ANNUAL REPORT **2010**

美克國際控股有限公司

MEIKE INTERNATIONAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 00953

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Ding Siqiang *(Chairman and President)*
Ms. Ding Xueleng
Mr. Sun Keqian
Ms. Ding Jinzhu
Mr. Lin Yangshan
Mr. Li Dongxing

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Xiang Shimin
Mr. Yang Chengjie
Mr. Xie Weichun

BOARD COMMITTEES

AUDIT COMMITTEE

Mr. Xie Weichun *(Chairman)*
Mr. Xiang Shimin
Mr. Yang Chengjie

NOMINATION COMMITTEE

Mr. Ding Siqiang *(Chairman)*
Mr. Xiang Shimin
Mr. Yang Chengjie

REMUNERATION COMMITTEE

Mr. Ding Siqiang *(Chairman)*
Mr. Xie Weichun
Mr. Xiang Shimin

COMPANY SECRETARY

Mr. Li Yik Sang

AUTHORISED REPRESENTATIVES

Mr. Li Dongxing
Mr. Li Yik Sang

REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681, Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE IN THE PRC

Meike Industrial Park
Xibian Village, Chendai Town
Jinjiang City, Fujian Province, The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1602, 16/F
Harcourt House
39 Gloucester Road
Wanchai, Hong Kong

STOCK CODE

00953

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 609, Grand Cayman KY1-1107
Cayman Islands

HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited
26/F, Tesbury Centre
28 Queen's Road East
Hong Kong

AUDITOR

SHINEWING (HK) CPA Limited

LEGAL ADVISERS

AS TO HONG KONG LAW

Loong & Yeung

COMPLIANCE ADVISER

China Merchants Securities (HK) Co., Limited

PRINCIPAL BANKERS

Industrial and Commercial Bank of China Limited
Agricultural Bank of China

COMPANY WEBSITE

www.meike.cn

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Meike International Holdings Limited (the "Company"), I hereby present the audited annual results of the Company and its subsidiaries (collectively, the "Group") for the year ended December 31, 2010 (the "Year").

RESULTS HIGHLIGHTS

During the Year, the turnover of the Group amounted to RMB712,864,000 (2009: RMB499,420,000), representing a year-on-year growth of 42.7% or RMB213,444,000. Profit for the Year grew by 22.1% from RMB95,354,000 in the same period of 2009 to RMB116,452,000. Earnings per share amounted to RMB0.122 (2009: RMB0.121).

During the Year, the domestic sales of the Group presented a rapid growth from RMB396,064,000 for the year ended December 31, 2009 to RMB601,137,000 for the Year, mainly attributable to the expansion of exclusive distribution network, from the total number of 1,318 outlets as at December 31, 2009 to 1,865 outlets as at December 31, 2010. Besides, it is also attributable to the enhancement of marketing strategies by broadcasting advertisements in national TV channels, making outdoor media advertisements and being the senior sponsor of the 2010 China Open Table Tennis Tournaments and apparel sponsor of United Nations Environment Programme in 2010 World Exposition. Moreover, we have also strengthened our product R&D, design and diversification of product mix. At the same time, the export business of the Group has almost recovered from the global financial tsunami, export revenue increased from RMB103,356,000 for the year ended December 31, 2009 to RMB111,727,000 for the Year.

The Board recommended the payment of a final dividend of HK$0.03 per share in respect of the Year. Subject to the approval of the shareholders at the forthcoming annual general meeting, it is expected that the final dividend will be paid on or around June 2, 2011.

FUTURE PROSPECTS

Firstly, I would like to thank all the parties for their joint efforts in making the listing of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on February 1, 2010 successfully, which recorded a substantial over-subscription under the Hong Kong Public Offer, reflecting the confidence of investors on the business prospects and competitive strengths of the Group.

CHAIRMAN'S STATEMENT

The Group has extended the total number of distributors from 23 to 24 and total number of outlets from 1,318 outlets to 1,865 outlets during the Year, and will continue to expand and extend its distribution network and it is expected that the total number of our distributor and retailer outlets will be up by 32% to approximately 2,465 outlets by the end of 2011, as compared to 1,865 outlets as at December 31, 2010. Besides, the Group has established a new office building in the Meike Industrial Park, Xibian Village, Chendai Town, Jiang City, Fujian Province and three apparel manufacturing facilities, one staff quarter with 5 storeys and one logistic center on the piece of land in Shanxia Village, Shanxia Town, Huian Conuty, Quanzhou City, Fujian Province during the Year. The Group plans to establish one more appareal manufacturing facility and 2 logistic centers in the year of 2011 and apply approximately RMB20 million for the purchase of machinery and equipment and the upgrade of current manufacturing facilities and machinery, thereby increasing the production capacity of apparel from approximately 1,600,000 pieces per annum as at the end of 2010 to approximately 5,800,000 pieces per annum by 2011.

Finally, on behalf of the Board, I would like to thank the management and all the staff for their hard work and dedication to the Group, as well as the shareholders and customers for their support to the Group over the years.

Ding Siqiang
Chairman

Hong Kong, March 23, 2011

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

The continuous stimulus measures launched by the Chinese Government in driving domestic consumption after the global financial crisis have effectively restored market confidence and driven a robust growth in domestic consumption in 2010.

Although China's sportswear industry is under intensive competition with more entrants and new brands entering into the industry, growth potential is still huge as China has the most sizable population in the world and due to the rapid urbanization of rural areas in China, the number of consumers and their potential consumption power increased tremendously. Furthermore, with the continuous adoption of fiscal policies by the Chinese Government, the Group believes that the sportswear industry will grow steadily.

BUSINESS REVIEW

Since 2006, as the management saw the vast growth opportunities in the domestic market and a number of major PRC sportswear manufacturers began to market its branded products through distributors and outlets, the Group has began to change its business model through selling substantially all "Meike" branded products to its distributors (the "Meike distributors") where the Meike distributors markets the "Meike" branded products through its distributor outlets (the "Meike distributor outlets") or retailer outlets (the "Meike retailer outlets") so as to further penetrate into the PRC market. As at December 31, 2010, the Group had 24 distributors, overseeing 1,865 outlets which comprised 771 Meike distributor outlets and 1,094 Meike retailer outlets. These outlets, together with the outlets owned and operated by the Group (the "Self-operated Meike Outlets") cover 23 provinces, autonomous regions and municipalities and more than 521 districts, counties and county-level cities in the PRC. The number of outlets expanded by 547 outlets to 1,865 outlets as at December 31, 2010. The Group will continue to expand and optimize its retail network through cooperation with distributors and utilization of their local resources and business network. The Group expects that the number of its outlets will reach 2,465 by the end of 2011.

The following diagram map sets out the Group's distribution network in China as at December 31, 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets out the total number of the Group's distributors and outlets (including Meike distributor outlets and Meike retailer outlets) in China as at December 31, 2009 and December 31, 2010, respectively by geographical location:

	As at December 31			
	2010		2009	
	Distributors	**Outlets**	Distributors	Outlets
Central South China[1]	**6**	**719**	6	510
East China[2]	**10**	**788**	10	529
Southwest China[3]	**4**	**239**	4	219
Northwest China[4]	**2**	**35**	2	31
North China[5]	**2**	**84**	1	29
Total	**24**	**1,865**[7]	23	1,318[6]

Notes:

(1) Central South China includes Hunan, Hubei, Henan, Guangdong, Guangxi and Shanxi;

(2) East China includes Shanghai, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi and Shandong;

(3) Southwest China includes Chongqing, Sichuan, Guizhou and Yunnan;

(4) Northwest China includes Gansu, Qinghai, Ningxia and Xinjiang;

(5) North China includes Liaoning, Beijing, Heilongjiang and Inner Mongolia;

(6) 425 were Meike distributor outlets and 893 were Meike retailer outlets;

(7) 771 were Meike distributor outlets and 1,094 were Meike retailer outlets.

For export products, the Group mainly sells footwear products through export companies or directly to overseas customers. Before 2007, export products were a major source of the Group's revenue. In 2006, as the Group adjusted its strategy to further develop the "Meike" branded products, the Group changed its focus of operation from export products to the "Meike" branded products. Since then, the percentage of the Group's revenue contributed from the export segments continued to drop.

Through the export companies and overseas customers, the Group's export products were ultimately sold to 27 overseas countries, including Germany, Netherlands, the United States, Switzerland, Turkey, Argentina, France, South Africa and Poland. As many of the local export company customers and overseas customers have long term relationship with the Group, the Group believes that such customers have been and will continue to be loyal to it. The Group will continue to enhance its product design capacity, better control its product costs and maintain the high quality of its products to meet the requirements of the export company customers and overseas customers.

MANAGEMENT DISCUSSION AND ANALYSIS

PRODUCT DEVELOPMENT AND DESIGN

Currently, each of the footwear and apparel segments has its own dedicated in-house design team to design products that meet the tastes and preferences of the Group's target consumers. The core members of the Group's design teams have extensive experience in the design industry and graduated from design or art schools in the PRC. Substantially all of the Group's design team members graduated from college in the PRC and have design or art related diploma. Substantially all of the Group's design team members have more than 4 years design related experience after joining the Group. To maintain an international perspective to the Group's designs, each product design team from time to time visits the leading fashion stores, shopping centers and attends fashion shows in South Korea, North America and Europe, which in the Group's belief, have been, and will continue to be, influential in setting the fashion trends in the PRC. The Group believes that this practice enables the design team to cater to the latest fashion trends while echoing thematic elements from the Group's integrated marketing campaigns to establish a consistent image for the Group's brand and products.

As at December 31, 2010, the Group had a total of 60 full-time employees in its design and development department. The Group had applied for 2 appearance design patents and had been granted 14 appearance design patents in the PRC.

FINANCIAL REVIEW

REVENUE BY PRODUCT CATEGORY

	2010	2009		**2010**	2009
	RMB'000	RMB'000	Change (%)	% of total revenue	
Domestic					
Footwear	**345,308**	267,362	29.2	**48.4**	53.5
Apparel	**204,165**	118,919	71.7	**28.6**	23.8
Accessories and shoe soles	**51,664**	9,783	428.1	**7.3**	2.0
	601,137	396,064	51.8	**84.3**	79.3
Export					
Footwear	**110,237**	103,356	6.7	**15.5**	20.7
Shoe uppers	**1,490**	–	–	**0.2**	–
	111,727	103,356	8.1	**15.7**	20.7
Total	**712,864**	499,420	42.7	**100**	100
Gross profit margin (%)	**34.8**	34.2			

For the Year, the revenue of the Group increased by 42.7% to RMB712,864,000 (for the year ended December 31, 2009: RMB499,420,000) and the gross profit margin rose by 0.6% to 34.8% (for the year ended December 31, 2009: 34.2%).

Revenue from domestic sales of footwear products grew by 29.2% from RMB267,362,000 for the year ended December 31, 2009 to RMB345,308,000 for the Year, mainly as a result of the successful implementation of exclusive distribution business model, speedy expansion of the Group's retail network, successful promotion and marketing strategies, product design upgrade and diversification of product mix. In addition, the increase in sales was also attributable to the growth in market demand for sportswear products in China and the recovery of the economic conditions in China.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue from the sales of the Group's apparel products increased by 71.7% from RMB118,919,000 for the year ended December 31, 2009 to RMB204,165,000 for the Year, primarily as a result of the increase in sales volume of the Group's apparel products from approximately 1,783,000 pieces for the year ended December 31, 2009 to approximately 3,433,000 pieces for the Year. The increase in the sales volume was mainly attributable to the upgrade of product design and quality, and diversification of product mix, which enhanced the market acceptance of the Group's apparel products.

Revenue from sales of accessories and shoe soles increased by 428.1% from RMB9,783,000 for the year ended December 31, 2009 to RMB51,664,000 for the Year, predominantly due to the increase in the sales volume of shoe soles by 2,353,000 pairs during the Year.

Revenue from export sales rose by 8.1% from RMB103,356,000 for the year ended December 31, 2009 to RMB111,727,000 for the Year, predominantly due to the increase in the average selling price by 15.2% being netted off by the drop of 7.9% in the sales volume as the group is continuously focus on certain overseas customers with high quality.

The following table sets out the revenue from the sales of the Group's products in China by geographical location:

	2010		2009	
	RMB'000	**%**	RMB'000	%
Central South China	**259,002**	**43.1**	159,858	40.4
East China	**240,684**	**40.0**	173,154	43.7
Southwest China	**79,866**	**13.3**	52,181	13.2
Northeast China	**8,772**	**1.5**	5,553	1.4
Northwest China	**12,813**	**2.1**	5,318	1.3
Total	**601,137**	**100**	396,064	100

The following table sets out the number of units and average selling price of products sold to the customers:

	2010		2009	
	Total units sold '000	**Average selling price RMB**	Total units sold '000	Average selling price RMB
Sales to distributors				
Footwear (pairs)	**4,722**	**73**	3,812	70
Apparel (pieces)	**3,433**	**60**	1,783	67
Accessories (pieces)	**355**	**9**	488	7
Shoe soles (pairs)	**2,695**	**18**	342	18
Sales to export companies and overseas customers				
Footwear (pairs)	**2,870**	**38**	3,115	33

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue from domestic sales of footwear products of the Group rose by 29.2% to RMB345,308,000 in the Year (2009: RMB267,362,000), mainly attributable to the increase in the sales volume of footwear products by 23.9% to 4.72 million pairs (2009: 3.81 million pairs) and the increase of the average selling price by 4.3% to RMB73 (2009: RMB70).

Revenue from export sales of footwear products of the Group rose by 8.1% to RMB111,727,000 in the Year (2009: RMB103,356,000), primarily as a result of the reduction in the sales volume of footwear products by 7.9% to 2.87 million pairs (2009: 3.11 million pairs) being netted off by the increase in the average selling price by 15.2% to RMB38 (2009: RMB33).

Revenue from the sales of apparel products of the Group increased by 71.7% to RMB204,165,000 in the Year (2009: RMB118,919,000), mainly attributable to the growth of sales volume of apparel products by 92.7% to 3.43 million pieces (2009: 1.78 million pieces) which is partly offset by the reduction of the average selling price of 10.4% to RMB60 (2009: RMB67).

COST OF SALES

Cost of sales increased by 41.4% to RMB464,611,000 in 2010 (2009: RMB328,483,000), primarily as a result of increase in sales of the Group's products.

SELLING AND DISTRIBUTION COSTS

Selling and distribution costs increased by 103.0% from RMB21,089,000 in 2009 to RMB42,812,000 in the Year, primarily as a result of the increase in the advertising and market expenses as more significant advertising expenses in promotion of the brand.

ADMINISTRATIVE EXPENSES

Administrative expenses increased by 58.2% from RMB22,096,000 in 2009 to RMB34,964,000 in the Year, primarily due to the increase in staff salary and welfare payment, depreciation charges and listing expenses for the listing of the Company in early 2010.

INCOME TAX EXPENSE

The income tax expense of the Group for the Year was RMB24,994,000 (2009: RMB15,170,000) at the effective tax rate of 17.7%.

MANAGEMENT DISCUSSION AND ANALYSIS

TOP FIVE SUPPLIERS

For the Year, the purchases from the Group's top five suppliers accounted for approximately 24.9% of the total purchases from all of the Group's suppliers.

	2010			2009		
Top five suppliers	Number of suppliers	RMB million	%	Number of suppliers	RMB million	%
Raw materials suppliers	3	80.3	18.2	4	51.1	20.3
Apparel contract manufacturers	2	29.9	6.7	1	9.2	3.6
Total	5	110.2	24.9	5	60.3	23.9

PROVISION FOR INVENTORIES

As at December 31, 2010, the Group did not make any provision for inventories.

PROVISION FOR DOUBTFUL DEBTS

As at December 31, 2010, the Group did not make any provision for doubtful debts.

LIQUIDITY AND FINANCIAL RESOURCES

During the Year, net cash outflow from operating activities of the Group amounted to RMB78.4 million (2009: net cash outflow of RMB23.3 million). As at December 31, 2010, cash and cash equivalents, including bank deposits and cash in hand, and short-term bank deposits with original maturities not exceeding three months, amounted to RMB437.4 million, representing a net increase of RMB358.7 million as compared to the position as at December 31, 2009. As at December 31, 2010, the Group's cash balances were denominated in Renminbi and Hong Kong dollar only.

PLEDGE OF ASSETS

As at December 31, 2010, the Group secured its bank borrowings by prepaid land lease payments and building held for own uses with a carrying amount of RMB62.6 million (2009: RMB92.2 million), bank deposit of RMB54.0 million (2009: Nil) and trade receivables of RMB30.7 million (2009: RMB22.0 million).

CAPITAL STRUCTURE

In addition to the 749,000,000 shares issued under the capitalization issue and the 250,000,000 shares issued under the share offer for the listing of the Company (the "Share Offer"), during the Year, 157,500,000 shares were issued on December 7, 2010 pursuant to the placing and subscription agreement entered into among the Company, China Merchants Securities (HK) Co., Limited (as placing agent), ICBC International Securities Limited (as placing agent) and Glory Hill Enterprises Limited (as vendor) dated November 24, 2010. As a result, the total number of issued and fully paid shares of the Company as at December 31, 2010, is 1,195,000,000. Details of the placing and subscription are set out in note 28(viii) to the consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

Details of the capital commitments of the Group as at December 31, 2010 are set out in note 31 to the consolidated financial statements in this annual report. As at December 31, 2010, the Group did not have any material contingent liabilities.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS AND NET PROFIT MARGIN

For the Year, profit attributable to the owners of the Company amounted to RMB116,452,000, representing an increase of 28.5% over that in the same period of 2009 (2009: RMB90,606,000). Net profit margin of the Group dropped to 16.3% (2009: 18.1%).

FOREIGN EXCHANGE RISK

The Group mainly operates in the PRC with most of the transactions settled in Renminbi. Part of the Group's cash and bank deposits are denominated in Hong Kong Dollars.

During the Year, the Group did not hedge any exposure in foreign currency risk. Any substantial exchange rate fluctuation of foreign currencies against Renminbi may cause financial impacts on the Group.

GEARING RATIO

As at December 31, 2010, the gearing ratio of the Group was approximately 17.9% (2009: 35.2%), which was derived by dividing interest-bearing debt incurred in the ordinary course of business by total assets.

HUMAN RESOURCES

As at December 31, 2010, the Group had a total of 2,372 employees (as at December 31, 2009: 2,111 employees).

MATERIAL ACQUISITION AND DISPOSAL

The Group did not have any material acquisition and disposal during the Year.

MANAGEMENT DISCUSSION AND ANALYSIS

USE OF NET PROCEEDS FROM THE SHARE OFFER

The shares of the Company were listed on the Main Board of the Stock Exchange on February 1, 2010 with net proceeds from the Share Offer and exercise of the over-allotment option received by the Company of approximately HK$335.4 million (approximately RMB295.2 million) and HK$46.3 million (approximately RMB40.7 million) respectively (after deducting underwriting commission and related expenses). The following table sets out the status of the use of net proceeds as at December 31, 2010:

Use of Net Proceeds (RMB million)	Available to utilise	Utilised (as at December 31, 2010)	Unutilised (as at December 31, 2010)
Expansion of production capacity	102.1	44.3	57.8
Expansion of the sales network and market penetration	102.4	5.7	96.7
Develop and increase brand awareness	80.0	25.0	55.0
Enhancement of research and development capabilities	26.9	11.0	15.9
Working capital	24.5	24.5	–
	335.9	110.5	225.4

FUTURE PROSPECTS

As China is one of the fastest growing economies worldwide, coupled with the ongoing economic stimulus plans implemented by the PRC government to drive domestic demand, the Group believes that the gross domestic product in the PRC will continue to grow and the sportswear market in China will maintain steady growth.

Looking forward, the Group will focus on the development of "Meike" brand by:

- Expansion of production capacity of apparel products, including one manufacturing facility, two logistic centers and the purchases of machinery and equipment, on the piece of land at Shanxia Village, Dhanxia Town, Huian County, Quanzhou City, Fujian Province, thereby increasing the production capacity of apparel products from approximately 1,600,000 pieces per annum as at December 31, 2010 to approximately 5,800,000 pieces per annum by 2011;

- Enhancement of research and development capabilities, including establishment of a research and development center. Besides, the Group will increase the expenditure in research and establishment development by increasing purchases of facilities for material research, product testing, innovation and technology development and the recruitment of experts and designers.

- Expansion of the sales network and market penetration including expansion and improvement of the coverage of the Group's distribution network and continue for the provision of renovation subsidies in the form of standardized promotional materials and display equipment to the Group's distribution outlets and retailer outlets. The Group currently anticipates that the number of its outlets will reach 2,465 by the end of 2011.

- Brand recognition enhancement by devoting more resources in organizing trade fairs (the Group had enhanced the frequency of trade fairs from two to three during the Year including spring-summer, autumn and winter and plans to enhance from three to four in the coming future), brand promotion, sponsorship of sports league and events, media advertising, launching marketing campaigns and activities.

- Product diversification by introducing kid's apparel and will be launched in 400-500 selected outlets in the year of 2011.

CORPORATE GOVERNANCE REPORT

The Directors recognize the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of the Group so as to achieve effective accountability. The Directors continuously observe the principles of good corporate governance in the interests of shareholders and devote considerable effort to identifying and formalizing best practice.

The Group's corporate governance practices are based on the principles and the code provisions as set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The Board considered that the Company had complied with the code provisions of the Code from the date of listing of the Company on February 1, 2010 (the "Listing Date") up to the date of this annual report, except for the deviation from code provision A.2.1 of the Code as stated below.

CODE PROVISION A.2.1

Under code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company does not have any officer with the title of "chief executive officer". This deviated from code provision A.2.1 of the Code.

Mr. Ding Siqiang, who acts as the chairman and the president of the Company, is also responsible for overseeing the general operations of the Group. The Board will meet regularly to consider major matters affecting the operations of the Group. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Group. The roles of the respective executive Directors and senior management who are in charge of different functions complement the role of the chairman and chief executive officer. The Board believes that this structure is conducive to strong and consistent leadership enabling the Group to operate efficiently.

The Company understands the importance to comply with code provision A.2.1 of the Code and will continue to consider the feasibility to comply. If compliance is determined, appropriate persons will be nominated to assume the different roles of the chairman and chief executive officer.

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years commencing from the Listing Date and may be terminated by either party by giving not less than three months' prior written notice.

Each of the independent non-executive Directors has entered into a service contract with the Company for a term of two years commencing from the Listing Date and may be terminated by either party by giving at least three months' written notice.

In accordance with Article 84 of the Articles of Association of the Company, at each annual general meeting, at least one third of the Directors are required to retire from office by rotation. Each Director shall retire from office at least once every three years and shall include those who have been longest in office since their last election or re-election.

In accordance with Article 83 of the Articles of Association of the Company, new Directors appointed by the Board during the year shall retire and submit themselves for re-election at the annual general meeting immediately following their appointments.

CORPORATE GOVERNANCE REPORT

Mr. Xiang Shimin, Mr. Yang Chengjie and Mr. Xie Weichun, all being independent non-executive Directors, will retire as Directors at the forthcoming annual general meeting of the Company and being eligible, will offer themselves for re-election at the annual general meeting.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as the required standard for securities transactions by Directors. The Company has made specific enquiries of all Directors and all Directors confirmed that they have complied with the required standards set out in the Model Code and its code of conduct regarding Directors' securities transactions from the Listing Date and up to the date of this annual report.

BOARD OF DIRECTORS

COMPOSITION OF THE BOARD

The Board members are:
Executive Directors:
Mr. Ding Siqiang *(Chairman and President)*
Ms. Ding Xueleng
Mr. Sun Keqian
Ms. Ding Jinzhu
Mr. Lin Yangshan
Mr. Li Dongxing

Independent non-executive Directors:
Mr. Xiang Shimin
Mr. Yang Chengjie
Mr. Xie Weichun

The biographical details of the Directors and other senior management are disclosed in the section headed "Biographical Details of Directors and Senior Management" on pages 19 to 23 of this annual report. The composition of the Board is well balanced. Each of the Directors has relevant expertise and extensive corporate and strategic planning experiences that may contribute to the business of the Group. The Company has complied with the requirements under Rule 3.10(1) and (2) of the Listing Rules since the Listing Date. All independent non-executive Directors also meet the guidelines for assessment of their independence as set out in Rule 3.13 of the Listing Rules.

Mr. Ding Siqiang is the spouse of Ms. Ding Xueleng. Ms. Ding Jinzhu is the daughter of the elder brother of Ms. Ding Xueleng. Mr. Lin Yangshan is the son of the younger sister of Mr. Ding Siqiang. Save as disclosed above, there are no other relationship (including financial, business, family or other material/relevant relationship(s)) among members of the Board.

FUNCTIONS OF THE BOARD

The Board supervises the management of the business and affairs of the Company. The Board's primary duty is to ensure the viability of the Company and to ensure that it is managed in the best interests of the shareholders as a whole while taking into account the interests of other stakeholders. The Group has adopted internal guidelines in setting forth matters that require the Board's approval. Apart from its statutory responsibilities, the Board approves

CORPORATE GOVERNANCE REPORT

the Group's strategic plan, key operational initiatives, major investments and funding decisions. It also reviews the Group's financial performance, identifies principal risks of the Group's business and ensures implementation of appropriate systems to manage these risks. Daily business operations and administrative functions of the Group are delegated to the management.

BOARD MEETINGS AND PROCEDURES

Board members were provided with complete, adequate and timely information to allow them to fulfill their duties properly. In compliance with code provision A.1.3 of the Code, at least 14 days' notice has been given for a regular Board meeting to give all Directors an opportunity to attend. Notice, agenda and board papers of regular Board meetings are sent to all Directors within reasonable time and at least 3 days prior to the meetings. Directors are free to contribute and share their views at meetings and major decisions will only be taken after deliberation at Board meetings. Directors who are considered having conflict of interests or material interests in the proposed transactions or issues to be discussed will not be counted in the quorum of meeting and will abstain from voting on the relevant resolutions. Full minutes are prepared after the meetings and the draft minutes are sent to all Directors for their comment on the final version of which are endorsed in the subsequent Board meeting.

All independent non-executive Directors have been appointed for a fixed term. Every Director is subject to re-election on retirement by rotation in accordance with the Articles of Association of the Company. The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and still considers the independent non-executive Directors to be independent as at the date of this annual report.

Details of the attendance of the Board meetings held from the Listing Date to December 31, 2010 are summarized as follows:

	Board meeting	Audit committee	Remuneration Committee	Nomination Committee
Executive Directors				
Mr. Ding Siqiang *(Chairman and President)*	8/9	N/A	1/1	1/1
Ms. Ding Xueleng	8/9	N/A	N/A	N/A
Mr. Sun Keqian	9/9	N/A	N/A	N/A
Ms. Ding Jinzhu	9/9	N/A	N/A	N/A
Mr. Lin Yangshan	9/9	N/A	N/A	N/A
Mr. Li Dongxing	9/9	N/A	N/A	N/A
Independent Non-executive Directors				
Mr. Xiang Shimin	9/9	2/2	1/1	1/1
Mr. Yang Chengjie	9/9	2/2	N/A	1/1
Mr. Xie Weichun	9/9	2/2	1/1	N/A

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

The Board has established specific committees, namely the Company's audit committee (the "Audit Committee"), remuneration committee (the "Remuneration Committee") and nomination committee (the "Nomination Committee"), with written terms of reference which are available for viewing on the website of the Company to assist them in the efficient implementation of their functions. Specific responsibilities have been delegated to the above committees.

AUDIT COMMITTEE

The Company established the Audit Committee on January 6, 2010 with written terms of reference which are in compliance with the code provisions of the Code. The primary duties of the Audit Committee are mainly to review the material investment, capital operation and material financial system of the Company; to review the accounting policy, financial position and financial reporting procedures of the Company; to communicate with external audit firms; to assess the performance of internal financial and audit personnel; and to assess the internal control of the Company. The Audit Committee currently has three members comprising Mr. Xie Weichun (Chairman), Mr. Yang Chengjie and Mr. Xiang Shimin, all being independent non-executive Directors.

During the Year, the Audit Committee had reviewed the final results of the Group for 2009, the 2009 annual report of the Company, and the 2010 interim results and report of the Company. The Audit Committee had reviewed the Group's internal controls for the Year. The Group's final results for the Year had been reviewed by the Audit Committee before submission to the Board for approval. The Audit Committee had also reviewed this annual report, and confirmed that this annual report complies with the Listing Rules. There is no disagreement between the Directors and the Audit Committee regarding the selection and appointment of the external auditors.

The Audit Committee held 2 meetings from the Listing Date to December 31, 2010. Details of the attendance of the Audit Committee at the Audit Committee meetings are as follows:

	Attendance/Meeting held
Mr. Xie Weichun *(Chairman)*	2/2
Mr. Yang Chengjie	2/2
Mr. Xiang Shimin	2/2

REMUNERATION COMMITTEE

The Company established the Remuneration Committee on January 6, 2010 with written terms of reference which are in compliance with the code provisions of the Code. The primary duties of the Remuneration Committee include mainly: (i) reviewing the terms of the remuneration package of each Director and member of senior management, and making recommendations to the Board regarding any adjustment thereof; and (ii) reviewing and evaluating the performance of individual executive Directors for determining the amount of bonus (if any) payable to them. No Director shall participate in any discussion about his or her own remuneration. The Remuneration Committee consists of three members, namely, Mr. Ding Siqiang (Chairman), Mr. Xiang Shimin and Mr. Xie Weichun, the majority of which are independent non-executive Directors. The remuneration of the Directors was determined with reference to their respective experience, responsibilities with the Group and general market conditions.

CORPORATE GOVERNANCE REPORT

The Remuneration Committee held 1 meeting from the Listing Date to December 31, 2010. Details of the attendance of the Remuneration Committee meeting are as follows:

	Attendance/Meeting held
Mr. Ding Siqiang *(Chairman)*	1/1
Mr. Xiang Shimin	1/1
Mr. Xie Weichun	1/1

At the meeting, the Remuneration Committee had reviewed the remuneration policies of the Directors and the senior executives and reviewed the remuneration packages and performance of the Directors for the Year.

NOMINATION COMMITTEE

The Company established the Nomination Committee on January 6, 2010 with written terms of reference which are in compliance with paragraph A.4.5 of the Code. The primary duties of the Nomination Committee include the review of the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and to make recommendations to the Board regarding any proposed change, identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships, assess the independence of independent non-executive Directors. The Nomination Committee consists of three members, namely, Mr. Ding Siqiang (Chairman), Mr. Xiang Shimin and Mr. Yang Chengjie, the majority of which are independent non-executive Directors.

The Nomination Committee held 1 meeting from the Listing Date to December 31, 2010. Details of the attendance of the Nomination Committee meeting are as follows:

	Attendance/Meeting held
Mr. Ding Siqiang *(Chairman)*	1/1
Mr. Xiang Shimin	1/1
Mr. Yang Chengjie	1/1

At the meeting, the Nomination Committee had reviewed the structure, size and composition of the Board, assessed the independence of the independent non-executive Directors and other related matters of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the independent non-executive Directors are independent to the Company.

CORPORATE GOVERNANCE REPORT

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the financial statements which give a true and fair view of the state of affairs of the Group, in accordance with accounting principles generally accepted in Hong Kong. The statement by the auditors of the Company about their responsibilities for the financial statements is set out in the report of the independent auditor's report contained in this annual report. There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

EXTERNAL AUDITOR'S REMUNERATION

The Company engaged SHINEWING (HK) CPA Limited as its external auditor for the Year. Analysis of the remuneration in respect of audit services provided by the external auditor is included in note 13 to the consolidated financial statements in this annual report. For the Year, the total fee paid to the external auditors in respect of the non-audit services such as review of the interim results and internal control system of the Group is RMB238,000.

INTERNAL CONTROLS

The Board is responsible for ensuring the effectiveness of the Group's internal control systems. The internal control systems are designed to meet the Group's particular needs and the risks to which it is exposed.

Procedures have been set up for safeguarding assets against unauthorized use or disposition, controlling over capital expenditure, maintaining proper accounting records and ensuring the reliability of financial information used for business and publication. Qualified management of the Group maintains and monitors the internal control systems on an ongoing basis.

The Board and the Audit Committee have delegated an external independent professional body to conduct an annual review of the effectiveness of the internal control systems of the Group, covering all material controls, including financial, operation, compliance controls, etc. Based on the assessment made by the external independent professional body, the Board considers that the internal control systems of the Group are effective and the Audit Committee has found no material deficiencies on the internal control systems.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

In order to keep shareholders well informed of the business activities and direction of the Group, information about the Group has been provided to the shareholders through financial reports and announcements. The Company has established its own corporate website www.meike.cn as a channel to facilitate effective communication with its shareholders and the public. The Company will continue to enhance communications and relationships with its shareholders and investors.

Shareholders, investors and interested parties can make enquiries directly to the Company through the following e-mail: ad@meike.cn.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

EXECUTIVE DIRECTORS

Mr. Ding Siqiang (丁思強), aged 48, is the Chairman and President of the Company. He was appointed as a Director on 25 June 2009 and redesignated as an executive Director on January 6, 2010. He is primarily responsible for making key decisions on the Group's overall strategies, plans and business development. Mr. Ding has 17 years of experience in the sportswear industry since he started to operate Fujian Jinjiang Hengqiang Shoes and Plastics Company (福建省晉江市恒強鞋塑有限公司) in 1993. He joined the Group in 1999 as the vice chairman of Fujian Meike Leisure Sports Goods Co., Ltd. (福建美克休閒體育用品有限公司) ("Fujian Meike"), one of the subsidiaries of the Company. He served as the legal representative and general manager of Fujian Meike since February 2003 and became the president of Fujian Meike since August 2007. He is a director of all the subsidiaries of the Company except Fuzhou Meikesen Sports Goods Co., Ltd. (福州美克森體育用品有限公司) ("Fuzhou Meikesen"). He has been a member of the Ninth and Tenth Fujian Provincial Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議福建省第九屆和第十屆委員) since December 2002. He was appointed as a Standing Director of the First Session of the Jinjiang City Overseas Friendship Association (晉江市海外聯誼會第一屆常務理事) in December 2002. He was appointed as a Honorary Chairman of the First Council of the Jinjiang City Charity Federation (晉江市慈善總會首屆理事會榮譽會長) in December 2002. He was appointed as a director of the Fifth Board of Directors of Huaqiao University (華僑大學第五屆董事會董事) in December 2002. He was appointed as a Honorary Chairman of the Third Council of the Quanzhou City Footwear Chamber of Commerce (泉州市鞋業商會第三屆理事會名譽會長) in January 2006. He was appointed as the Honorary Leader of Chinese Women Hockey Team (中國女子曲棍球隊榮譽領隊) by Chinese Hockey Association (中國曲棍球協會) in October 2007. He also received his diploma in a course for chief executive officer in China (中國企業總裁高級研修班) from Peking University (北京大學) in September 2003. Mr. Ding is Ms. Ding Xueleng's husband. Mr. Ding did not hold any directorship with any public companies whose securities are listed on a stock exchange during the three years prior to the date of this annual report. Mr. Ding is the sole director of Glory Hill Enterprises Limited ("Glory Hill") which is a controlling shareholder (as defined under the Listing Rules) of the Company.

Ms. Ding Xueleng (丁雪冷), aged 46, was appointed as an executive Director on January 6, 2010 and is the Vice President of the Company. She is primarily responsible for the management of footwear and apparel operations, design, research and development, financial management and overall administration management of the Group. Ms. Ding has 17 years of experience in the sportswear industry since she became the director of Fujian Jinjiang Hengqiang Shoes and Plastics Company (福建省晉江市恒強鞋塑有限公司). Ms. Ding joined us in February 1999 and was appointed as a director of Fujian Meike in 1999. She has also been the manager of Fujian Meike starting from February 1999 and was then appointed as the deputy general manager since February 2003. In August 2007, Ms. Ding was appointed the general manager of Fujian Meike. Ms. Ding is a director of each of Fujian Meike and Quanzhou Meike Sports Goods Co., Ltd. (泉州市美克體育用品有限公司) ("Quanzhou Meike") which is a subsidiary of the Company. Ms. Ding did not hold any directorship with any public companies whose securities are listed on a stock exchange during the three years prior to the date of this annual report.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Sun Keqian (孫可謙), aged 56, was appointed as an executive Director on January 6, 2010 and is the Vice President of the Company. He is primarily responsible for the management of product quality and manufacturing of the Group. Mr. Sun has 14 years of experience in the sportswear industry as he served as a director and the general manager from April 1996 to April 1998 in Qingdao Double Stars Stock Limited Company (青島雙星股份有限公司), a company listed in Shenzhen Stock Exchange formerly known as Qingdao Double Stars Footwear Stock Limited Company (青島雙星鞋業股份有限公司). Mr. Sun joined the Group in February 1999 as the deputy manager of Fujian Meike. He is a director of each of Fujian Meike and Fujian Meisike. He received the title of the Outstanding Young Entrepreneur in Qingdao City (青島市優秀青年企業家) by six governmental and commercial institutions in Qingdao City in September 1995. Mr. Sun received his diploma in a course for Chinese Communist Party and Governmental Officials (黨政幹部大專培訓班) from School of Kunming City Committee of Chinese Communist Party (中國共產黨昆明市委員會黨校) in July 1987. Mr. Sun did not hold any directorship with any public companies whose securities are listed on a stock exchange during the three years prior to the date of this annual report.

Ms. Ding Jinzhu (丁錦珠), aged 33, was appointed as an executive Director on January 6, 2010 and is the assistant to Ms. Ding Xueleng, an executive Director. She is primarily responsible for the management of the accessory operation of the Company. Ms. Ding has 11 years of experience in the sportswear industry as she joined the Group in February 1999 as the deputy general manager of Fujian Meike. She served as the assistant to the deputy manager of Fujian Meike since February 2003 and as the assistant to the manager of Fujian Meike since October 2007. She became a director of Fujian Meike since October 2006. Ms. Ding's early responsibilities include communicating with government authorities and coordinating with administrative matters. Ms. Ding received her diploma in financial accounting (財務會計) from Jinjiang City Chendai Town Vocational Middle School (晉江市陳埭職業中學) in July 1995. Ms. Ding is the daughter of the elder brother of Ms. Ding Xueleng, an executive Director. Ms. Ding Jinzhu did not hold any directorship with any public companies whose securities are listed on a stock exchange during the three years prior to the date of this annual report.

Mr. Lin Yangshan (林陽山), aged 31, was appointed as an executive Director on January 6, 2010 and is the head of the sales and marketing department of the Company. He is primarily responsible for the management of the marketing matters of the Company. Mr. Lin has 8 years of experience in sportswear industry as he joined the Group in 2002 as the sales manager of Fujian Meike. He is a director of Fujian Meike. He served as an executive director and manager of Jinhairuo (Fujian) Investment Industrial Co., Ltd. (金海若(福建)投資實業有限公司) since August 2007. Mr. Lin received his bachelor's degree in economics from Xiamen University (廈門大學) in July 2002. Mr. Lin is the son of the younger sister of Mr. Ding. Mr. Lin did not hold any directorship with any public companies whose securities are listed on a stock exchange during the three years prior to the date of this annual report.

Mr. Li Dongxing (李東星), aged 36, was appointed as an executive Director of on January 6, 2010 and is the assistant to the chairman of the Company. He is primarily responsible for assisting the chairman in making decisions on overall strategies, planning and business development and he is responsible for the human resources of the Group. Mr. Li has 7 years of experience in the footwear industry. He served as a tax officer in Jinjiang City State Tax Bureau (晉江市國家稅務局) from November 1997 to August 2007. Starting from 2003, his tax practice has focused on footwear companies. He joined the Group in August 2007 and has served as the secretary of the board of directors of Fujian Meike since then. Mr. Li received his bachelor's degree in taxation from Xiamen University (廈門大學) in May 1997. He obtained a qualification certificate of taxation execution of the PRC issued by the State Administration of Taxation of the PRC in April 2003. Mr. Li did not hold any directorship with any public companies whose securities are listed on a stock exchange during the three years prior to the date of this annual report.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yang Chengjie (楊承傑), aged 53, was appointed as an independent non-executive Director on January 6, 2010. Mr. Yang was appointed as an independent director of Fujian Meike for the period from August 2007 to May 2009. Mr. Yang has 10 years of experience in the footwear industry. He obtained the title of Professor of Engineering (教授級高級工程師) from the Appraising and Approval Committee for Professional and Technical Competence of Sinolight Corporation (中國輕工集團公司專業技術資格評審委員會) in December 2002. He has been the director of China Leather and Footwear Industry Research Institute (中國皮革和制鞋工業研究所) since September 2000. He was appointed a part-time professor and a tutor to master degree students in Shaanxi University of Science and Technology (陝西科技大學) in May 2002. Mr. Yang received his bachelor's degree in leather from Shaanxi University of Science and Technology (陝西科技大學) (formerly known as Northwest Light Industry College (西北輕工業學院)) in July 1982. He received a certificate in a 4-day course for senior management of listed companies conducted by Shenzhen Stock Exchange in January 2008. Mr. Yang did not hold any directorship with any public companies whose securities are listed on a stock exchange during the three years prior to the date of this annual report.

Mr. Xiang Shimin (項士敏), aged 45, was appointed as an independent non-executive Director on January 6, 2010. Mr. Xiang was appointed as an independent director of Fujian Meike since August 2007. He has 18 years of experience in general enterprise management. He obtained the title of Associate Research Fellow (副研究員) from Fujian Provincial Personnel Department (福建省人事廳) in November 2000. He has worked in Huaqiao University (華僑大學) since 1992 and he is currently the head of Foreign Affairs Office in Huaqiao University (華僑大學外事辦公室). He has been a member of the Tenth Quanzhou City Fujian Provincial Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議福建省泉州市第十屆委員) since January 2007. Mr. Xiang received his master's degree in power plant thermal energy engineering from Northeast Dianli University (東北電力大學) (formerly known as Northeast Dianli College (東北電力學院)) in March 1992. Mr. Xiang did not hold any directorship with any public companies whose securities are listed on a stock exchange during the three years prior to the date of this annual report.

Mr. Xie Weichun (謝煒春), aged 48, was appointed as an independent non-executive Director on January 6, 2010. He served as an accountant, a manager and a partner of Fujian Lixin Mindu Certified Public Accountants Limited (福建立信閩都會計師事務所有限公司) (formerly known as Fuzhou Accounting Firm (福州會計師事務所)) since 1989. Mr. Xie received his diploma in industrial and enterprise financial accounting from Fuzhou Technical School (福州工業學校) in July 1983. He received his diploma in statistics from Xiamen University (廈門大學) in April 1988. He also received a certificate in a 4-day course for senior management of listed companies conducted by Shenzhen Stock Exchange (深圳股票交易所) in September 2007. Mr. Xie became a Certified Public Accountant in the PRC (中國註冊會計師) in December 1999. He received a qualification certificate for senior accountant (高級會計師職稱) by Fujian Provincial Personnel Department (福建省人事廳) in May 2007. Mr. Xie did not hold any directorship with any public companies whose securities are listed on a stock exchange during the three years prior to the date of this annual report.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Li Yik Sang (李奕生), aged 36, joined the Group in August 2009 and is the chief financial officer, authorized representative and company secretary of the Company. Mr. Li served as an audit assistant and a semi-senior auditor in Grant Thornton from November 2000 to December 2002. He served as a staff accountant, senior accountant and manager in Ernst & Young from January 2003 to January 2007. He had been the chief financial officer of China Packaging Group Company Limited (stock code: 572) from January 2007 to July 2009. Mr. Li has approximately 11 years of experience in auditing, finance and accounting. He received his bachelor's degree in commerce from the University of Queensland, Australia in December 1998. He received his master's degree in commerce (information systems) from the University of Queensland, Australia in August 2000. Mr. Li has been a member of CPA Australia since April 1999 and was granted a certificate of certified practicing accountant of CPA Australia in November 2006 and he has been a member of HKICPA since February 2007.

Mr. Luo Zhenye (羅振業), aged 35, is the head of the marketing department of the Company. He joined the Group as the marketing manager of Fujian Meike since March 2006. Mr. Luo has about 13 years of experience in the marketing industry. From March 1997 to January 2000, he served as an operating officer in Guangzhou New Era Exhibition Co., Ltd. (廣州市新紀元展覽有限公司). From March 2000 to December 2002, he served as a customer manager in Guangzhou Jindi Cultural Propagation Advertisement Co., Ltd. (廣州金蒂文化傳播廣告有限公司). From March 2003 to December 2005, he served as a customer manager in Longjuanfeng Film and Television Advertisement Planning Co., Ltd. (龍卷風影視廣告策劃有限公司). Mr. Luo received his diploma in mechanical and electrical engineering (機電工程專科學位) from Nanchang Higher Junior College (南昌高等專科學校) in June 1996.

Mr. Lin Kongfeng (林孔鳳), aged 39, is the head of the accounting department of the Company. He joined the Group in March 2006 as a manager of Fujian Meike's accounting department. From August 1991 to December 2003, he worked in the finance department in Fujian Provincial Datian Taoyuan State-owned Forest Farm (福建省大田桃源國有林場). From April 2005 to February 2006, he served as an accounting manager in K-boxing Men's Wear Stock Limited Company (勁霸男裝股份有限公司). Mr. Lin received his diploma in accounting from Xiamen University (廈門大學) in June 1999. He obtained the qualification certificate of middle level of accountant issued by the Ministry of Finance of the PRC in December 2000.

Mr. Chen Shuzhun (陳曙準), aged 34, is the head of the export department of the Company. Mr. Chen has 12 years of experience in the sportswear industry in the PRC as he joined the Group in September 1999 as a manager for the export department of Fujian Meike. Mr. Chen received his diploma in business management from Liming Vocational University (黎明職業大學) in June 1999. He received the title of outstanding employer by the Chentai Town Commission of the Chinese Communist Party and Chentai Town People's Government in December 2004 and the title of outstanding talented manager by the Chentai Town Commission of the Chinese Communist Party and Chentai Town People's Government in May 2006.

Mr. Wang Dongrong (王東榮), aged 33, is the head of the apparel research and development department of the Company. Mr. Wang joined the Group in November 2003 as the manager for the apparel department of Fujian Meike. Mr. Wang has 13 years of experience in the sportswear design industry. From October 1997 to November 2000, he served as a designer of apparel in Quanzhou City Kipone Apparel Co., Ltd. (泉州市棋牌王服飾有限公司). From December 2000 to November 2003, he served as the manager of the production department in Quanzhou City Huangxing Apparel Co., Ltd. (泉州市煌興製衣有限公司). Mr. Wang received his diploma in apparel design from Fujian Textile Light Industry College (福建紡織輕工業學校) in September 1996.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Liu Xiaohong (劉曉紅), aged 41, is the head of research and development department for footwear of the Company. He joined the Group in March 2005 as the manager for design and research department for Fujian Meike. Mr. Liu has 18 years of experience in the sportswear design industry. From October 1992 to December 1996, he served as a designer of footwear in Fujian Qinglu Footwear Co., Ltd. (福建清祿鞋業有限公司). From March 1997 to January 2000, he served as a manager of the design department in Daoqi (Fujian) Footwear Co., Ltd. (道崎(福建)制鞋有限公司). From February 2000 to February 2005, he served as the manager of the design department in Fujian Jinjiang City Canhuang Footwear and Apparel Co., Ltd. (福建晉江市燦煌鞋服有限公司). He received the award of national sports footwear design (全國運動鞋設計獎) by the China Leather Industry Association (中國皮革工業協會) in April 2003. Mr. Liu received his diploma in art from Sichuan University (四川大學) in July 1992.

COMPANY SECRETARY

Mr. Li Yik Sang is the Company Secretary of the Company and please refer to his biography in the paragraphs headed "Senior Management" above for details.

DIRECTORS' REPORT

The Directors are pleased to present to the shareholders this annual report and the audited consolidated financial statements for the Year.

GROUP REORGANIZATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands on June 25, 2009. Pursuant to a reorganization scheme to rationalize the structure of the Group in preparation for the listing of the Company's shares on the Stock Exchange, the Company became the holding company of the companies now comprising the Group on September 10, 2009.

The shares of the Company have been listed on the Main Board of the Stock Exchange since February 1, 2010.

USE OF PROCEEDS

As part of the preparation for listing of the shares of the Company, the Company implemented a capitalization issue of 749,000,000 shares and an issue of 250,000,000 new shares during the Share Offer in 2010. All such shares issued were ordinary shares and the 250,000,000 new shares were issued at HK$1.43 per share. On February 17, 2010, the lead manager of the Share Offer fully exercised the over-allotment option and the Company issued an additional 37,500,000 new shares at HK$1.43 per share. The net proceeds of the Share Offer and from the exercise of the over-allotment option received by the Company were approximately HK$335.4 million and HK$46.3 million respectively. For detailed use of the aforesaid proceeds, please refer to the paragraph headed "Use of Net Proceeds from the Share Offer" under the section headed "Management Discussion and Analysis" in this annual report.

PRINCIPAL ACTIVITIES

The principal business activity of the Company is investment holding. The principal activities and other particulars of the Company's subsidiaries are set out in note 37 to the consolidated financial statements in this annual report.

RESULTS

The results of the Group for the Year are set out in the consolidated statement of comprehensive income on page 36 of this annual report.

FINAL DIVIDENDS

The Board recommended the payment of a final dividend of HK$0.03 per share (2009: HK$0.034) to the shareholders of the Company whose names appear on the Register of Members of the Company on May 12, 2011. Subject to the approval of shareholders of the Company at the forthcoming annual general meeting, the final dividend will be payable on or around June 2, 2011.

CLOSURE OF THE REGISTER OF MEMBERS

The Register of Members of the Company will be closed from May 6, 2011 to May 12, 2011, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the final dividend and attending the forthcoming annual general meeting to be held on May 12, 2011, all transfers of shares of the Company accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong before 4:30 p.m. on May 5, 2011.

DIRECTORS' REPORT

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Year are set out in note 18 to the consolidated financial statements in this annual report.

BANK BORROWINGS

Details of bank borrowings of the Group as at December 31, 2010 are set out in note 26 to the consolidated financial statements in this annual report.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements in this annual report and the prospectus of the Company dated January 19, 2010 (the "Prospectus"), is set out on pages 85 to 86. This summary does not form part of the consolidated financial statements in this annual report.

SHARE CAPITAL

Details of the Company's paid up capital for the Year are set out in note 28 to the consolidated financial statements in this annual report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF SHARES

Save as disclosed below, there were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries during the Year:

(1) Upon the listing of the Company on February 1, 2010, 250,000,000 new ordinary shares were issued under the Share Offer. All such shares issued were ordinary shares and the 250,000,000 new shares were issued at HK$1.43 per share. On February 17, 2010, the lead manager of the Share Offer fully exercised the over-allotment option and the Company issued an additional 37,500,000 new ordinary shares at HK$1.43 per share. The net proceeds of the Share Offer and from the exercise of the over-allotment option received by the Company were approximately HK$335.4 million and HK$46.3 million respectively. For detailed use of the aforesaid proceeds, please refer to the paragraph headed "Use of Net Proceeds from the Share Offer" below. For further details of the aforesaid issues of shares, please refer to the prospectus of the Company date January 19, 2010, the announcements of the Company dated January 29, 2010 and February 17, 2010 respectively.

(2) The Company had issued 157,500,000 new ordinary shares at an issue price of HK$1.89 per share on December 7, 2010 (the "Placing") pursuant to a placing and subscription agreement entered into among the Company, China Merchants Securities (HK) Co., Limited (as placing agent), ICBC International Securities Limited (as placing agent) and Glory Hill Enterprises Limited (as vendor) dated November 24, 2010. The net proceeds from the Placing of approximately HK$290.2 million were used as general working capital purpose in supporting the intended business development of the Group from time to time. For further details of the Placing, please refer to the announcements of the Company dated November 24, 2010 and December 7, 2010 respectively.

DIRECTORS' REPORT

PLACING OF NON-LISTED WARRANTS

On August 26, 2010, the Company entered into a warrant placing agreement with China Merchants Securities (HK) Co., Limited (the "Placing Agent") whereby the Company appointed the Placing Agent to procure not less than six placees (the "Placees") to subscribe for up to 30,000,000 warrants (the "Warrants") at the issue price of HK$0.01 per Warrant (the "Warrant Placing").

The Warrants entitled the Placees to subscribe for a maximum of 30,000,000 new ordinary shares of the Company at an initial subscription price of HK$1.60 per share, subject to adjustments, at any time from September 13, 2010 to September 12, 2012, both dates inclusive.

The Warrant Placing was completed on September 13, 2010 for which an aggregate of 30,000,000 Warrants had been successfully placed to not less than six Placees.

The net proceeds from the Warrant Placing of approximately HK$115,900 were applied as general working capital of the Group and any additional proceeds from the issue of the new shares upon the exercise of the subscription rights attaching to the Warrants in future up to a maximum amount of HK$48.0 million will be applied as general working capital and as funds for future development of the Group.

No Warrants were exercised since the date of issue and up to the date of this annual report. For further details of the Warrant Placing, please refer to the announcements of the Company dated August 26, 2010 and September 13, 2010 respectively.

CAPITALIZATION ISSUE

On February 1, 2010, in preparation for the listing of the Company, the Company allotted and issued 749,000,000 ordinary shares of HK$0.01 each as fully paid to the then existing shareholders of the Company by the capitalization of an amount of HK$7,490,000 (equivalent to approximately RMB6,564,000) in the share premium of the Company.

TRANSFER TO RESERVES

Profit attributable to equity shareholders, before dividends, of RMB116,452,000 (2009: RMB90,606,000) have been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity in this annual report. An interim dividend of HK$0.022 per share was paid on October 15, 2010, The Directors recommended, subject to the shareholders approval at the forthcoming annual general meeting, the payment of a final dividend of HK$0.03 per share (2009: Hk$0.034 per share) for the Year.

RELATED PARTIES TRANSACTIONS

On January 6, 2010, Hengqiang (China) Co., Ltd. (恒強(中國)有限公司) (the "Lessor") and Fujian Meike, a subsidiary of the Company, entered into a property lease agreement pursuant to which Fujian Meike agreed to lease from the Lessor premises of a gross floor area of approximately 10,172.50 square meters situated at Xibian Village, Chendai Town, Jinjiang City, Fujian Province, the PRC for use as warehouse and workshop for a term commencing on January 6, 2010 and ending on December 31, 2012 at an aggregate rental of approximately RMB610,350, RMB610,350 and RMB610,350 for the three years ending December 31, 2010, 2011 and 2012, respectively.

DIRECTORS' REPORT

On January 6, 2010, the Lessor and Fujian Meisike Sports Goods Co., Ltd. (福建省美斯克體育用品有限公司) ("Fujian Meisike"), a subsidiary of the Company, entered into a property lease agreement pursuant to which Fujian Meisike agreed to lease from the Lessor premises of a gross floor area of approximately 3,001.25 square meters situated at Xibian Village, Chendai Town, Jinjiang City, Fujian Province, the PRC for use as warehouse and workshop for a term commencing on January 6, 2010 and ending on December 31, 2012 at an aggregate rental of approximately RMB180,075, RMB180,075 and RMB180,075 for the three years ending December 31, 2010, 2011 and 2012, respectively.

The Lessor is wholly-owned by Heng Qiang (International) Limited (恒強(國際)有限公司), which is owned as to 80% and 20% by Mr. Ding Siqiang ("Mr. Ding") and Mr. Huang Tzu Jan (黃自然), respectively. Mr. Ding is the Chairman of the Company, an executive Director and one of the Company's substantial shareholders, and is therefore a connected person of the Company for the purpose of the Listing Rules. Mr. Huang Tzu Jan is the brother-in-law of Mr. Ding. The transactions contemplated under the aforesaid property lease agreements constituted continuing connected transactions for the Company under Chapter 14A of the Listing Rules but are exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Rule 14A.33 of the Listing Rules.

Save as disclosed above, the Directors consider that those material related party transactions disclosed in note 31 to the consolidated financial statements in this annual report did not fall under the definition of "connected transactions" or "continuing connected transactions" (as the case may be) in Chapter 14A of the Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements under the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for approximately 37.1% of the total sales for the year and sales to the largest customer included therein amounted to 9.4% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for approximately 24.9% of the total purchases for the year and purchase from the Group's largest supplier included therein amounted to 7.4% of the total purchases for the year.

None of the Directors or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers and suppliers.

DIRECTORS

The Directors are:

EXECUTIVE DIRECTORS:

Mr. Ding Siqiang *(Chairman)*	(appointed as a Director on June 25, 2009 and re-designated as an executive Director on January 6, 2010)
Ms. Ding Xueleng	(appointed on January 6, 2010)
Mr. Sun Keqian	(appointed on January 6, 2010)
Ms. Ding Jinzhu	(appointed on January 6, 2010)
Mr. Lin Yangshan	(appointed on January 6, 2010)
Mr. Li Dongxing	(appointed on January 6, 2010)

DIRECTORS' REPORT

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Mr. Xiang Shimin	(appointed on January 6, 2010)
Mr. Yang Chengjie	(appointed on January 6, 2010)
Mr. Xie Weichun	(appointed on January 6, 2010)

In accordance with Article 83 of the Company's Article of Association, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting after his/her appointment and any Director appointed by the Board as an additional Director shall hold office only until the next following annual general meeting of the Company.

Pursuant to Article 84 of the Articles of the Association of the Company, at each annual general meeting, one-third of the Directors for the time being shall retire from office by rotation.

Mr. Xiang Shimin, Mr. Yang Chengjie and Mr. Xie Weichun will retire as Directors at the forthcoming annual general meeting, and being eligible, will offer themselves for re-election at the annual general meeting.

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years with effect from the Listing Date and thereafter be continuous unless and until terminated by not less than three months' prior notice in writing served by either party on the other or by payment of three months' fixed salary in lieu of such notice.

Each of the independent non-executive Directors has entered into a service contract with the Company for a term of two years commencing from the Listing Date and may be terminated by either party by giving at least three months' written notice.

Apart from the foregoing, no Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

BIOGRAPHIES OF DIRECTORS AND OTHER SENIOR MANAGEMENT

The biographical details of Directors and other senior management are disclosed in the section headed "Biographical Details of Directors and Senior Management" on pages 19 to 23 of this annual report.

INTERESTS OF DIRECTORS IN CONTRACTS

Apart from: (i) the contracts relating to the reorganization in relation to the listing of the shares of the Company and the Share Offer, further details of which are disclosed in the Prospectus; and (ii) a placing and subscription agreement entered into among the Company, China Merchants Securities (HK) Co., Limited (as placing agent), ICBC International Securities Limited (as placing agent) and Glory Hill Enterprises Limited (as vendor and is a company wholly-owned by Mr. Ding Siqiang, an executive Director) dated November 24, 2010, pursuant to which the relevant placing was completed on November 29, 2010 and the relevant subscription was completed on December 7, 2010, during the Year, none of the Directors had a material interest, whether directly or indirectly, in any contract of significance to which the Company or any of its subsidiaries or affiliates was a party.

DIRECTORS' REPORT

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors or any of their respective associates had any interest in a business which competes or likely to compete, either directly or indirectly, with the business of the Group.

The Board has established a committee (the "Committee") comprising all the independent non-executive Directors which was delegated with the authority to review the non-competition undertakings (the "Non-competition Undertakings") given by Glory Hill Enterprises Limited ("Glory Hill") and Mr. Ding Siqiang in two deeds of non-competition respectively entered into by Glory Hill and Mr. Ding Siqiang, all dated January 6, 2010. The Committee was not aware of any non-compliance of the Non-competition Undertakings given by Glory Hill and Mr. Ding Siqiang since the date of the aforesaid deeds of non-competition and up to the date of this annual report.

RETIREMENT SCHEMES

The Group participates in several defined contribution retirement plans which cover the Group's eligible employees in the PRC and a Mandatary Provident Fund Scheme for the employee in Hong Kong. Particulars of these retirement plans are set out in note 34 to the consolidated financial statements in this annual report.

DISTRIBUTABLE RESERVES

Pursuant to the relevant rules of the Cayman Islands, the Company's distributable reserves as at December 31, 2010 amounted to RMB557.3 million.

DIRECTORS' INTERESTS OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

(a) As at December 31, 2010 the interests and short positions of the Directors or chief executive of the Company in the shares, underlying shares and debentures of the Company or any of the associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests which they are taken or deemed to have under such provisions of the SFO) or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

1. LONG POSITION IN THE SHARES OF THE COMPANY (THE "SHARES")

Name of Director	Capacity/Nature	No. of Shares held	Approximate percentage of shareholding
Mr. Ding Siqiang ("Mr. Ding")	Interest in controlled corporation (Note 1)	562,500,000	47.07%
Ms. Ding Xueleng ("Ms. Ding")	Interest of spouse (Note 2)	562,500,000	47.07%

DIRECTORS' REPORT

2. LONG POSITION IN THE UNDERLYING SHARES

Name of Director	Capacity/Nature	No. of underlying Shares	Approximate percentage of shareholding
Mr. Ding	Beneficial owner/ Interest of spouse (Note 1)	3,400,000	0.28%
Ms. Ding	Beneficial owner/ Interest of spouse (Note 2)	3,400,000	0.28%
Ms. Ding Jinzhu	Beneficial owner (Note 3)	300,000	0.03%
Mr. Li Dongxing	Beneficial owner (Note 3)	300,000	0.03%
Mr. Lin Yangshan	Beneficial owner (Note 3)	300,000	0.03%

3. LONG POSITION IN THE ORDINARY SHARES OF ASSOCIATED CORPORATION

Name of Director	Name of associated corporation	Capacity/ Nature	No. of shares held	Approximate percentage of shareholding
Mr. Ding	Glory Hill	Beneficial owner (Note 1)	1	100%
Ms. Ding	Glory Hill	Interest of spouse (Note 2)	1	100%

Note 1: Mr. Ding owned the entire issued share capital of Glory Hill Enterprise Limited ("Glory Hill"), which in turn, owned 562,500,000 Shares. Therefore, Mr. Ding was deemed or taken to be interested in all the Shares which were beneficially owned by Glory Hill for the purpose of the SFO. Mr. Ding is the sole director of Glory Hill. On August 27, 2010, Mr. Ding was granted 1,700,000 share options (each option shall entitle the holder thereof to subscribe for one Share) under the share option scheme of the Company. On August 27, 2010, Ms. Ding, the spouse of Mr. Ding, was granted 1,700,000 share options (each option shall entitle the holder thereof to subscribe for one Share) under the share option scheme of the Company. Therefore, Mr. Ding was deemed or taken to be interested in all the share options granted to Ms. Ding for the purposes of the SFO. Mr. Ding had further acquired a total amount of 5,734,000 Shares on January 14, 17, 18 and 19, 2011 respectively which as a result, Mr. Ding beneficially held 5,734,000 Shares and 1,700,000 share options, and had deemed interests in the 562,500,000 Shares held by Glory Hill and the 1,700,000 share options held by Ms. Ding as at the date of this annual report.

Note 2: Ms. Ding is the spouse of Mr. Ding, and therefore, she was deemed or taken to be interested in all the Shares and the share options in which Mr. Ding was interested for the purpose of the SFO. On August 27, 2010, Ms. Ding was granted 1,700,000 share options (each option shall entitle the holder thereof to subscribe for one Share) under the share option scheme of the Company.

Note 3: Each of Ms. Ding Jinzhu, Mr. Li Dongxing and Mr. Lin Yangshan was granted 300,000 share options (each option shall entitle the holder thereof to subscribe for one Share) under the share option scheme of the Company on August 27, 2010.

DIRECTORS' REPORT

(b) So far as is known to the Directors, as at December 31, 2010, the following persons (not being a Director or chief executive of the Company as disclosed in paragraph (a) above) had interests or short positions in Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

LONG POSITION IN THE SHARES

Name	Nature of Interest	No. of Shares held	Approximate percentage of shareholding
Glory Hill	Beneficial owner	562,500,000	47.07%

Save as disclosed above, the Company had not been notified by any persons (other than Directors or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the paragraph headed "Directors' interests and short positions in shares, underlying shares and debentures" above, at no time during the Year was the Company, its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors or the chief executive of the Company or their associates to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SHARE OPTION SCHEME

As to attract and retain the eligible persons, to provide additional incentive to them and to promote the success of the business of the Group, the Company conditionally adopted a share option scheme (hereinafter in this paragraph, the "Scheme") on January 6, 2010 whereby the Board are authorised, at their absolute discretion and subject to the terms of the Scheme, to grant options to subscribe the shares of the Company (the "Shares") to, inter alia, any employees (full-time or part-time), directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners or service providers of the Group. The Scheme became unconditional on the Listing Date and shall be valid and effective for a period of ten years commencing on January 6, 2010, subject to the early termination provisions contained in the Scheme.

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to the Company on acceptance of the offer for the grant of an option is HK$1. The subscription price of a Share in respect of any particular option granted under the Scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option.

DIRECTORS' REPORT

The Company shall be entitled to issue options, provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Scheme does not exceed 10% of the shares in issue on the Listing Date. The Company may at any time refresh such limit, subject to the shareholders' approval and issue of a circular in compliance with the Listing Rules, provided that the total number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under all the share option schemes of the Company does not exceed 30% of the Shares in issue at the time.

The total number of options available for issue under the Scheme as at the date of this annual report was 75,450,000 entitling the issue of 75,450,000 Shares upon full exercise which represented approximately 6.3% of the issued share capital of the Company as at the date of this annual report. The total number of Shares issued and to be issued upon exercise of options granted to any grantee (including both exercised and outstanding options) under the Scheme, in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue.

An option may be exercised in accordance with the terms of the Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

The following table disclosed movements in the Company's share options during the Year:

Grantee	Date of grant	Exercise period	Exercise price## HK$	Outstanding at 1.1.2010	Granted during the Year	Cancelled/ lapsed during the Year	Exercise during the Year	Outstanding at 31.12.2010
Directors								
Mr. Ding Siqiang	27.8.2010	27.8.2010 to 26.8.2020	1.56	–	1,700,000	–	–	1,700,000
Ms Ding Xueleng	27.8.2010	27.8.2010 to 26.8.2020	1.56	–	1,700,000	–	–	1,700,000
Ms. Ding Jinzhu	27.8.2010	27.8.2010 to 26.8.2020	1.56	–	300,000	–	–	300,000
Mr. Lin Yangshan	27.8.2010	27.8.2010 to 26.8.2020	1.56	–	300,000	–	–	300,000
Mr. Li Dongxing	27.8.2010	27.8.2010 to 26.8.2020	1.56	–	300,000	–	–	300,000
Senior Management	27.8.2010	27.8.2010 to 26.8.2020	1.56		1,800,000	–	–	1,800,000
Employees#	27.8.2010	27.8.2010 to 26.8.2020	1.56		18,450,000	–	–	18,450,000
					24,550,000	–	–	24,550,000

Among those grantees, one individual, who has been granted 300,000 share options, is the brother of Ms. Ding Xueleng and the father of Ms. Ding Jinzhu. One individual, who has been granted 200,000 share options, is a nephew of Ms. Ding Xueleng and a cousin of Ms. Ding Jinzhu.

All the share options granted during the Year were granted on August 27, 2010. The closing price of the Shares immediately before the date of granting the share options i.e. August 26, 2010 was HK$1.52.

30% of all the share options granted during the Year will be vested on the date which is 18 months after the date on which the respective grantees accepted the grant of the share options (the "Acceptance Date"); another 30% of the share options granted will be vested on the date which is 30 months after the Acceptance Date; and the remaining 40% will be vested on the date which is 42 months after the Acceptance Date.

DIRECTORS' REPORT

EMPLOYEES AND REMUNERATION POLICY

As at December 31, 2010, the Group employed approximately 2,372 full-time staff members. The basic remunerations of the employees are determined with reference to the industry's remuneration benchmark, the employees' experience and their performance, and equal opportunities will be offered to all staff. Salaries of employees are maintained at a competitive level and are reviewed annually, with close reference to the relevant labour market and economic situation. Directors' remuneration is determined based on a variety of factors such as market conditions and responsibilities assumed by each Director. Apart from the basic remuneration and statutory benefits required by laws, the Group also provides discretionary bonuses based upon the Group's results and the individual performance of the staff.

The Group maintains a good relationship with its employees. Most members of senior management have been working for the Group for many years.

The Group adopted a share option scheme as incentive for its employees, further details of which are set out in the paragraph headed "Share Option Scheme" above.

CORPORATE GOVERNANCE

The Company is committed to maintaining the highest standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 13 to 18 of this annual report.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers that all the independent non-executive Directors are independent of the Company.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this annual report, the Company has maintained sufficient public float since the Listing Date as required under the Listing Rules.

POST BALANCE SHEET EVENT

There are no material post balance sheet events as at the date of this annual report.

AUDITOR

SHINEWING (HK) CPA Limited will retire and being eligible, offer themselves for reappointment at the forthcoming annual general meeting. A resolution for the reappointment of SHINEWING (HK) CPA Limited as auditor of the Company is to be proposed at the forthcoming annual general meeting.

By Order of the Board of

Ding Siqiang
Chairman
Hong Kong, March 23, 2011

INDEPENDENT AUDITOR'S REPORT

信永中和
ShineWing

SHINEWING (HK) CPA Limited
43/F., The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong

TO THE SHAREHOLDERS OF MEIKE INTERNATIONAL HOLDINGS LIMITED
(incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of Meike International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 36 to 84, which comprise the consolidated statement of financial position as at December 31, 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

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

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

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at December 31, 2010, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Lo Wa Kei
Practising Certificate Number: P03427

Hong Kong
March 23, 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2010

	Notes	2010 RMB'000	2009 RMB'000
Revenue	7	**712,864**	499,420
Cost of sales		**(464,611)**	(328,483)
Gross profit		**248,253**	170,937
Other income	9	**7,624**	2,265
Other losses, net	10	**(7,726)**	–
Selling and distribution expenses		**(42,812)**	(21,089)
Administrative expenses		**(34,964)**	(22,096)
Other operating expenses		**(16,923)**	(9,121)
Finance costs	11	**(12,006)**	(10,372)
Profit before tax		**141,446**	110,524
Income tax expense	12	**(24,994)**	(15,170)
Profit for the year	13	**116,452**	95,354
Other comprehensive income:			
Exchange differences arising on translation		**18**	(5)
Total comprehensive income for the year		**116,470**	95,349
Profit for the year attributable to:			
Owners of the Company		**116,452**	90,606
Non-controlling interests		**–**	4,748
		116,452	95,354
Total comprehensive income for the year attributable to:			
Owners of the Company		**116,470**	90,602
Non-controlling interests		**–**	4,747
		116,470	95,349
Earnings per share	17		
Basic (RMB)		**0.122**	0.121
Diluted (RMB)		**0.122**	0.121

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2010

	Notes	2010 RMB'000	2009 RMB'000
Non-current assets			
Property, plant and equipment	18	**140,492**	97,821
Prepaid lease payments	19	**49,260**	50,358
		189,752	148,179
Current assets			
Inventories	20	**77,713**	53,006
Trade and other receivables	21	**510,678**	263,359
Prepaid lease payments	19	**1,097**	1,097
Pledged bank deposit	22	**53,906**	–
Short-term bank deposit	22	**35,000**	35,000
Bank balances and cash	22	**402,439**	43,678
		1,080,833	396,140
Current liabilities			
Trade and other payables	23	**93,121**	52,809
Amount due to a director	24	**–**	204
Amount due to a related company	25	**535**	–
Bank borrowings	26	**227,900**	174,500
Derivative financial instruments	27	**7,837**	–
Income tax payable		**12,401**	3,957
		341,794	231,470
Net current assets		**739,039**	164,670
Total assets less current liabilities		**928,791**	312,849

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2010

	Notes	2010 RMB'000	2009 RMB'000
Capital and reserves			
Share capital	28	10,446	9
Reserves		916,152	291,897
Equity attributable to owners of the Company		926,598	291,906
Non-controlling interests		–	–
Total equity		926,598	291,906
Non-current liabilities			
Bank borrowings	26	–	17,000
Deferred tax liabilities	29	2,193	3,943
		2,193	20,943
		928,791	312,849

The consolidated financial statements on pages 36 to 84 were approved and authorised for issue by the board of directors on March 23, 2011 and are signed on its behalf by:

Ding Siqiang
Director

Ding Xueleng
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2010

		Attributable to owners of the Company									
	Notes	Share capital RMB'000	Share premium RMB'000	Statutory reserve RMB'000 (Note a)	Other reserves RMB'000 (Note b)	Translation reserve RMB'000	Share options reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At January 1, 2009		87,316	14,926	7,789	–	(14)	–	88,971	198,988	29,821	228,809
Total comprehensive income for the year		–	–	–	–	(4)	–	90,606	90,602	4,747	95,349
Acquisition of non-controlling interests	28 (i)	12,684	2,230	–	19,654	–	–	–	34,568	(34,568)	–
Issue of shares arising from corporate reorganisation	28 (iii)	9	–	–	(9)	–	–	–	–	–	–
Reserve arising from corporate reorganisation	28 (iii)	(100,000)	(17,156)	–	117,156	–	–	–	–	–	–
Appropriations to statutory reserve funds		–	–	14,490	–	–	–	(14,490)	–	–	–
Dividends recognised as distribution	16	–	–	–	–	–	–	(32,252)	(32,252)	–	(32,252)
At December 31, 2009		9	–	22,279	136,801	(18)	–	132,835	291,906	–	291,906
Total comprehensive income for the year		–	–	–	–	18	–	116,452	116,470	–	116,470
Issue of new shares by placing and public offer	28(vi) & (vii)	2,520	357,786	–	–	–	–	–	360,306	–	360,306
Transaction costs attributable to placing and public offer		–	(26,029)	–	–	–	–	–	(26,029)	–	(26,029)
Capitalisation of share premium	28 (v)	6,564	(6,564)	–	–	–	–	–	–	–	–
Issue of new shares by placing	28 (viii)	1,353	254,371	–	–	–	–	–	255,724	–	255,724
Transaction costs attributable to placing		–	(6,670)	–	–	–	–	–	(6,670)	–	(6,670)
Recognition of equity-settled share-based payments		–	–	–	–	–	1,395	–	1,395	–	1,395
Appropriations to statutory reserve funds		–	–	14,320	–	–	–	(14,320)	–	–	–
Dividends recognised as distribution	16	–	–	–	–	–	–	(66,504)	(66,504)	–	(66,504)
At December 31, 2010		10,446	572,894	36,599	136,801	–	1,395	168,463	926,598	–	926,598

Notes:

(a) Statutory reserve

The statutory reserve fund is non-distributable and the transfer to this reserve is determined by the board of directors in accordance with the relevant laws and regulations of the People's Republic of China (the "PRC"). This reserve can be used to offset accumulated losses and increase capital upon approval from the relevant authorities.

(b) Other reserves

The other reserves comprise the cumulative net minority interests upon the transfer of interests and the reserves arising from corporate reorganisation.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2010

	2010 RMB'000	2009 RMB'000
OPERATING ACTIVITIES		
Profit before tax	141,446	110,524
Adjustments for:		
Amortisation of prepaid lease payments	1,098	1,097
Depreciation of property, plant and equipment	7,692	7,609
Finance costs	12,006	10,372
Interest income	(1,151)	(810)
Loss on disposal of property, plant and equipment	1,413	849
Fair value adjustment on warrants classified as derivative financial instruments at issue date	9,521	–
Gain from changes in fair value of derivative financial instruments	(1,795)	–
Share-based payments	1,395	–
Operating cash flows before movements in working capital	171,625	129,641
(Increase) decrease in inventories	(24,707)	26,922
Increase in trade and other receivables	(247,319)	(168,355)
Increase (decrease) in trade and other payables	40,312	(1,784)
Cash used in operations	(60,089)	(13,576)
Income taxes paid	(18,300)	(9,714)
NET CASH USED IN OPERATING ACTIVITIES	(78,389)	(23,290)
INVESTING ACTIVITIES		
Increase in pledged bank deposit	(53,906)	–
Purchases of property, plant and equipment	(52,359)	(6,297)
Proceeds on disposal of property, plant and equipment	583	510
Interest received	1,151	810
Repayment from a director	–	37
NET CASH USED IN INVESTING ACTIVITIES	(104,531)	(4,940)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2010

	2010 RMB'000	2009 RMB'000
FINANCING ACTIVITIES		
Proceeds from issue of shares by placing and public offer, net of share issue expenses	**293,654**	–
Proceeds from issue of shares by placing, net of share issue expenses	**249,054**	–
New bank borrowings raised	**223,900**	193,000
Proceeds from issue of shares upon over-allotment option	**40,623**	–
Advances from a related company	**535**	–
Proceeds from issue of warrants	**261**	–
Payment for warrants issue costs	**(150)**	–
(Repayment to) advances from a director	**(204)**	204
Interest paid	**(12,006)**	(10,372)
Dividends paid	**(66,504)**	(32,252)
Repayments of bank borrowings	**(187,500)**	(136,500)
NET CASH FROM FINANCING ACTIVITIES	**541,663**	14,080
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**358,743**	(14,150)
CASH AND CASH EQUIVALENTS AT JANUARY 1	**78,678**	92,833
Effect of foreign exchange rate changes	**18**	(5)
CASH AND CASH EQUIVALENTS AT DECEMBER 31	**437,439**	78,678
Represented by:		
Short-term bank deposit	**35,000**	35,000
Bank balances and cash	**402,439**	43,678
	437,439	78,678

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

1. GENERAL

Meike International Holdings Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability on June 23, 2009. In the opinion of the directors of the Company, the parent and the ultimate holding company of the Company is Glory Hill Enterprises Limited ("Glory Hill"), a limited company incorporated in the British Virgin Islands ("BVI"). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information to the annual report.

Pursuant to a group reorganisation (the "Corporate Reorganisation") of the Company and its subsidiaries (collectively referred to as the "Group") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group on September 10, 2009. Details of the Corporate Reorganisation were set out in the prospectus of the Company dated January 19, 2010 (the "Prospectus").

The shares of the Company have been listed on the Stock Exchange since February 1, 2010.

The Group resulting from the Corporate Reorganisation is regarded as a continuing entity under common control. Accordingly, the consolidated financial statements of the Group have been prepared using principles of merger accounting in accordance with the accounting policy set our in Note 3, as if the current group structure had been in existence throughout the two years presented.

The Company acts as an investment holding company and provides corporate management services. The principal activities of its subsidiaries are set out in Note 37.

The consolidated financial statements are presented in thousands of units of Renminbi ("RMB"), which is the same as the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
Hong Kong Accounting Standard ("HKAS") 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK-Interpretation ("Int") 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

HKFRS 3 (REVISED 2008) BUSINESS COMBINATIONS

The Group applies HKFRS 3 (Revised) Business Combinations prospectively to business combinations for which the acquisition date is on or after January 1, 2010. The requirements in HKAS 27 (Revised) Consolidated and Separate Financial Statements in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after January 1, 2010.

As there was no transaction during the current year in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs 2010 except for the amendments to HKFRS 3 (Revised in 2008), HKFRS 7, HKAS 1 and HKAS 28[1]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[3]
HKFRS 1 (Amendment)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[5]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[5]
HKFRS 9	Financial Instruments[7]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[6]
HKAS 24 (Revised)	Related Party Disclosures[4]
HKAS 32 (Amendment)	Classification of Rights Issues[2]
HK(IFRIC)-Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[4]
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments[3]

1 Effective for annual periods beginning on or after July 1, 2010 or January 1, 2011, as appropriate.
2 Effective for annual periods beginning on or after February 1, 2010.
3 Effective for annual periods beginning on or after July 1, 2010.
4 Effective for annual periods beginning on or after January 1, 2011.
5 Effective for annual periods beginning on or after July 1, 2011.
6 Effective for annual periods beginning on or after January 1, 2012.
7 Effective for annual periods beginning on or after January 1, 2013.

HKFRS 9 Financial Instruments issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning January 1, 2013 and that the application of the new standard will have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The amendments to HKFRS 7 titled Disclosures – Transfers of Financial Assets increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors do not anticipate that these amendments to HKFRS 7 will have a significant effect on the Group's disclosures regarding transfers of trade receivables previously effected. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

HKAS 24 Related Party Disclosures (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

The disclosure exemptions introduced in HKAS 24 (as revised in 2009) do not affect the Group because the Group is not a government-related entity. However, disclosures regarding related party transactions and balances in these consolidated financial statements may be affected when the revised version of the standard is applied in the future accounting periods because some counterparties that did not previously meet the definition of a related party may come within the scope of the standard.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies are set out below.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

BASIS OF CONSOLIDATION *(continued)*

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to January 1, 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

MERGER ACCOUNTING FOR BUSINESS COMBINATION INVOLVING ENTITIES UNDER COMMON CONTROL

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment including buildings held for own use in the production or supply of goods, or for administrative purposes (other than construction in progress as described below), are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided so as to write off the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

PROPERTY, PLANT AND EQUIPMENT *(continued)*

Construction in progress includes property, plant and equipment in the course of construction for production or for administrative purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

PREPAID LEASE PAYMENTS ON LAND USE RIGHT

Payment for obtaining land use right is considered as prepaid operating lease payment. Land use rights are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is charged to consolidated statement of comprehensive income over the period of the rights or the term of the respective enterprise to which the land use rights are granted, whichever is the shorter, using the straight-line method.

Prepaid lease payments represented land use rights held for use in the production or supply of goods, or for administrative purposes.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

CASH AND CASH EQUIVALENTS

Short-term bank deposit and bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposit with a maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposit as defined above.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit and loss are recognised immediately in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

FINANCIAL INSTRUMENTS *(continued)*

Financial assets

The Group's financial assets are classified as loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposit, short-term bank deposit and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 180 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

FINANCIAL INSTRUMENTS *(continued)*

Impairment of financial assets *(continued)*

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as 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.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified as other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including trade and other payables, amount due to a director, amount due to a related company and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Warrants

Warrants issued by the Company that will be settled by other than a fixed amount of cash for a fixed number of the Company's own equity instruments are derivative financial instruments. Warrants classified as a derivative financial instrument are initially recognised at their fair values at the date of issue. Changes in fair values in subsequent periods are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

FINANCIAL INSTRUMENTS *(continued)*

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Group retains control), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from sale of goods is recognised when the goods are delivered and title has passed.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

BORROWING COSTS

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

FOREIGN CURRENCIES

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

IMPAIRMENT LOSSES ON TANGIBLE ASSETS

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. 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 recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed 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 recognised as income immediately.

LEASING

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of relevant lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

RETIREMENT BENEFIT COSTS

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

RESEARCH AND DEVELOPMENT COSTS

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

GOVERNMENT GRANTS

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

TAXATION

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at end of the reporting period 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

TAXATION *(continued)*

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share-based payment transactions

Share options granted to employees after November 7, 2002 and vested on or after January 1, 2005

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

CRITICAL JUDGEMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

CRITICAL JUDGEMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES *(continued)*

Ownership of the buildings

Despite the Group has paid the full purchase consideration as detailed in Note 18, formal titles of certain of the Group's rights to the use of the buildings were not yet granted from the relevant government authorities. In the opinion of the directors, the absence of formal title to these buildings does not impair the value of the relevant assets to the Group.

KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual values. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the residual values and the useful lives of the property, plant and equipment and if the expectation differs from the original estimates, such a difference may impact the depreciation in the year and the estimate will be changed in the future period.

Estimated impairment loss on property, plant and equipment

The impairment loss for property, plant and equipment are recognised for the amounts by which the carrying amounts exceed their recoverable amounts, in accordance with the Group's accounting policy. The recoverable amounts of property, plant and equipment have been determined based on value-in-use calculations. These calculations require the use of estimates such as the future revenue and discount rates. No impairment was provided during the year.

Write down of inventories

As explained in Note 3, the Group's inventories are stated at the lower of cost and net realisable value. If there is an increase in costs of sales or a decrease in net sales value, the net realisable value will decrease and this may result in provision for inventories. Such provision requires the use of judgement and estimates. Where the expectation is different from the original estimate, the carrying value and provision for inventories in the periods in which such estimate is changed will be adjusted accordingly.

In addition, given the seasonally fashion trend for the sporting goods market, the actual outcomes in terms of costs and revenue may be higher or lower than these amounts estimated at the end of the reporting period. Any increase or decrease on the provision would affect profit or loss in future years.

Estimated impairment loss on trade and other receivables

The Group estimates impairment losses for trade and other receivables resulting from the inability of customers to make the required payments. The Group bases the estimates on the ageing of the trade and other receivables balance, customers credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Fair value of derivative financial instruments

The directors of the Company use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. The fair values of derivative financial instruments are valued using Black-Scholes model that incorporated market data and involved uncertainty in estimates used by management in the assumptions. Because the Black-Scholes model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate. Details of the assumptions used are disclosed in Note 27.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in Note 26, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure regularly. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debts or repayment of existing debts.

6. FINANCIAL INSTRUMENTS

(A) CATEGORIES OF FINANCIAL INSTRUMENTS

	2010 RMB'000	2009 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	963,428	314,850
Financial liabilities		
Amortised cost	319,659	241,463
Derivative financial instruments	7,837	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

6. FINANCIAL INSTRUMENTS *(continued)*

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables, pledged bank deposit, short-term bank deposit, bank balances and cash, trade and other payables, amount due to a director, amount due to a related company, bank borrowings and derivative financial instruments. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (foreign currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Foreign currency risk

The Group mainly operates in Mainland China with most of the transactions settled in RMB. Other than certain bank balances and deposits, most of the Group's financial instruments such as trade and other receivables are denominated in the same currency or a currency that is pegged to the functional currency of the operations to which transactions relate.

Certain bank balances and deposits are denominated in Hong Kong dollar ("HK$") which is a currency other than functional currency of the relevant group entities.

The Group currently does not have a foreign currency hedging policy. However, the directors continuously monitor the related foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Sensitivity analysis
The Group entities are mainly exposed to the fluctuation of HKD against RMB.

If RMB increase/decrease by 50 basis points (2009: 50 basis points) against HKD and all other variables were held constant, the Group's profit after tax for the year would decrease/increase by approximately RMB1,341,000 (2009: RMB2,000). 50 basis points (2009: 50 basis points) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items. The sensitivity analysis includes bank balances and deposits where the denomination is in HKD, a currency other than the functional currency.

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see Note 26 for details of these borrowings). The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary action when significant interest rate exposure is anticipated.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see Note 26 for details of these borrowings). It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

6. FINANCIAL INSTRUMENTS *(continued)*

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Market risk *(continued)*

(ii) Interest rate risk (continued)

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances (see Note 22 for details of these bank deposits and balances) carried at prevailing market rate.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of RMB base lending rate stipulated by the People's Bank of China arising from the Group's RMB denominated bank borrowings and HK$ deposit rate arising from the Group's HK$ denominated bank balances.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis points (2009: 100 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points (2009:100 basis points) higher/lower and all other variables were held constant, the Group's profit for the year ended December 31, 2010 would decrease/increase by approximately RMB390,000 (2009: RMB1,061,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

Credit risk

As at December 31, 2010, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group has concentration of credit risk as 13% (2009: 13%) and 45% (2009: 40%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

6. FINANCIAL INSTRUMENTS *(continued)*

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk *(continued)*

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 100% (2009: 100%) of the total trade receivables as at December 31, 2010.

Collateral held as security and other credit enhancement

The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings. The Group has no covenants with banks for the banking facilities granted.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period.

The amounts included below for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates different to those estimates of interest rates determined at the end of the reporting period.

	On demand or within one year RMB'000	More than one year but less than two years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At December 31, 2010				
Non-derivative financial liabilities				
Trade and other payables	**91,224**	**–**	**91,224**	**91,224**
Amount due to a related company	**535**	**–**	**535**	**535**
Bank borrowings	**234,032**	**–**	**234,032**	**227,900**
	325,791	**–**	**325,791**	**319,659**
At December 31, 2009				
Non-derivative financial liabilities				
Trade and other payables	49,759	–	49,759	49,759
Amount due to a director	204	–	204	204
Bank borrowings	179,050	18,652	197,702	191,500
	229,013	18,652	247,665	241,463

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

6. FINANCIAL INSTRUMENTS *(continued)*

(C) FAIR VALUE

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using the relevant prevailing market rates.

The fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using option pricing models for optional derivatives.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values due to their immediate or short-term maturities.

The directors consider the fair values of the other non-current liabilities approximate their carrying amounts as the impact of discounting is not significant.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2010			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial liabilities at fair value through profit or loss				
Derivative financial instruments	–	7,837	–	7,837

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

7. REVENUE

Revenue represents the amount received and receivable for sale of sporting goods, including footwear, apparel and accessories, net of sales related taxes. Revenue is analysed as follows:

	2010	2009
	RMB'000	RMB'000
Footwear	**455,545**	370,718
Apparel	**204,165**	118,919
Accessories and shoe sole	**53,154**	9,783
	712,864	499,420

8. SEGMENT INFORMATION

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's chief operating decision maker for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

The Group is organised into a single operating segment as selling sporting goods products primarily in the PRC and all revenue, expenses, results, assets and liabilities and capital expenditures are predominantly attributable to this single segment. Accordingly, no segment analysis by business and geographical information is presented.

There is no customer contributing over 10% of the total revenue of the Group for the two years presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

9. OTHER INCOME

	2010 RMB'000	2009 RMB'000
Government grants (Note)	6,066	855
Compensation income	–	600
Interest income	1,151	810
Gain from sale of materials	407	–
	7,624	2,265

Note:

Government grants were received from several local government authorities for the Group's contribution to growth of the local economies, of which the entitlement was unconditional and under the discretion of the relevant authorities.

10. OTHER LOSSES, NET

	2010 RMB'000	2009 RMB'000
Fair value adjustment on warrants classified as derivative financial instruments at issue date	(9,521)	–
Gain from changes in fair value of derivative financial instruments	1,795	–
	(7,726)	–

11. FINANCE COSTS

	2010 RMB'000	2009 RMB'000
Interest on bank borrowings wholly repayable within five years	12,006	10,372

12. INCOME TAX EXPENSE

	2010 RMB'000	2009 RMB'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	26,744	13,225
Deferred tax (Note 29)	(1,750)	1,945
	24,994	15,170

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

12. INCOME TAX EXPENSE *(continued)*

Pursuant to the rule and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and BVI.

No provision for Hong Kong Profits Tax has been made as the Group did not generate any assessable profits in Hong Kong during the years ended December 31, 2010 and 2009.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from January 1, 2008 onwards except for entities that are entitled to different concessionary tax rates as disclosed below.

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries are exempted from EIT for two years starting from their first profit-making year followed by a 50% reduction for the next three years.

Pursuant to the new tax law passed on March 16, 2007, a 10% withholding tax was levied on dividends declared to foreign enterprise investors from the PRC effective from January 1, 2008. A lower withholding tax rate may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign enterprise investors. On February 22, 2008, Caishui (2008) No.1 was promulgated by the tax authorities to specify that dividends declared and remitted out of the PRC from the retained earnings as at January 1, 2008 are exempted from the withholding tax.

The income tax expense for the year can be reconciled to the profit before tax per the consolidated statement of comprehensive income as follows:

	2010 **RMB'000**	2009 RMB'000
Profit before tax	**141,446**	110,524
Tax at domestic income tax rate of 25% (2009: 25%)	**35,361**	27,631
Tax effect of expenses not deductible for tax purpose	**6,945**	3,984
Tax effect of profits entitled to tax exemption	**(17,312)**	(16,445)
Income tax expense for the year	**24,994**	15,170

Details of the deferred tax liabilities are set out in Note 29.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

13. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	2010 RMB'000	2009 RMB'000
Salaries and allowances	77,062	54,545
Contributions to retirement benefits scheme	6,121	3,560
Share-based payments	1,395	–
Total staff costs (including directors' remuneration)	84,578	58,105
Auditor's remuneration	726	705
Cost of inventories recognised as an expense	464,611	328,483
Amortisation of prepaid lease payments	1,098	1,097
Depreciation for property, plant and equipment	7,692	7,609
Research and development costs (included in other operating expenses) (Note)	10,255	8,232
Loss on disposal of property, plant and equipment	1,413	849
Net foreign exchange losses	12,675	40
Operating lease rentals in respect of rented premises	1,758	1,344

Note:

Research and development costs included staff costs of employees and depreciation for property, plant and equipment for the purpose of research and development activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

14. DIRECTORS' EMOLUMENTS

The details of directors' remuneration of each of the directors during the two years ended December 31, 2010 and 2009 are set out below:

	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefits scheme contributions RMB'000	Share-based payments RMB'000	Total RMB'000
For the year ended December 31, 2010					
Executive directors:					
Mr. Ding Siqiang	–	403	2	97	502
Ms. Ding Xueleng	–	216	2	97	315
Mr. Sun Keqian	–	144	–	–	144
Mr. Li Dongxing	–	144	2	17	163
Ms. Ding Jinzhu	–	72	2	17	91
Mr. Lin Yangshan	–	86	2	17	105
	–	1,065	10	245	1,320
Independent non-executive directors:					
Mr. Xiang Shimin	35	–	–	–	35
Mr. Yang Chengjie (resigned on May 27, 2009 and reappointed on January 6, 2010)	35	–	–	–	35
Mr. Xie Weichun (appointed on January 6, 2010)	35	–	–	–	35
	105	–	–	–	105
	105	1,065	10	245	1,425

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

14. DIRECTORS' EMOLUMENTS *(continued)*

	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefits scheme contributions RMB'000	Share-based payments RMB'000	Total RMB'000
For the year ended December 31, 2009					
Executive directors:					
Mr. Ding Siqiang	–	403	2	–	405
Ms. Ding Xueleng	–	216	2	–	218
Mr. Sun Keqian	–	144	2	–	146
Mr. Li Dongxing	–	144	2	–	146
Ms. Ding Jinzhu	–	74	2	–	76
Mr. Lin Yangshan	–	84	2	–	86
	–	1,065	12	–	1,077
Independent non-executive directors:					
Mr. Xiang Shimin	32	–	–	–	32
Mr. Yang Chengjie (resigned on May 27, 2009 and reappointed on January 6, 2010)	24	–	–	–	24
Mr. Xie Weichun (appointed on January 6, 2010)	–	–	–	–	–
	56	–	–	–	56
	56	1,065	12	–	1,133

No directors waived or agreed to waive any emoluments paid by the Group for the two years ended December 31, 2010 and 2009. No emoluments have been paid to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office during the two years ended December 31, 2010 and 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

15. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2009: four) were directors of the Company whose emoluments are included in the disclosures in Note 14 above. The emoluments of the remaining one (2009: one) individual was as follows:

	2010 RMB'000	2009 RMB'000
Salaries and other benefits	**577**	120
Contributions to retirement benefits scheme	**10**	2
Share-based payments	**17**	–
	604	122

Their emoluments were within the following band:

	2010 Number of employees	2009 Number of employees
Nil to HK$1,000,000 (equivalent to approximately RMB850,000 (2009: RMB880,000))	**1**	1

No emoluments have been paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office during the two years ended December 31, 2010 and 2009.

16. DIVIDENDS

During the year ended December 31, 2010, dividends of approximately RMB66,504,000 was declared to the equity holders of the Company. Details of which are as follows:

1. On January 4, 2010, the Company declared and paid dividends of approximately RMB15,620,000. The dividend was declared prior to the listing of the Company and the rate of dividend per share is not presented as it is not indicative of the rate at which future dividends will be declared.

2. A final dividend in respect of the year ended December 31, 2009 of HK$0.034 per share totaling approximately HK$35,275,000 (equivalent to approximately RMB30,915,000) was approved and paid during the year.

3. In addition, an interim dividend in respect of the six months ended June 30, 2010 of HK$0.022 per share totaling approximately HK$22,825,000 (equivalent to approximately RMB19,969,000) was approved and paid during the year.

The Board recommended the payment of a final dividend of HK$0.03 per share in respect of the year, subject to the approval of the shareholders at the forthcoming annual general meeting, it is expected that the final dividend will be paid on or around June 2, 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

17. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2010 **RMB'000**	2009 RMB'000
Earnings		
Earnings for the purpose of basic and diluted earnings per share (Profit for the year attributable to the owners of the Company)	**116,452**	90,606

	2010 **'000**	2009 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**958,407**	750,000

The computation of diluted earnings per share does not assume the exercise of the Company's options and warrants because the exercise prices of those options and warrants were higher than the average market price for shares for the year ended December 31, 2010.

The weighted average number of shares for the purpose of calculating basic earnings of the year ended December 31, 2009 is based on the profit attributable to owners of the Company and on the assumption that 750,000,000 shares of HK$0.01 each issued and issuable comprising 1,000,000 shares in issue and 749,000,000 shares to be issued pursuant to the capitalisation issue on January 6, 2010, as if the shares had been in issue throughout the year ended December 31, 2009.

The diluted earnings per share for the year ended December 31, 2009 is the same as the basic earnings per share as there were no dilutive potential ordinary shares outstanding during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

18. PROPERTY, PLANT AND EQUIPMENT

	Buildings held for own use RMB'000	Leasehold improvement RMB'000	Machineries RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At January 1, 2009	77,895	415	47,810	3,420	1,153	4,805	135,498
Additions	–	–	2,231	610	–	3,456	6,297
Disposals	–	–	(4,109)	–	–	–	(4,109)
Transfer from construction in progress	139	–	151	–	–	(290)	–
At December 31, 2009	78,034	415	46,083	4,030	1,153	7,971	137,686
Additions	67	–	6,542	916	965	43,869	52,359
Disposals	(861)	–	(3,743)	–	–	–	(4,604)
Transfer from construction in progress	5,538	–	51	–	–	(5,589)	–
At December 31, 2010	82,778	415	48,933	4,946	2,118	46,251	185,441
DEPRECIATION							
At January 1, 2009	10,962	158	22,467	1,279	140	–	35,006
Provided for the year	2,729	133	4,191	452	104	–	7,609
Eliminated on disposals	–	–	(2,750)	–	–	–	(2,750)
At December 31, 2009	13,691	291	23,908	1,731	244	–	39,865
Provided for the year	2,836	94	4,026	578	158	–	7,692
Eliminated on disposals	(232)	–	(2,376)	–	–	–	(2,608)
At December 31, 2010	16,295	385	25,558	2,309	402	–	44,949
CARRYING VALUES							
At December 31, 2010	66,483	30	23,375	2,637	1,716	46,251	140,492
At December 31, 2009	64,343	124	22,175	2,299	909	7,971	97,821

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

18. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The above items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, taking into account their estimated residual values, as follows:

Buildings held for own use	25 years
Leasehold improvement	2.75 years
Machineries	10 years
Office equipment	5 years
Motor vehicles	10 years

All the buildings of the Group are situated on land with medium-term land use rights in the PRC.

As at December 31, 2010, the Group was applying for certificates of ownership for buildings with carrying values of approximately RMB2,854,000 (2009: Nil) from the relevant PRC government authorities. In the opinion of the directors of the Company, the absence of formal title to these properties does not impair their values to the Group as the Group has paid in full purchase consideration of these buildings and the probability of being evicted on the ground of an absence of formal title is remote.

19. PREPAID LEASE PAYMENTS

	2010 RMB'000	2009 RMB'000
Analysed for reporting purposes as:		
Non-current asset	49,260	50,358
Current asset	1,097	1,097
	50,357	51,455

The Group's prepaid lease payments comprise land use rights in the PRC which are held under medium-term leases. The prepaid lease payments are amortised over a period of 50 years on a straight-line basis.

20. INVENTORIES

	2010 RMB'000	2009 RMB'000
Raw materials	27,026	19,315
Work-in-progress	4,345	3,414
Finished goods	46,342	30,277
	77,713	53,006

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

21. TRADE AND OTHER RECEIVABLES

	2010 RMB'000	2009 RMB'000
Trade receivables	**470,304**	235,672
Other receivables	**1,779**	502
Prepayments	**38,595**	27,187
	40,374	27,689
Less: impairment loss recognised	**–**	(2)
Other receivables and prepayments, net	**40,374**	27,687
Trade and other receivables	**510,678**	263,359

The Group generally allows a credit period ranging from 90 days to 180 days to its trade customers. Payment in advance is normally required for new customers. The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period.

	2010 RMB'000	2009 RMB'000
Within 90 days	**251,212**	163,017
91 to 180 days	**165,564**	72,655
181 to 365 days	**53,528**	–
Total	**470,304**	235,672

Trade receivables that were neither past due nor impaired are related to a wide range of customers for whom there was no recent history of default.

As at December 31, 2010, included in the Group's trade receivables balances are debtors with aggregate carrying amount of approximately RMB62,143,000 (2009: Nil) which were past due as at the reporting date for which the Group has not provided for impairment loss. Trade receivables that were past due but not impaired related to a number of customers that have a good track record with the Group. Based on past experience, the management believes that no impairment loss is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

21. TRADE AND OTHER RECEIVABLES *(continued)*

Ageing of trade receivables which are past due but not impaired:

	2010 **RMB'000**	2009 RMB'000
Within 90 days	**8,615**	–
91 to 180 days	**53,528**	–
Total	**62,143**	–

As at December 31, 2009, included in the impairment loss recognised are individually impaired other receivables with an aggregate balance of approximately RMB2,000 (2010: Nil) mainly related to debtors that are in unexpected financial difficulty or of poor credit history. The Group does not hold any collateral over these balances. The factors considered by management in determining the impairment are described in Note 4. It was assessed that a portion of the receivables is expected to be recovered.

As at December 31, 2010, certain trade receivables with aggregate carrying amount of approximately RMB30,695,000 (2009: RMB22,016,000) were pledged to banks to secure certain bank borrowings of the Group as disclosed in Note 26.

22. PLEDGED BANK DEPOSIT/SHORT-TERM BANK DEPOSIT/BANK BALANCES AND CASH

Pledged bank deposit represented deposit pledged to a bank to secure a bank borrowing granted to the Group and carried fixed interest rate of 2.75% per annum. The pledged bank deposit will be released upon the settlement of relevant bank borrowing.

Short-term bank deposit represented term deposit within three months and carried interest at market rates which ranged from 2.50% to 2.75% (2009: 2.25%) per annum. Bank balances carried interest at market rates which ranged from 0.001% to 0.36% (2009: 0.001% to 0.36%) per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

23. TRADE AND OTHER PAYABLES

	2010 RMB'000	2009 RMB'000
Trade payables	50,105	29,296
Other payables	27,083	9,696
Receipts in advance	1,896	3,050
Accrued payroll and staff welfare	14,037	10,767
	43,016	23,513
Trade and other payables	93,121	52,809

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period.

	2010 RMB'000	2009 RMB'000
Within 90 days	26,804	12,762
91 to 180 days	19,512	9,463
181 to 365 days	949	6,059
Over 365 days	2,840	1,012
Total	50,105	29,296

The average credit period on purchases of goods is ranged from 60 days to 180 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

24. AMOUNT DUE TO A DIRECTOR

	2010 RMB'000	2009 RMB'000
Amount due to – Mr. Ding Siqiang	–	204

The amount due to a director is unsecured, interest-free and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

25. AMOUNT DUE TO A RELATED COMPANY

	2010 RMB'000	2009 RMB'000
Amount due to – Hengqiang (China) Co., Ltd. ("Hengqiang")	535	–

Mr. Ding Siqiang, a director of the Company, is holding 80% of 恒強(國際)有限公司, which is the ultimate holding company of Hengqiang.

The amount due to a related company is unsecured, interest-free and repayable on demand.

26. BANK BORROWINGS

	2010 RMB'000	2009 RMB'000
Unsecured	60,500	63,000
Secured	167,400	128,500
	227,900	191,500
Carrying amount repayable:		
Within one year	227,900	174,500
More than one year, but not exceeding two years	–	17,000
	227,900	191,500
Less: Amount due within one year shown under current liabilities	(227,900)	(174,500)
Amounts shown under non-current liabilities	–	17,000

The Group's bank borrowings are interest-bearing as follows:

	2010 RMB'000	2009 RMB'000
Fixed-rate borrowings	124,500	50,000
Variable-rate borrowings	103,400	141,500
	227,900	191,500

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

26. BANK BORROWINGS *(continued)*

The ranges of effective interest rates per annum on the Group's borrowings at the end of the reporting period are as follows:

	2010	2009
Effective interest rate:		
Fixed-rate borrowings	**4.78% to 5.31%**	4.86% to 7.47%
Variable-rate borrowings	**4.86% to 6.12%**	4.78% to 5.84%

All bank loans in the consolidated statement of financial position are denominated in RMB.

During the year ended December 31, 2010, the Group obtained new borrowings in the amount of approximately RMB223,900,000 (2009: RMB193,000,000). The proceeds were used to finance the general working capital of the Group.

As at December 31, 2010 and 2009, secured bank borrowings with aggregate carrying values of RMB140,700,000 and RMB110,000,000 respectively were secured by prepaid lease payments and buildings held for own uses of the Group. As at December 31, 2010, secured bank borrowings with aggregate carrying values of RMB26,700,000 (2009: RMB18,500,000) were secured by trade receivables of Quanzhou Meike Sports Goods Co., Limited ("Meike Quanzhou"), a subsidiary within the Group.

27. DERIVATIVE FINANCIAL INSTRUMENTS

	2010 **RMB'000**	2009 RMB'000
Warrants	**7,837**	–

On August 26, 2010, the Company and the placing agent entered into a placing agreement in respect of the placement of 30,000,000 warrants of the Company to not less than six independent investors at a price of HK$0.01 per warrants. Each warrant confers the right to subscribe for one ordinary share of the Company of HK$0.01 each at a subscription price of HK$1.60, subject to adjustment upon occurrence of certain events. The placement was completed on September 13, 2010. Details of the above are set out in the Company's announcement dated September 13, 2010.

The fair value of the warrants as at December 31, 2010 of approximately HK$9,210,000 (equivalent to approximately RMB7,837,000) had been arrived at on the basis of a valuation carried out by Ample Appraisal Limited, an independent qualified professional valuer not connected to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

27. DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

The fair value of the warrants was calculated using the Black-Scholes model. The inputs into the model were as follows:

	2010
Share price of the underlying shares	HK$1.65
Exercise price	HK$1.60
Expected volatility	41.36%
Expected life	1.70 years
Risk-free rate	0.513%
Expected dividend yield	4.24%

28. SHARE CAPITAL

		Number of shares	Nominal value of ordinary shares HK$'000	RMB'000
Ordinary of HK$0.01 each				
Authorised:				
On incorporation and at December 31, 2009	(ii)	38,000,000	380	
Increase in authorised capital	(iv)	9,962,000,000	99,620	
At December 31, 2010		10,000,000,000	100,000	
Issued and fully paid:				
On incorporation	(iii)	1	–	–
Issue of shares for the Corporate Reorganisation	(iii)	999,999	10	9
As at December 31, 2009		1,000,000	10	9
Allotment upon capitalisation	(v)	749,000,000	7,490	6,564
Issue by placing and public offer	(vi)	250,000,000	2,500	2,191
Issue upon over-allotment option	(vii)	37,500,000	375	329
Issue by placing	(viii)	157,500,000	1,575	1,353
At December 31, 2010		1,195,000,000	11,950	10,446

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

28. SHARE CAPITAL *(continued)*

(i) On June 23, 2009, the controlling shareholder of the listing group acquired by cash 13% equity interest in Meike (Fujian) Sports Leisure Co., Limited for a consideration of approximately RMB30,910,000 by cash which represented the contributed additional interest to the Group.

(ii) On June 25, 2009, the Company was incorporated in Cayman Islands with an authorised share capital of 38,000,000 shares of HK$0.01 each. Upon incorporation, one share was allotted and issued at nil paid to the subscriber and the one nil paid share was subsequently transferred to Glory Hill, the then sole shareholder on the same date.

(iii) Amber Jungle Limited ("Amber Jungle") was incorporated in the BVI on March 12, 2009 with an authorised share capital of 50,000 shares of US$1.00 each. On May 15, 2009, Amber Jungle issued 1 share of US$1.00 each to the then sole shareholder. Pursuant to the sale and purchase agreement dated August 25, 2009 entered into between the controlling shareholder and Amber Jungle, Amber Jungle issued 1 share of US$1.00 each to the then sole shareholder for acquiring the entire issued capital of Mega Pacific Enterprises Limited, the then holding company of the Group.

On September 10, 2009, the Company acquired the entire issued capital of Amber Jungle from the then sole shareholder, which was satisfied by the nil paid share of the Company, and the issue of 999,999 ordinary shares of HK$0.01 each of the Company, all credited as fully paid, to the then sole shareholder. The combined share capital and share premium of approximately RMB100,000,000 and RMB17,156,000 were transferred to the other reserves account.

(iv) Pursuant to a board resolution dated January 6, 2010, the authorised share capital of the Company was increased from HK$380,000 to HK$100,000,000 by the creation of an additional of 9,962,000,000 shares of HK$0.01 each, each ranking pari passu with the shares then in issue in all aspects.

(v) On February 1, 2010, the Company allotted and issued 749,000,000 ordinary shares of HK$0.01 each as fully paid to the then existing shareholders by the capitalisation of an amount of HK$7,490,000 (equivalent to approximately RMB6,564,000) in the share premium of the Company.

(vi) On February 1, 2010, the Company issued 250,000,000 new ordinary shares of HK$0.01 each for cash pursuant to the Company's initial public offering and placing at a price of HK$1.43 per share to the public for listing of those shares on the Stock Exchange.

(vii) On February 19, 2010, the Company issued 37,500,000 new ordinary shares of HK$0.01 each for cash pursuant to the full exercise of the over-allotment option in connection with the global initial public offering at a price of HK$1.43 per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

28. SHARE CAPITAL *(continued)*

(viii) On November 24, 2010, arrangements were made for a private placement to independent private investors of 157,500,000 shares of HK$0.01 each in the Company at a price of HK$1.89 per share representing a discount of approximately 9.13% to the closing market price of the Company's shares on November 24, 2010.

Pursuant to a subscription agreement of the same date, 157,500,000 new shares of HK$0.01 each in the Company at a price of HK$1.89 per share were subscribed. The proceeds were used to provide additional working capital for the Company. These new shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on June 3, 2010 and rank pari passu with other shares in issue in all respects.

29. DEFERRED TAX (LIABILITIES) ASSETS

The movement in deferred income tax assets and liabilities are as follows:

Deferred tax assets:	Unrealised profit on inter-company transaction RMB'000
At January 1, 2009	298
Charged to consolidated statement of comprehensive income	(298)
At December 31, 2009 and at December 31, 2010	–

Deferred tax liabilities:	Withholding tax on dividends RMB'000
At January 1, 2009	2,296
Charged to consolidated statement of comprehensive income	1,647
At December 31, 2009	3,943
Credited to consolidated statement of comprehensive income	(1,750)
At December 31, 2010	2,193

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

30. OPERATING LEASES

THE GROUP AS LESSEE

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises, warehouses and staff quarters which fall due as follows:

	2010 RMB'000	2009 RMB'000
Within one year	**1,468**	1,642
In the second to fifth years inclusive	**1,600**	215
	3,068	1,857

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average of 2.75 years with fixed rentals.

31. CAPITAL COMMITMENTS

Capital commitments in respect of construction in progress at the end of the reporting period were as follows:

	2010 RMB'000	2009 RMB'000
Contracted for but not provided in the consolidated financial statements	**4,347**	–

32. PLEDGE OF ASSETS

The Group had pledged the following assets to secure the bank borrowings of the Group at the end of the reporting period. The carrying values of the assets pledged are as follows:

	2010 RMB'000	2009 RMB'000
Buildings held for own use	**27,039**	42,906
Prepaid lease payments	**35,572**	49,310
Trade receivables	**30,695**	22,016
Pledged bank deposit	**53,906**	–
	147,212	114,232

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

33. SHARE-BASED PAYMENT TRANSACTIONS

EQUITY-SETTLED SHARE OPTION SCHEME OF THE COMPANY

The Company's share option scheme (the Scheme), was adopted pursuant to a resolution passed on January 6, 2010 for the primary purpose of providing incentives to directors and eligible employees, and will expire ten years after the grant date. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

At December 31, 2010, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 24,550,000 (2009: Nil), representing 2.05% (2009: Nil) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 30% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Options granted may be exercised at any time in accordance with the terms of the Scheme. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

Details of specific categories of options are as follows:

Date of grant	Exercise price	Vesting period	Exercise period	Maximum % of share options exercisable
August 27, 2010	HK$1.56	August 27, 2010 to February 26, 2012	February 27, 2012 to August 26, 2020	Up to 30%
		August 27, 2010 to February 26, 2013	February 27, 2013 to August 26, 2020	Up to 60% (to the extent not already exercised)
		August 27, 2010 to February 26, 2014	February 27, 2014 to August 26, 2020	Up to 100% (to the extent not already exercised)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

33. SHARE-BASED PAYMENT TRANSACTIONS *(continued)*

EQUITY-SETTLED SHARE OPTION SCHEME OF THE COMPANY *(continued)*

The following table discloses movements of the Company's share options held by directors and employees during the year:

Option type	Outstanding at January 1, 2010	Granted during the year	Outstanding at December 31, 2010
2010	–	24,550,000	24,550,000
Exercisable at the end of the year			–
Weighted average exercise price	N/A	HK$1.56	HK$1.56

No share option was outstanding in prior year.

No share option has been exercised during the year.

During the year ended December 31, 2010, options were granted on August 27, 2010. The estimated fair values of the options granted on that date are HK$10,442,000 (equivalent to approximately RMB9,135,000).

These fair values were calculated using the Binomial model. The inputs into the model were as follows:

	2010
Share price on the date of grant	HK$1.56
Exercise price	HK$1.56
Expected volatility	43.763%
Expected life	10 years
Risk-free rate	1.91%
Expected dividend yield	3.21%

Expected volatility was determined by using the historical volatility of the share price of comparable companies. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

The Group recognised the total expense of approximately RMB1,395,000 (equivalent to approximately HK$1,595,000) for the year ended December 31, 2010 (2009: Nil) in relation to share options granted by the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

34. RETIREMENT BENEFITS SCHEMES

As stipulated by the rules and regulations in the PRC, the Group contributes to the retirement funds scheme managed by local social security bureau in the PRC. The Group contributes a certain percentage of the basic salaries of its employees to the retirement plan to fund the benefits.

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group and its Hong Kong employees makes monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. Both the Group's and the employees' contributions are subject to a cap of HK$1,000 per month.

The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions. During the year ended December 31, 2010, the total retirement benefit scheme contributions charged to the consolidated statement of comprehensive income amounted to approximately RMB6,121,000 (2009: RMB3,560,000).

35. RELATED PARTY TRANSACTIONS

(A) In addition to balances disclosed in Note 25 to the consolidated financial statements, the Group entered into the following related party transactions:

During the year ended December 31, 2010, the Group leased certain interest in leasehold land held for own use under operating leases and buildings from a related company, Hengqiang at total rental expenses of RMB790,000 (2009: RMB653,000).

(B) COMPENSATION OF KEY MANAGEMENT PERSONNEL

The remunerations of directors and other members of key management were disclosed in Notes 14 and 15 respectively. The remuneration of directors is determined by the remuneration committee with reference to their respective experience, responsibilities with the Group and market conditions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2010 RMB'000	2009 RMB'000
Non-current assets			
Property, plant and equipment		10	–
Investment in subsidiaries		9	9
		19	9
Current assets			
Other receivables		2,032	4,144
Dividend receivables		67,260	–
Amounts due from subsidiaries	(a)	244,415	28,764
Bank balances and cash		266,054	–
		579,761	32,908
Current liabilities			
Other payables		811	903
Amounts due to subsidiaries	(a)	3,154	–
Amount due to a director	(a)	191	–
Derivative financial liabilities		7,837	–
		11,993	903
Net current assets		567,768	32,005
Total assets less current liabilities		567,787	32,014
Capital and reserves			
Share capital		10,446	9
Reserves	(b)	557,341	32,005
Total equity		567,787	32,014

Notes:

(a) Amounts due from (to) subsidiaries/a director

The amounts are unsecured, interest-free and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

Notes: *(continued)*

(b) Reserves

	Notes	Share premium RMB'000	Share options reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At January 1, 2010		–	–	32,005	32,005
Total comprehensive income for the year		–	–	17,551	17,551
Issue of new shares by placing and public offer	28 (vi) & (vii)	357,786	–	–	357,786
Transaction costs attributable to placing and public offer		(26,029)	–	–	(26,029)
Capitalisation of share premium	28 (v)	(6,564)	–	–	(6,564)
Issue of new shares by placing	28 (viii)	254,371	–	–	254,371
Transaction costs attributable to placing		(6,670)	–	–	(6,670)
Recognition of equity-settled share-based payments		–	1,395	–	1,395
Dividends recognised as distribution	16	–	–	(66,504)	(66,504)
At December 31, 2010		572,894	1,395	(16,948)	557,341

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

37. PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at December 31, 2010 and December 31, 2009 are as follows:

Name of subsidiary	Place/Country of incorporation or registration/ operations	Class of shares held	Paid up issued/registered ordinary share capital	Proportion ownership interest held by the Company		Proportion of voting power held by the Company	Principal activities
				Direct	Indirect		
				%	%	%	
Amber Jungle Limited 珀森有限公司	BVI March 12, 2009	Ordinary	US$2/US$50,000 (2009: US$2/US$50,000)	100 (2009: 100%)	–	100 (2009: 100%)	Investment holding
Mega Pacific Enterprises Limited 太平洋企業有限公司	Hong Kong March 30, 2009	Ordinary	HK$1/HK$10,000 (2009: HK$1/HK$10,000)	–	100 (2009: 100%)	100 (2009: 100%)	Investment holding
Meike (H.K.) Trade Company Limited 美克(香港)貿易投資有限公司	Hong Kong August 31, 2007	Ordinary	HK$42,488,800/ HK$42,488,800 (2009: HK$14,520,000/ HK$14,520,000)	–	100 (2009: 100%)	100 (2009: 100%)	Investment holding
Meike (Fujian) Sports Leisure Co., Limited 福建美克休閑体育用品有限公司 (Note (i) and (iv))	The PRC February 12, 1999	Ordinary	RMB100,000,000/ RMB100,000,000 (2009: RMB100,000,000/ RMB100,000,000)	–	100 (2009: 100%)	100 (2009: 100%)	Manufacturing and trading of sporting goods
Fujian Meisike Sports Goods Co., Limited 福建省美斯克体育用品有限公司 (Note (ii) and (iv))	The PRC March 15, 2007	Ordinary	HK$183,999,480/ HK$200,000,000 (2009: HK$20,000,000/ HK$20,000,000)	–	100 (2009: 100%)	100 (2009: 100%)	Manufacturing and trading of sporting goods
Quanzhou Meike Sports Goods Co., Limited 泉州市美克体育用品有限公司 (Note (ii) and (iv))	The PRC January 30, 2007	Ordinary	RMB200,000,000/ RMB200,000,000 (2009: RMB73,203,483/ RMB85,000,000)	–	100 (2009: 100%)	100 (2009: 100%)	Manufacturing and trading of sporting goods
Fuzhou Meikesen Sports Goods Co., Ltd. 福州美克森体育用品有限公司 (Note (iii) and (iv))	The PRC May 23, 2007	Ordinary	RMB500,000/RMB500,000 (2009: RMB500,000/ RMB500,000)	–	100 (2009: 100%)	100 (2009: 100%)	Trading of sporting goods

None of the subsidiaries had issued any debt securities during the year and at the end of the year.

All of the above subsidiaries operate principally in their respective place of incorporation/establishment.

Notes:

(i) The entity is wholly foreign owned enterprise established in the PRC.

(ii) The entities are sino-foreign joint venture established in the PRC.

(iii) The entity is limited liability company established in the PRC.

(iv) The English translation of the company names is for reference only. The official names of these companies are in Chinese.

FINANCIAL SUMMARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended December 31,				
	2006 RMB'000	2007 RMB'000	2008 RMB'000	2009 RMB'000	**2010 RMB'000**
Revenue	180,925	328,728	365,631	499,420	**712,864**
Cost of sales	(132,342)	(226,951)	(246,480)	(328,483)	**(464,611)**
Gross profit	48,583	101,777	119,151	170,937	**248,253**
Other income	1,985	1,255	3,411	2,265	**7,624**
Other losses, net	–	–	–	–	**(7,726)**
Selling and distribution costs	(8,095)	(17,602)	(29,721)	(21,089)	**(42,812)**
Administrative expenses	(6,905)	(11,312)	(18,471)	(22,096)	**(34,964)**
Other operating expenses	(2,025)	(5,961)	(6,624)	(9,121)	**(16,923)**
Finance costs	(4,166)	(5,029)	(9,460)	(10,372)	**(12,006)**
Profit before tax	29,377	63,128	58,286	110,524	**141,446**
Income tax expense	(6,228)	(5,709)	(1,829)	(15,170)	**(24,994)**
Profit for the year	23,149	57,419	56,457	95,354	**116,452**
Other comprehensive income:					
Exchange differences on translation	—	13	(29)	(5)	**18**
Total comprehensive income for the year	23,149	57,432	56,428	95,349	**116,470**
Profit for the year attributable to:					
Owners of the Company	22,647	47,305	49,118	90,606	**116,452**
Non-controlling interests	502	10,114	7,339	4,748	**–**
	23,149	57,419	56,457	95,354	**116,452**
Total comprehensive income for the year attributable to:					
Owners of the Company	22,647	47,316	49,093	90,602	**116,470**
Non-controlling interests	502	10,116	7,335	4,747	**–**
	23,149	57,432	56,428	95,349	**116,470**
Earnings per share — Basic and diluted (RMB)	0.030	0.063	0.065	0.121	**0.122**

FINANCIAL SUMMARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As of December 31,				
	2006 RMB'000	2007 RMB'000	2008 RMB'000	2009 RMB'000	**2010** **RMB'000**
Assets					
Current assets	127,891	200,850	268,899	396,140	**1,080,833**
Non-current assets	81,065	115,126	152,245	148,179	**189,752**
Total Assets	208,956	315,976	421,144	544,319	**1,270,585**
Equity and Liabilities					
Current liabilities	90,961	143,595	173,039	231,470	**341,794**
Non-current liabilities	—	—	19,296	20,943	**2,193**
Total Equity	117,995	172,381	228,809	291,906	**926,598**
Total Equity and Liabilities	208,956	315,976	421,144	544,319	**1,270,585**