) the following:

	Group					
	Three months ended			Six months ended		
	31.12.2010	31.12.2009	Change	31.12.2010	31.12.2009	Change
	(Unaudited)	(Unaudited)		(Unaudited)	(Unaudited)	
	RMB'000	RMB'000		RMB'000	RMB'000	
Interest income	(382)	(121)	215.7%	(640)	(198)	223.2%
Loss on disposals of property, plant and equipment	-	-	N/A	-	361	N/A
Interest on bank borrowings	1,076	984	9.3%	2,321	2,127	9.1%
Exchange (gains)/loss	(1,130)	137	-924.8%	(7,934)	137	-5,891.2%
Amortisation of land use rights	410	410	0.0%	820	820	0.0%
Depreciation of property, plant and equipment	14,873	7,840	89.7%	25,908	15,258	69.8%

1(b)(i) Statements of financial position (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year

	Group		Company	
	31.12.2010	30.06.2010	31.12.2010	30.06.2010
	(Unaudited)	(Audited)	(Unaudited)	(Audited)
	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	314,000	226,200	-	-
Land use rights	75,478	76,298	-	-
Deposits paid for land use rights	16,641	16,641	-	-
Investment in subsidiaries	-	-	515,849	515,849
	<u>406,119</u>	<u>319,139</u>	<u>515,849</u>	<u>515,849</u>
Current assets				
Inventories	46,685	50,721	-	-
Trade receivables	277,681	279,761	-	-
Other receivables and prepayments	2,752	5,270	-	-
Due from subsidiaries	-	-	228,148	305,939
Pledged bank deposits	-	3,103	-	-
Cash and cash equivalents	413,360	466,949	831	2,537
	<u>740,478</u>	<u>805,804</u>	<u>228,979</u>	<u>308,476</u>
Current liabilities				
Trade and bills payables	128,318	149,942	-	-
Other payables and accruals	44,799	47,973	1,011	2,134
Interest-bearing bank borrowings	75,000	87,620	-	-
Current income tax liabilities	12,185	15,962	-	-
	<u>260,302</u>	<u>301,497</u>	<u>1,011</u>	<u>2,134</u>
Net current assets	<u>480,176</u>	<u>504,307</u>	<u>227,968</u>	<u>306,342</u>
Net assets	<u>886,295</u>	<u>823,446</u>	<u>743,817</u>	<u>822,191</u>
EQUITY				
Equity attributable to the Company's owners				
Share capital	312,544	312,544	312,544	312,544
Reserves	573,751	510,902	431,273	509,647
Total equity	<u>886,295</u>	<u>823,446</u>	<u>743,817</u>	<u>822,191</u>

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

		Group	
		As at	As at
		31.12.2010	30.06.2010
Notes		RMB'000	RMB'000
		(Unaudited)	(Audited)
Amount repayable in one year or less, or on demand			
- Secured bank loans	(a)	50,000	42,620
- Secured bills payables	(b)	-	6,207
- Unsecured bank loans	(c)	25,000	45,000
		75,000	93,827

Details of any collateral:

- (a) As at 31 December 2010 and 30 June 2010, the Group's secured bank loans were secured by the Group's trade receivables of approximately RMB51.6 million and RMB43.8 million, respectively. Certain secured bank loans of approximately RMB10.0 million as at 30 June 2010 were supported by corporate guarantees executed by an independent third party.
- (b) As at 30 June 2010, the Group's bills payables amounted to approximately RMB6.2 million were secured by the Group's pledged bank deposits and guaranteed by an independent major customer. There were no bills payables as at 31 December 2010.
- (c) As at 31 December 2010 and 30 June 2010, the Group's unsecured bank loans amounted to approximately RMB25.0 million and RMB45.0 million, respectively, were guaranteed by an independent third party.

1(c) A statement of the cash flows (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year

	Group			
	Three months ended		Six months ended	
	31.12.2010 (Unaudited) RMB'000	31.12.2009 (Unaudited) RMB'000	31.12.2010 (Unaudited) RMB'000	31.12.2009 (Unaudited) RMB'000
Cash flows from operating activities				
Profit before income tax	75,952	78,003	157,063	144,690
Adjustments for:				
Interest income	(382)	(121)	(640)	(198)
Interest expense	1,076	984	2,321	2,127
Loss on disposals of property, plant and equipment	-	-	-	361
Depreciation of property, plant and equipment	14,873	7,840	25,908	15,258
Amortisation of land use rights	410	410	820	820
Operating profits before working capital changes	91,929	87,116	185,472	163,058
(Increase)/decrease in trade receivables	(44,227)	(38,860)	2,080	(22,322)
Decrease/(increase) in other receivables and prepayments	712	(1,788)	2,518	(3,408)
Decrease/(increase) in inventories	4,185	(1,642)	4,036	(12,846)
Increase/(decrease) in trade and bills payables	37,884	22,572	(21,624)	(2,197)
(Decrease)/increase in other payables and accruals	(16,718)	9,613	(3,174)	(744)
Cash generated from operations	73,765	77,011	169,308	121,541
Income tax paid	(13,029)	(11,194)	(22,991)	(22,371)
Net cash generated from operating activities	60,736	65,817	146,317	99,170
Cash flows from investing activities				
Interest received	382	121	640	198
Decrease in pledged bank deposits	-	5,574	3,103	12,733
Deposits paid for land use rights	-	-	-	(3,356)
Payment for purchases of property, plant and equipment	(65,233)	(7,764)	(113,708)	(8,726)
Net cash (used in)/generated from investing activities	(64,851)	(2,069)	(109,965)	849
Cash flows from financing activities				
New bank borrowings	30,000	30,000	57,380	75,000
Repayment of bank borrowings	(43,500)	(14,000)	(70,000)	(62,000)
Dividends paid	(75,000)	(9,150)	(75,000)	(50,000)
Capital contribution from a shareholder	-	59,404	-	99,945
Interest paid	(1,076)	(984)	(2,321)	(2,127)
Net cash (used in)/generated from financing activities	(89,576)	65,270	(89,941)	60,818
Net (decrease)/increase in cash and cash equivalents	(93,691)	129,018	(53,589)	160,837
Cash and cash equivalents at beginning of financial period	507,051	47,954	466,949	16,135
Cash and cash equivalents at end of financial period	413,360	176,972	413,360	176,972

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

GROUP	Issued capital	Share premium	Capital reserves	Exchange reserve	Statutory reserve	Proposed final dividend	Retained profits	Total equity
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 July 2009	234,192	-	(176,968)	2	35,766	-	204,568	297,560
Capital contribution from a shareholder	-	-	99,945	-	-	-	-	99,945
Dividends	-	-	-	-	-	-	(50,000)	(50,000)
Transaction with owners	-	-	99,945	-	-	-	(50,000)	49,945
Total comprehensive income for the period	-	-	-	-	-	-	125,375	125,375
Appropriation to statutory reserve	-	-	-	-	13,397	-	(13,397)	-
At 31 December 2009	234,192	-	(77,023)	2	49,163	-	266,546	472,880
Balance at 1 July 2010	312,544	147,595	(77,023)	2	63,362	75,000	301,966	823,446
Dividends	-	-	-	-	-	(75,000)	-	(75,000)
Transaction with owners	-	-	-	-	-	(75,000)	-	(75,000)
Total comprehensive income for the period	-	-	-	-	-	-	137,849	137,849
Appropriation to statutory reserve	-	-	-	-	13,448	-	(13,448)	-
At 31 December 2010	312,544	147,595	(77,023)	2	76,810	-	426,367	886,295

	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000
Balance as at 28 August 2009 (date of incorporation)	234,192	-	281,657	-	-	515,849
Total comprehensive income for the period	-	-	-	-	-	-
At 31 December 2009	234,192	-	281,657	-	-	515,849
Balance at 1 July 2010	312,544	147,595	281,657	75,000	5,395	822,191
Dividends	-	-	-	(75,000)	-	(75,000)
Transaction with owners	-	-	-	(75,000)	-	(75,000)
Total comprehensive income for the period	-	-	-	-	(3,374)	(3,374)
At 31 December 2010	312,544	147,595	281,657	-	2,021	743,817

1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles, as well as the number of shares held as treasury shares, if any, against the total number of issued shares excluding treasury shares of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year

There were no changes in the Company's share capital for the three months ended 31 December 2010.

1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year

Company	As at 31.12.2010	As at 30.06.2010
Total number of issued shares	640,000,000	640,000,000
Less: Treasury shares	<u>-</u>	<u>-</u>
Total number of issued share capital excluding treasury shares	<u>640,000,000</u>	<u>640,000,000</u>

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

Not applicable. As at end of the current financial period reported, the Company did not have any treasury shares.

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

The figures have neither been audited nor reviewed by the Company's auditors.

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

Not applicable.

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

The Group has adopted the same accounting policies and methods of computation as stated in the audited financial statements of the Group for the year ended 30 June 2010, except for the adoption of the new and amended International Financial Reporting Standards ("IFRSs") which became effective on 1 July 2010. The adoption of these IFRSs did not give rise to significant changes in the Group's financial statements.

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

Not applicable

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

	Group		Group	
	Three months ended		Six months ended	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Earnings per share				
Basic (RMB cents)	10.4	14.0	21.5	26.1
Diluted (RMB cents)	N/A	N/A	N/A	N/A

The calculation of basic earnings per share is computed on the profit attributable to the equity holders of the Company, divided by the weighted average number of 640,000,000 ordinary shares in issue for the six months ended 31 December 2010 (the pre-invitation number of 480,000,000 shares for the six months ended 31 December 2009).

There were no potential dilutive ordinary shares in existence for the three months ended and six months ended 31 December 2009 and 31 December 2010 and accordingly, no diluted earnings per share has been presented.

7. **Net asset value (for the issuer and group) per ordinary share based on the total number of issued shares excluding treasury shares of the issuer at the end of the (a) current financial period reported on; and (b) immediately preceding financial year**

	Group		Company	
	31.12.2010 (Unaudited)	30.06.2010 (Unaudited)	31.12.2010 (Unaudited)	30.06.2010 (Unaudited)
Net asset value per share (RMB)	1.385	1.287	1.162	1.285

Net asset value per ordinary share of the Group/Company is calculated based on the shareholders' equity of the Group as at the end of financial period divided by the number of ordinary shares of 640,000,000 in issue as at 31 December 2010 and 30 June 2010.

8. **A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following:-**
- (i) **any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and**
 - (ii) **any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on**

(A) REVIEW OF OPERATING PERFORMANCE

	Group					
	Three months ended			Six months ended		
	31.12.2010	31.12.2009	Change	31.12.2010	31.12.2009	Change
	(Unaudited)	(Unaudited)		(Unaudited)	(Unaudited)	
	RMB'000	RMB'000		RMB'000	RMB'000	
Revenue						
MD II shoe soles ("MDII")	189,103	170,125	11.2%	386,569	302,163	27.9%
MD I shoe soles ("MD I")	97,470	128,460	-24.1%	193,378	240,774	-19.7%
RB shoe soles ("RB")	17,364	17,762	-2.2%	27,934	29,466	-5.2%
Total	303,937	316,347	-3.9%	607,881	572,403	6.2%

(A) REVIEW OF OPERATING PERFORMANCE (CONTINUED)

	Group					
	Three months ended			Six months ended		
	31.12.2010	31.12.2009	Change	31.12.2010	31.12.2009	Change
	(Unaudited)	(Unaudited)		(Unaudited)	(Unaudited)	
	Total	Total		Total	Total	
	units sold	units sold		units sold	units sold	
	'000	'000		'000	'000	
Sales quantity						
MD II shoe soles	6,596	5,676	16.2%	13,194	10,208	29.3%
MD I shoe soles	3,706	4,600	-19.4%	7,258	9,046	-19.8%
RB shoe soles	1,540	1,437	7.2%	2,420	2,452	-1.3%
Total	11,842	11,713	1.1%	22,872	21,706	5.4%

Revenue, Gross Profit and Gross Profit Margin

Our revenue increased by approximately 6.2% or RMB35.5 million from RMB572.4 million for the six months ended 31 December 2009 ("6MFY10") to RMB607.9 million for the six months ended 31 December 2010 ("6MFY11") and decreased by approximately 3.9% or RMB12.4 million from RMB316.3 million for the three months ended 31 December 2009 ("2QFY10") to RMB303.9 million for the three months ended 31 December 2010 ("2QFY11").

The increase in revenue for 6MFY11 was mainly due to the increase in sales quantity of 5.4% to 22.9 million pairs of shoe soles while average selling price ("ASP") saw a marginal increase of 0.8% to RMB26.6 per pair.

The decrease in revenue for 2QFY11 was mainly due to the drop in ASP of 4.9% to RMB25.7 per pair but mitigated by slight increase in sales quantity of 1.1% to 11.8 million pairs of shoe soles.

For 2QFY11, our revenue from MDII shoe soles jumped 11.2% but our revenue from MD I shoe soles and RB shoe soles dropped by 24.1% and 2.2% respectively. Due to our production capacity constraint, as we produced more MD II shoe soles, we have to inevitably cut down on the production of MD I shoe soles. In spite of the increase in demand for our MD II shoe soles which offer greater versatility in designs and functionalities, the shift in demand for less functional features to more esthetic designs resulted in a lower ASP. Our MD I shoe soles and RB shoe soles also recorded a drop in ASP for 2QFY11.

Gross profit increased by approximately 2.1% or RMB3.6 million to RMB176.8 million for 6MFY11, as compared to RMB173.2 million for 6MFY10. Gross profit grew lesser than revenue growth as gross profit margin narrowed to 29.1% from 30.3% due to lower ASP and higher cost of sales namely labour and raw material costs during the period under review.

Gross profit decreased 6.0% or RMB5.6 million to RMB88.7 million for 2QFY11, as compared to RMB94.3 million for 2QFY10. The sharper decrease in gross profit than the decrease in revenue was mainly due to the gross profit margin narrowing to 29.2% from 29.8% brought about mainly by lower ASP and higher cost of sales.

Other income and gains

Other income and gains increased by approximately 2,142.9% or RMB8.3 million from RMB0.4 million for 6MFY10 to RMB8.7 million for 6MFY11 and 908.7% or RMB1.3 million from RMB0.2 million for 2QFY10 to RMB1.5 million for 2QFY11. The increase was mainly attributable to unrealised exchange gains amounted to RMB6.9 million for 6MFY11 on the Group's outstanding bank deposits in Singapore Dollar as the Singapore Dollar continued to appreciate against the Renminbi during the period under review.

Selling and distribution expenses

The selling and distribution expenses increased by approximately 4.8% or RMB0.2 million from RMB5.6 million for 6MFY10 to RMB5.8 million for 6MFY11 and 9.7% or RMB0.3 million from RMB2.6 million for 2QFY10 to RMB2.9 million for 2QFY11. The increase for 6MFY11 was in line with the increase in revenue.

Administrative expenses

Administrative expenses increased by approximately 20.0% or RMB2.6 million from RMB13.2 million for 6MFY10 to RMB15.8 million for 6MFY11 and approximately 20.8% or RMB1.4 million from RMB6.6 million to RMB8.0 million. It was mainly attributable to the increase in professional fees, directors' fee and salaries since the listing of the Group as well as the expansion of the Group's operation.

Other expenses

Other expenses decreased by approximately 45.1% or RMB3.6 million from RMB8.0 million for 6MFY10 to RMB4.4 million for 6MFY11 and approximately 64.2% or RMB4.0 million from RMB6.2 million for 2QFY10 to RMB2.2 million for 2QFY11. The other expenses for 6MFY10 and 2QFY10 were mainly incurred in our IPO exercise for FY2010 while the amount incurred in the other expenses for 6MFY11 and 2QFY11 are represented by the research expenses for the development of new materials for the production of shoe soles.

Finance costs

Finance costs increased by approximately 9.1% or RMB0.2 million from RMB2.1 million for 6MFY10 to RMB2.3 million for 6MFY11 and approximately 9.3% or RMB0.1 million from

RMB1.0 million for 2QFY10 to RMB1.1 million for 2QFY11. It was mainly due to an increase in the average bank borrowings interest rate during the period under review.

Depreciation

Depreciation increased by approximately 69.8% or RMB10.7 million from RMB15.2 million for 6MFY10 to RMB25.9 million for 6MFY11 and approximately 89.7% or RMB7.0 million from RMB7.9 million for 2QFY10 to RMB14.9 million for 2QFY11. The increase was mainly due to the purchase of moulds for production in line with the expansion of our production scale during the period under review.

Taxation

Income tax

The income tax expenses mainly comprised of the Enterprise Income Tax ("EIT") of the PRC on profits for the Group's major operating subsidiary in the PRC, namely Qingmei (PRC). Being a wholly-foreign owned enterprise, it enjoyed a preferential tax treatment of a two-year tax exemption, followed by a three-year 50% reduced tax rate to the prevailing current EIT of 25.0% for the three calendar years commencing from calendar year 2007. The applicable tax rate for FY2010 and FY2011 is 12.5%.

Net profit attributed to shareholders

As a result of the above, our net profit increased by approximately 9.9% or RMB12.4 million from RMB125.4 million for 6MFY10 to RMB137.8 million for 6MFY11 but slightly decreased by approximately 1.3% or RMB0.8 million from RMB67.2 million for 2QFY10 to RMB66.4 million for 2QFY11.

(B) REVIEW OF FINANCIAL POSITION AND CASH FLOWS

Property, plant and equipment increased by approximately 38.8% or RMB87.8 million to RMB314.0 million as at 31 December 2010, compared with RMB226.2 million as at 30 June 2010. The increase in property, plant and equipment was due to the increase in the additions to construction in progress in related to new production facilities of RMB80.5 million and the purchase of plant and machinery, including new production machinery of RMB11.5 million and moulds for production of RMB21.7 million, offset by the charge of depreciation expenses of RMB25.9 million.

Inventories decreased by approximately 7.9% or RMB4.0 million to RMB46.7 million as at 31 December 2010, compared with RMB50.7 million as at 30 June 2010 as result of the improvement in inventory management.

Trade receivables decreased by approximately 0.8% or RMB2.1 million to RMB277.7 million as at 31 December 2010, compared with RMB279.8 million as at 30 June 2010. The change in trade receivables was not significant.

Other receivables and prepayments decreased by approximately 47.2% or RMB2.5 million to RMB2.8 million as at 31 December 2010, compared with RMB5.3 million as at 30 June 2010 as a result of the amortisation of the prepayment for research expenses amounted to RMB2.2 million.

Pledged bank deposits were mainly used as security for bills payables to banks. The Group did not pledge any bank deposit as at 31 December 2010, compared with RMB3.1 million as at 30 June 2010 since all outstanding bills payables were settled during 1QFY11.

Trade and bills payables decreased by approximately 14.4% or RMB21.6 million to RMB128.3 million as at 31 December 2010, compared with RMB149.9 million as at 30 June 2010 as a result of the settlement of all bills payables amounted to RMB6.2 million outstanding at 30 June 2010.

Other payables and accruals decreased by approximately 6.7% or RMB3.2 million to RMB44.8 million as at 31 December 2010, compared with RMB48.0 million as at 30 June 2010. The decrease was mainly attributable to payment of withholding dividend tax in connection with the dividend payment made in November 2010.

Short-term bank borrowings decreased by approximately 14.4% or RMB12.6 million to RMB75.0 million as at 31 December 2010, compared with RMB87.6 million as at 30 June 2010. The bank loans decreased since the company has sufficient fund to support the operation.

Cash and cash equivalents decreased by approximately 11.5% or RMB53.5 million to RMB413.4 million as at 31 December 2010, compared with RMB466.9 million as at 30 June 2010. The decrease was due mainly to the net increase in cash outflows used in investing activities during the period under review.

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

Not applicable

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

The Company was listed on the Mainboard of SGX-ST on 17 March 2010 and raised net proceeds of approximately S\$44.1 million. The Company will continue to pursue our business strategies and future plans as set out in the Company's prospectus dated 8 March 2010.

The Group plans to utilize approximately RMB82.9 million for the construction and building of the new production facility and staff hostel, approximately RMB61.1 million for the acquisition of

additional production equipment and machinery for the first and second stage installation and approximately RMB52.0 million for the construction of building facilities for the self-contained research and development centre and for the purchase of the necessary equipment and machinery for research and testing purposes.

Construction work for the new production facility and self-contained research and development centre commenced since 2 April 2010 and a total of RMB130.5 million has been paid as deposits for the construction and accounted for as construction-in-progress. Two new research projects for the development of new materials for the production of shoe soles commenced in 4QFY10 and incurred approximately RMB8.8 million so far.

The first stage of the installation of equipment and machineries was completed in December 2010 and production since and is expected to be ramped up gradually in the next few months. The new production facilities will provide a maximum annual production of approximately 19 million pairs, increasing our annual maximum production capacity to approximately 65 million pairs per annum. Barring any other unforeseen delays or circumstances, the second stage installation will commence by July 2011. Upon completion of the second stage installation, our production capacity will increase to approximately 84.0 million pairs of sports shoes soles per annum.

The following table details the utilisation of IPO proceeds up as at 31 December 2010:

Intended use	Amount allocated (RMB million)	Amount utilised (RMB million)	Balance amount (RMB million)
Expansion of production capacity, including the purchase of new equipment and machineries, the construction of new building facilities to house them, the construction of new building facilities for our administrative functions and a staff hostel	144.0	100.6	43.4
To set up a dedicated self-contained research and development centre	52.0	35.5	16.5
Research and development purposes	15.0	8.8	6.2
General working capital	0.6	-	0.6
Total	211.6	144.9	66.7

In view of the implementation of minimum wages by local governments, labour costs have inevitably increased. To this end, although direct labour costs have increased, the negative effect has been mitigated by other cost savings such as economies of scale, in particular the reduction in the average cost per unit for depreciation, amortisation, product design and development cost as a result of substantial increase in production volume have more than offset any increase in direct labour costs.

Notwithstanding the trend of rising labour costs or any other increase in cost of sales, we believe that the expanded capacities and strong customer base will support our revenue and profit growth and lay a strong foundation for our long term growth.

11. Dividend

(a) Current Financial Period Reported On

None

(b) Corresponding Period of the Immediately Preceding Financial Year

None

(c) Date payable

Not applicable

(d) Books closure date

Not applicable

(e) Other comments relating to Dividend

None

12. If no dividend has been declared/recommendeded, a statement to that effect

No dividend has been declared or recommended for the period ended 31 December 2010.

13. Interested Person Transactions

None

BY ORDER OF THE BOARD

Qingmei Group Holdings Limited

Su Qingyuan

Executive Chairman and Chief Executive Officer

Date: 9 February 2011

QINGMEI GROUP HOLDING LIMITED

Confirmation by the Board pursuant to Rule 705(5) of the Listing Manual

We, Su Qingyuan and Su Shubiao being two directors of Qingmei Group Holdings Limited (the "Company"), do hereby confirm on behalf of the directors of the Company that, to the best of their knowledge, nothing has come to the attention of the board of directors of the Company which may render the unaudited financial statements for the second quarter ended 31 December 2010 to be false or misleading.

BY ORDER OF THE BOARD

Qingmei Group Holdings Limited

Name: Su Qingyuan
Executive Chairman

Name: Su Shubiao
Executive Director

Date: 9 February 2011