飛克國際控股有限公司

FLYKE INTERNATIONAL HOLDINGS LTD.

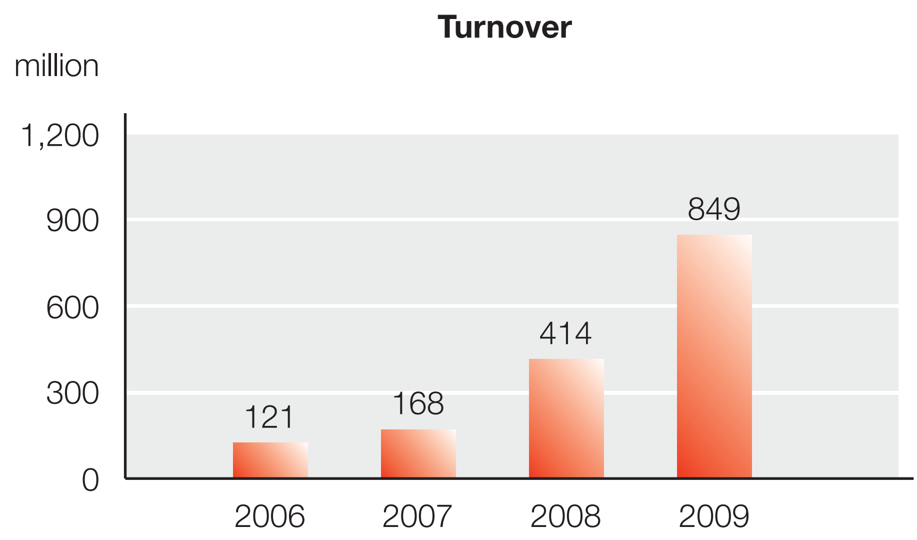
(incorporated in the Cayman Islands with limited liability)

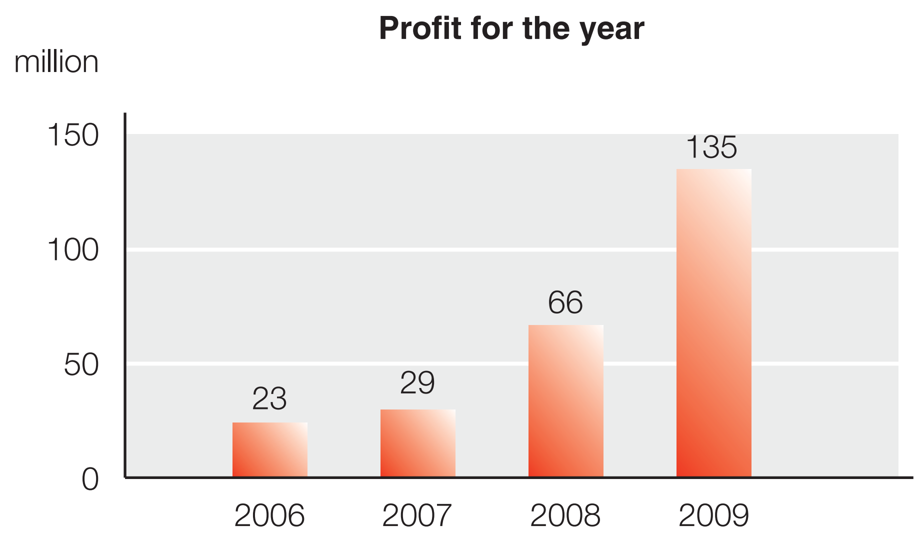
Stock Code: 1998

ANNUAL REPORT 2009

Contents

Financial Highlights





	2009 RMB'000	2008 RMB'000	Change %
Turnover	849,292	413,594	105.3%
Gross profit	209,556	124,795	67.9%
Profit for the year	134,780	66,458	102.8%
Basic earnings per share (RMB)	0.168	0.083	102.4%
Return on equity holders' equity	66.2%	48.0%	18.2%
Total assets less current liabilities	204,220	138,314	47.6%

Financial Summary

PROFITABILITY DATA

	2009 (RMB'000)	2008 (RMB'000)	2007 (RMB'000)	2006 (RMB'000)
Turnover	**849,292**	413,594	167,875	121,190
Gross profit	**209,556**	124,795	49,858	36,316
Profit for the year	**134,780**	66,458	29,405	23,153
Basic earnings per share (RMB)	**0.168**	0.083	0.037	0.029

PROFITABILITY RATIOS

	2009 (%)	2008 (%)	2007 (%)	2006 (%)
Gross profit margin	**24.7%**	30.2%	29.7%	30.0%
Net profit margin	**15.9%**	16.1%	17.5%	19.1%
Return on equity holders' equity	**66.2%**	48.0%	40.4%	38.5%

FINANCIAL POSITION DATA

	2009 (RMB'000)	2008 (RMB'000)	2007 (RMB'000)	2006 (RMB'000)
Non-current assets	**120,358**	99,751	52,700	40,048
Current assets	**348,472**	209,760	159,429	139,843
Current liabilities	**264,610**	171,197	139,310	119,718
Net current assets	**83,862**	38,563	20,119	20,125
Total assets less current liabilities	**204,220**	138,314	72,819	60,173
Net assets	**203,452**	138,314	72,819	60,173
Bank balances and cash	**98,747**	26,849	2,518	2,946
Current ratio (times)	**1.3**	1.2	1.1	1.2

Company Information

BOARD OF DIRECTORS

Executive Directors

Mr. LIN Wenjian *(Chairman)*
Mr. Lin Mingxu
Mr. LIN Wenzu
Mr. LI Yong

Independent Non-executive Directors

Mr. CHU Kin Wang, Peleus
Mr. HUANG Shanhe
Mr. ZHU Guohe

COMPANY SECRETARY

Mr. CHIM Kam Pang

BOARD COMMITTEES

Audit Committee

Mr. CHU Kin Wang, Peleus *(Chairperson)*
Mr. HUANG Shanhe
Mr. ZHU Guohe

Remuneration Committee

Mr. HUANG Shanhe *(Chairperson)*
Mr. LI Yong
Mr. ZHU Guohe

Nomination Committee

Mr. HUANG Shanhe *(Chairperson)*
Mr. LIN Wenzu
Mr. ZHU Guohe

AUTHORISED REPRESENTATIVES

Mr. LIN Wenjian
Mr. CHIM Kam Pang

LEGAL ADVISERS

As to Hong Kong law:

Squire, Sanders & Dempsey

As to PRC law:

Shu Jin Law Firm

As to Cayman Islands law:

Conyers Dill & Pearman

COMPLIANCE ADVISER

China Everbright Capital Limited

AUDITOR

SHINEWING (HK) CPA Limited

INTERNAL CONTROL REVIEW ADVISER

SHINEWING Risk Services Limited

REGISTERED OFFICE IN THE CAYMAN ISLANDS

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

HEAD OFFICE IN THE PRC

Yangdai Yongpu Industrial Zone
Chendai Town
Jinjiang City
Fujian Province 362218
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

24th Floor, Central Tower
28 Queen's Road Central,
Hong Kong

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

Union Registrars Limited
18th Floor Fook Lee Commercial Centre,
Town Place, 33 Lockhart Road, Wanchai,
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Industrial Bank Co., Ltd.
Agricultural Bank of China Limited

STOCK CODE

01998

COMPANY WEBSITE

www.chinaflyke.com

Chairman's Statement

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Flyke International Holdings Ltd. (the "**Company**"), I am pleased to present the annual results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2009.

Although the global economic sentiment was weak in the plight of the financial crisis, the economy of China experienced steady growth throughout the year of 2009. The Group benefited from the rejuvenation of the PRC domestic consumables industry, which included the sports goods industry. During the year ended 31 December 2009, the aggregate turnover of the Group amounted to approximately RMB849.3 million, representing a growth of approximately 105.3% from approximately RMB413.6 million during the year ended 31 December 2008. The performance results of the Group reflected strong sales of the *Flyke* products. The profit attributable to the shareholders for the year ended 31 December 2009 was approximately RMB134.8 million, representing an increase of approximately 102.8%. The basic earnings per share for the year ended 31 December 2009 amounted to RMB0.168, representing a significant increase of approximately 102.4% as compared with the year ended 31 December 2008. The satisfactory performance of the Group demonstrated that the sports shoes, sportswear and sport accessories with the *Flyke* brand were increasingly recognised by consumers with strengthened brand recognition.

The *Flyke* brand targets the fashionable and leisure style-minded youth market ranging from 14 to 25 years old in second- and third-tier cities in China. Hence, the Group focuses on the market of university students since the launch of the *Flyke* brand. During the year ended 31 December 2009, the Group continued the sales and the promotion of specific products with the *Flyke* brand at selected tertiary institutions in China. In particular, the Group entered into a framework agreement with Saier Network Company Limited ("**Saier**") in August 2009. Pursuant to this framework agreement, Saier is responsible for the formulation and implementation of the promotional activities for the *Flyke* products at selected universities and tertiary institutions in China. The Group is also planning to cooperate with Saier to launch the promotion on the Internet and to establish sales counters at the tertiary institutions.

In order to further enhance the economic efficiency, the Group also focused on streamlining the distribution networks of the *Flyke* products in China during the year under review. The Group no longer sold the *Flyke* products directly to specialty stores or concession counters in China, but through the authorised distributors selected by us based on various criteria. This resulted in a better control of our distribution network, and all of the customers of the Group for the *Flyke* products are our authorised distributors.

Export ODM Business is one of the Group's main business activities prior to the launch of *Flyke* brand. With the rapid growth of *Flyke* brand, the portion derived from Export ODM Business to the total turnover of the Group in the recently years is falling although the turnover from Export ODM Business recorded a steady growth. We believe the turnover from Export ODM Business should continuously increase steadily due to the recovery of overseas market and we had cultivated a group of loyal buyers who have cooperated with us for over 5 years.

The successfully listing of the shares of the Company on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 29 March 2010 takes the Group to a new chapter of development. The listing significantly improves the capital base of the Group and promotes the Group's corporate image. The *Flyke* brand has established a brand image of offering quality fashionable and trendy products at affordable prices in the high growth second- and third-tier cities in China, which in turn becomes the solid foundation for the Group to penetrate the gigantic domestic demand market. The Directors believe that the business of the Group will mark a breakthrough with the implementation and commencement of all of the development plans as set forth in the prospectus of the Company.

On behalf of the Board, I would like to express my heartfelt gratitude to each investor for their support, confidence and trust towards the Group. The Board would also like to take this opportunity to express our appreciation to the management and staff for their dedicated contributions to the Group in the past year.

LIN Wenjian
Chairman

Jinjiang, 26 April 2010

Management's Discussion and Analysis

The Group is principally engaged in the design, production and sales of sports shoes with the *Flyke* brand in China. The Group launched the *Flyke* brand in April 2004 and as of 31 December 2009, the products with the *Flyke* brand were sold by 19 authorised distributors at 1,146 authorised retail stores in 208 cities in China. In addition to sports shoes, the *Flyke* brand also includes sportswear and sports accessories which are produced by the Group's contract manufacturers. The *Flyke* brand targets the youth market ranging from 14 to 25 years old in second- and third-tier cities in China. The *Flyke* brand is focusing on fashionable and leisure sports shoes, sportswear and sports accessories.

Prior to the launch of the *Flyke* products, the Group had already started the Export ODM Business and the production and sales of soles. These two business activities are part of the Group's vertically integrated business models for the design, production and sales of sports shoes with the *Flyke* brand.

BUSINESS REVIEW

Flyke brand

For the year ended 31 December 2009, the sales of sports shoes, sportswear and sports accessories with the *Flyke* brand amounted to RMB499.7 million, representing an increase of approximately 134.4% from RMB213.2 million in 2008. This business accounted for approximately 58.8% of the Group's turnover.

In the year of 2009, we operated 10 sports shoes production lines with an aggregate annual production capacity of approximately 10 million pairs of sports shoes. The *Flyke* sportswear and sports accessories are produced by the Group's contract manufacturers. The Group has also devoted to enhance the quality and functions of its products and has submitted 19 patent applications.

The Group has a large product design and development team. As of 31 December 2009, we had a total of 170 staff members for the design and development of the *Flyke* products, sports shoes and soles for the Export ODM Business. During the year ended 31 December 2009, *Flyke* launched over 1,500 styles of professional sports shoes, including basketball footwear, running footwear, tennis footwear and leisure footwear, of which the Jet Fighter Series and the Eagle-Hero Series are very popular among the consumers. The Group also launched approximately 560 styles of sportswear and sports accessories with the *Flyke* brand, including stylish outfit, tracksuit, wind-breaker, trousers, socks, hats, sports bags and balls.

The number of authorised retail stores with the *Flyke* brand grew rapidly. During the year ended 31 December 2009, the Group had a total of 19 authorised distributors, which operated an aggregate of 1,146 authorised retail stores with the *Flyke* brand at 208 cities in China, of which, 50 retail stores are directly operated and managed by the 19 authorised distributors. The remaining 1,096 authorised retail stores are operated and managed by independent third parties as authorised by these distributors. Apart from the 19 authorised distributors, the Group also worked with a campus cooperation partner, Saier which assisted the Group to promote and sell sports shoes and sportswear at university campus in China. As at 31 December 2009, the *Flyke*'s product were sold at 35 campus retail stores at selected universities and tertiary institutions in China. The extensive distribution network has increased and strengthened the brand recognition of the *Flyke* brand and thus penetration in the market.

Export ODM Business

Prior to the launch of *Flyke* brand, the Group has established vertically integrated business model for the Export ODM Business with the design, production and sales of sport shoes. For the year ended 31 December 2009, the sales from the Export ODM Business amounted to RMB316.2 million, representing a significant increase of approximately 80.5% from RMB175.2 million as compared with the same in 2008. This business accounted for approximately 37.2% of the Group's turnover. The Export ODM Business provides a stable source of income and cash flow for the Group, and also allows the Group to receive the latest information such as customer preferences from the overseas market. These multi-faceted and most updated information from the market allow us to keep on improving the design of *Flyke* products. For the year ended 31 December 2009, the Export ODM Business had 36 active overseas buyers with which we have been conducting business for more than five years.

Soles

For the year ended 31 December 2009, sales from the business for the design, production and sales of soles reached approximately RMB33.4 million, representing an increase of approximately 32.8% from RMB25.2 million in 2008. This business accounted for approximately 4.0% of the Group's turnover. During the year ended 31 December 2009, the Group had 21 production lines for soles with an annual capacity of approximately 13 million pairs.

Recent events

The Group achieved a significant milestone with the shares of the Company (the "**Shares**") listed (the "**Listing**") on the main board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 29 March 2010. The Directors believe that the successful Listing represented a significant achievement of the Group as a whole and will accelerate the business development of the Group. The Group received net proceeds of approximately HK$363.3 million from the Listing and will apply the net proceeds in accordance with the plans set forth in the prospectus of the Company dated 16 March 2010.

FINANCIAL REVIEW

Turnover

During the year ended 31 December 2009, the sales of sports shoes, sportswear and sports accessories with the *Flyke* brand represented approximately 58.8%, of the aggregate turnover of the Group. The Export ODM Business contributed approximately 37.2% of the aggregate turnover of the Group during the year ended 31 December 2009. The remaining balance of the turnover of the Group of approximately RMB33.4 million was derived from the sales of soles.

The following table sets forth a summary of the turnover of the Group by these three principal activities during the year ended 31 December 2009 (with comparative figures for the year ended 31 December 2008):-

	For the year ended 31 December			
	2009		2008	
	RMB'000	**%**	RMB'000	%
Sales of sports shoes, sportswear and sports accessories with the *Flyke* brand	**499,684**	**58.8%**	213,206	51.5%
Sales under the Export ODM Business	**316,174**	**37.2%**	175,210	42.4%
Sales of soles	**33,434**	**4.0%**	25,178	6.1%
Total	**849,292**	**100.0%**	413,594	100.0%

Sales of the Flyke products

The *Flyke* brand products include sports shoes, sportswear and sports accessories. All of the *Flyke* sports shoes were produced by the Group while all of the sportswear and sports accessories with the *Flyke* brand were produced by the Group's contract manufacturers which are independent third parties.

The following table illustrates an analysis of the sales of the *Flyke* products by product categories during the year ended 31 December 2009 (with comparative figures for the year ended 31 December 2008):–

	For the year ended 31 December			
	2009		2008	
	RMB'000	**%**	RMB'000	%
Sales of sports shoes	**261,408**	**52.3%**	152,327	71.4%
Sales of sportswear and sports accessories	**238,276**	**47.7%**	60,879	28.6%
Total	**499,684**	**100.0%**	213,206	100.0%

With the implementation of the existing distribution system from 1 January 2009, the Group sold all the *Flyke* products directly to the authorised distributors, and not separately to retail specialty stores and retail stores concession counters.

Sales of sports shoes under the Export ODM Business

The Export ODM Business enjoyed a steady growth during the year ended 31 December 2009, albeit that the percentage contributing to the aggregate turnover of the Group during the year was decreasing. This was principally due to the increased sales of the *Flyke* products. During the year ended 31 December 2009, the Export ODM Business recorded a rapid growth of approximately 80.5% as compared with the same period in 2008. The strong growth in the Export ODM Business was principally due to the re-filling of inventory by the Group's overseas buyers and the prompt adjustment to the Group's pricing policies in response to the global economic slowdown. The overseas buyers purchased additional sports shoes but requested for low unit prices. The Group also attracted new purchase orders from new overseas buyers who previously placed their orders with other manufacturers.

Sales of soles

During the year ended 31 December 2009, the sales of soles increased principally due to the increased number of and improvement in the design of the soles.

Sales analyzed by types of products

The following table sets forth an analysis of the sales of the Group contributed by the sports shoes, sportswear and sports accessories and soles during the year ended 31 December 2009 (with comparative figures for the year ended 31 December 2008):–

	For the year ended 31 December			
	2009		2008	
	RMB'000	**%**	RMB'000	%
Sales of sports shoes	**577,582**	**68.0%**	327,537	79.2%
Sales of sportswear and sports accessories	**238,276**	**28.0%**	60,879	14.7%
Sales of Soles	**33,434**	**4.0%**	25,178	6.1%
Total	**849,292**	**100.0%**	413,594	100.0%

The increase in turnover of either the sports shoes of sportswear and sports accessories was primarily attributable to the increase in sales of *Flyke* brand. The Directors believe that this trend will continue because of the enhanced brand promotion and brand building activities to be launched by the Group and the opening of image stores and flag-ship stores as described in the Prospectus.

Cost of sales

The cost of sales was incurred in (a) the design and production of the *Flyke* sports shoes, sportswear and sports accessories; (b) the design and production of the sports shoes for the Export ODM Business; (c) the design and production of Soles and (d) the outsourcing fees payable to the Group's contract manufacturers for the production of certain sport shoes for the Export ODM Business and the sportswear and sports accessories with the *Flyke* brand. The cost of sales included raw materials, direct labour, production cost and outsourcing fees to contract manufacturers.

For the year ended 31 December 2009, total cost of sales increased by 121.5% to RMB639.7 million from RMB288.8 million for the year ended 31 December 2008 whilst the outsourcing fee to contract manufacturers increased by 506.1% to RMB277.1 million for the year ended 31 December 2009 from RMB45.7 million for the year ended 31 December 2008.

The increase in cost of sales commensurated with the increase in the turnover of the Group while the increase in outsourcing fee was principally due to the increase in sales of sportswear and sports accessories as well as the increase in outsourcing of Export ODM Business driven by successful price adjustment policy for the overseas markets.

Gross profit and gross profit margin

The gross profit of the Group increased by approximately 67.9% to approximately RMB209.6 million (2008: RMB124.8 million) with the gross profit margin decreased to approximately 24.7% (2008: 30.2%). The gross profit for the sales of the *Flyke* products for the year ended 31 December 2009 increased by 88.4% to approximately RMB135.3 million (2008: RMB71.8 million) with the gross profit margin decreased to approximately 27.1% (2008: 33.7%) as a result of the decrease in ex-factory price with a view to provide incentive to our authorised distributors under the new distribution scheme which had helped us to expand the market share rapidly for the year ended 31 December 2009. The gross profit for the Export ODM Business for the year ended 31 December 2009 increased by 39.2% to approximately RMB66.9 million (2008: RMB48.0 million) with the gross profit margin decreased to approximately 21.2% (2008: 27.4%) as a result of the decrease in selling price in light of the sluggish overseas demand. During the year ended 31 December 2009, the gross profit for the sales of soles increased by 49.1% to approximately RMB7.3 million (2008: RMB4.9 million) with the gross profit margin increased to approximately 22% (2008: 19.6%) due to improvement of design and technology and increase demand for sport shoes in the market.

The following table illustrates the gross profit and the gross profit margins of the Group by its principal activities, namely sports shoes, sportswear an sports accessories with the *Flyke* brand the Export ODM Business and soles during the year ended 31 December 2009 (with comparative figures for the year ended 31 December 2008):–

	For the year ended 31 December			
	2009 RMB'000	**%**	2008 RMB'000	%
Sales of sports shoes, sportswear and sports accessories with the *Flyke* brand	**135,337**	**27.1%**	71,840	33.7%
Sales under our Export ODM Business	**66,876**	**21.2%**	48,029	27.4%
Sales of soles	**7,343**	**22.0%**	4,926	19.6%
Total	**209,556**	**24.7%**	124,795	30.2%

Other income

The other income of the Group for the year ended 31 December 2009 decreased to approximately RMB0.9 million (2008: RMB1.4 million) due to the decrease in the bank interest income earned by the Group as a result of the decrease in bank interest rate.

Selling and distribution expenses

The selling and distribution expenses of the Group primarily consisted of advertising and marketing expenses, costs associated with the Group's participation in exhibitions and holding of sales fairs, product transportation and delivery costs, entertainment expenses and salary and travelling expenses for the marketing and sales staff. Advertising and marketing expenses include fees paid for television advertising, advertising on magazines, billboard advertisements, posters and event sponsorship fees. During the year ended 31 December 2009, the selling and distribution expenses amounted to approximately RMB30.6 million (2008: RMB30.4 million). The selling and distribution expenses represented approximately 3.6% to the sales of the Group (2008: 7.4%). The decrease in percentage to the aggregate turnover of the Group was primarily due to the streamlined distribution network of the *Flyke* brand since 2009 which saved our distribution cost to our customers.

Administrative expenses

The administrative expenses mainly consisted of salary for administrative staff (other than those involved in the production process), welfare and other benefits for all employees (including production staff), professional fees, entertainment expenses and depreciation expenses for the fixed assets. During the year ended 31 December 2009, the administrative expenses amounted to approximately RMB14.1 million (2008: RMB8.7 million) representing an increase of approximately 62.5%. The increase was primarily due to the strengthening in the office supports and administrative functions for the business expansion. The increase also represented the payment of the professional fees incurred for the purpose of the listing plan.

Other operating expenses

Other operating expenses principally consisted of expenses incurred in product design and development. Because of the increased spending on product research and development activities, the Group incurred approximately RMB11.7 million (2008: RMB10.3 million) as other operating expenses.

Finance costs

The finance costs consisted of interest expense on bank borrowings. During the year ended 31 December 2009, the finance costs incurred by the Group amounted to approximately RMB4.7 million (2008: RMB5.0 million) due to the decrease in the average interest rate of the bank borrowings of the Group. The amount of bank borrowings however increased to approximately RMB116.4 million (2008: RMB48.5 million) because of the business expansion of the Group.

Income tax expense

The income tax represented amounts of corporate income tax paid by us in China. No provision for Hong Kong profits tax has been made as no member of the Group did generate any assessable profit in Hong Kong during the year ended 31 December 2009. The Group was not subject to any tax in the Cayman Islands and the British Virgin Islands during the year ended 31 December 2009.

The Group's income tax expense during the year ended 31 December amounted to approximately RMB14.6 million (2008: RMB5.4 million), representing an increase of approximately 169.4%, which was due to the increase in turnover of the Export ODM Business and the provision for withholding tax of dividend declared and paid in March 2010. The Group's effective income tax rate was approximately 7.6% for the year ended 31 December 2008 and approximately 9.8% for the year ended 31 December 2009.

Profit attributable to equity shareholders

Profit attributable to equity shareholders increased by approximately 102.8% from approximately RMB66.5 million for the year ended 31 December 2008 to RMB134.8 million for the year ended 31 December 2009. The amount of the profit attributable to equity shareholders is close to the forecast profit of the Group for the year ending 31 December 2009 set forth in the Prospectus. The increase in the profitability of the Group was principally driven by the increase in sales in *Flyke* brand and Export ODM Business.

BUSINESS OUTLOOK

Flyke brand

The Directors are confident on the prospects of the sports goods industry in China. The economy in China experiences a steady growth which will facilitate the continuous development and the integration of the urban and rural areas. With the continuous increases in the household income amongst the families in the second and third-tier cities in China, their consumption power is expected to increase. In anticipation of the increasing demand, the Group will open 23 image stores in the second and third-tier cities so as to further penetrate in the cities and counties of considerably high growth potential.

The success of the *Flyke* brand is primarily attributable to the Group's appropriate market position targeting the second and third-tier cities in China. The effective capture of the youth market segment of consumers ranging from 14 to 25 year olds in China is another factor critical to the success of the Group. Reasonable pricing and innovative design of the *Flyke* products are increasingly popular among the Group's targeted consumers including university students in China, who the Directors believe, are the Group's powerful driving force for the *Flyke* products. This youth market segment provides the Group with ample opportunities. The Group has taken the opportunity to leverage on this powerful driving force to capture business opportunities to expand the Group's market share and entered into an agreement with Saier to assist the Group in distributing sports shoes, sportswear and sports accessories with the *Flyke* brand at the university campus in China. The Group has established 35 campus retail stores at the selected at universities and tertiary institutions as at 31 December 2009. In addition, the Group will sponsor sports events held at the universities and tertiary institution in China and provide discounts and other loyalty plans to the students for our *Flyke* products. All of these are expected to allow the Group to firmly capture the opportunities arising from this rapidly growing market.

As part of the Group's brand building efforts, the Group will also set up seven flagship stores at first-tier cities in China as well as engaging celebrities or professional athletes as spokesmen for the *Flyke* products. The Group will also launch advertising activities from different market channels, sponsor major entertainment events and sporting activities so as to enhance the image of the *Flyke* brand.

The Directors believe that the sustainable development of the Flyke brand has to be driven from the continuous pursuance for innovation and attractive product designs. Therefore, the Group will cooperate with professional design firms as well as research and development centres for the development of new products. The Group's capabilities in design, research and development of products with the *Flyke* brand will be enhanced. The Group will also seek working opportunities with reputable designers and design institutions for cooperation ventures.

In order to support the expansion plan, the Group will add three production lines for sports shoes in 2010. This will increase the annual production capacity from a total of 10 million pairs of sports shoes to 13 million pairs of sports shoes. Furthermore, the Group is also planning to build its own sportswear production facilities by the end of 2010 for the production of the sportswear with the *Flyke* brand.

Export ODM Business

The Export ODM Business was one of the core businesses of the Group prior to the launch of the *Flyke* brand. The Export ODM Business was in a steady growth and generated a stable cash inflow and income to the Group. The Export ODM Business is well recognised in the overseas markets. The Directors believe that whilst the business of the Export ODM Business will continue to grow, the percentage of its sales over the total turnover of the Group is expected to decrease because of the expected significant increase in the sales of the products with the *Flyke* brand. Nonetheless, the Directors believe that the sales from Export ODM Business will continue to increase as a result of the recovery of overseas markets and the increase in recognition of our products. The Group will also continuously participate in international exhibitions to increase international recognition. The Directors consider that the Group can benefit from the improvement in quality, design and technology in the production of sport shoes.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As of 31st December 2009, the bank balances and cash of the Group were approximately RMB98.7 million (2008: RMB26.8 million). The Group's working capital requirement was essentially financed by its internal resources. The Directors believe that the fund generated from operations, the available banking facilities and the net proceeds received from the listing of the Shares on the Stock Exchange will enable the Group to meet its future working capital requirements.

For the year ended 31 December 2009, the net increase in cash and cash equivalents was RMB71.9 million (2008: RMB24.3 million).

As of 31 December 2009, the bank borrowings were of total RMB116.4 million (2008: RMB48.5 million), all denominated in Renminbi, including RMB83.3 million (2008: RMB14.5 million) subject to floating rates and RMB33.1 million (2008: RMB34.0 million) subject to fixed rate.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The Group mainly operates in the PRC and most of the transactions settled in Renminbi. However, part of the Group's bank deposits is denominated in Hong Kong dollars. During the year ended 31 December 2009, 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.

PLEDGE OF ASSETS OF THE GROUP AND GUARANTEE

The Group had pledged certain of its property, plant and equipment, prepaid lease payments and bank deposits to secure bank borrowings and banking facilities granted to the Group at the end of the reporting period. The carrying values of the assets pledged are as follows:–

	As of 31 December	
	2009 RMB'000	2008 RMB'000
Property, plant and equipment	**43,048**	11,646
Prepaid lease payments	**5,555**	5,681
Bank deposits	**2,220**	19,296
Total	**50,823**	36,623

CONTINGENT LIABILITIES

As of 31 December 2009, we had no material contingent liabilities.

Report of the Directors

The Board is pleased to present the Report of the Directors and the audited financial statements for the year ended 31 December 2009.

CORPORATE REORGANIZATION

The Listing of the Company on 29 March 2010 represented a milestone for the Company since its incorporation in 2008. The Directors believe that the Listing will bring significant benefits for the Group's business plans in the years to come. For preparation of the Listing, the Company went through a series of corporate reorganization steps details & which are set forth in the prospectus of the Company dated 16 March 2010 (the "**Prospectus**").

PRINCIPAL OPERATIONS

The Group's principal business activities during the financial year ended 31 December 2009 were production and sales of the *Flyke* branded products and exporting shoes to overseas buyers produced by the Group.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December, 2009 are set out in the consolidated statement of comprehensive income on page 26.

Pursuant to the resolutions of the Board passed on 11 March 2010, the Company declared a special dividend of approximately RMB100,000,000. Such dividends were fully paid on the Listing Date.

The Directors do not recommend the payment of final dividend for the year ended 31 December 2009.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on page 3 of this report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment during the year are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

Details of share capital of the Company during the financial year are set out in note 27 to the consolidated financial statements.

RESERVES

Details of the movements in reserves of the Group are set out in page 28 of this report.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the laws of the Cayman Islands or in the articles of association of the Company, unless otherwise provided by the rules governing the listing of securities on the Stock Exchange (the "**Listing Rules**") or directed by the shareholders at a general meeting.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales to the Group's five largest customers accounted for approximately 57.4% of the Group's turnover and sales to the Group's largest customer was approximately 35.9% of the Group's total turnover.

During the year, the aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 14.2% of the Group's total purchases, and the purchases attributable to the Group's largest supplier was approximately 6.2% of the Group's total purchases.

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Since the shares of the Company were listed on the Stock Exchange on 29 March 2010, neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2009.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS

The Directors as at 29 March 2010, being the Listing Date and up to the date of this report were:

Executive Directors

Mr. LIN Wenjian	(appointed on 21 April 2008)
Mr. LIN Mingxu	(appointed on 18 December 2008)
Mr. LIN Wenzu	(appointed on 21 April 2008)
Mr. LI Yong	(appointed on 28 October 2009)

Independent non-executive Directors

Mr. CHU Kin Wang, Peleus	(appointed on 24 February 2010)
Mr. ZHU Guohe	(appointed on 24 February 2010)
Mr. HUANG Shanhe	(appointed on 24 February 2010)

Pursuant to article 84 of the Company's articles of association, Mr. LIN Wenjian, Mr. LIN Mingxu and Mr. LIN Wenzu will retire by rotation and being eligible, would offer themselves for re-election at the forthcoming annual general meeting.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

In compliance with Rule 3.10(1) of Listing Rules, the Board currently comprises three independent non-executive Directors, representing more than one-third of the Board. Pursuant to paragraph 12B of Appendix 16 of the Listing Rules, each of the independent non-executive Directors has confirmed to the Company by annual confirmation that he has complied with Rule 3.13 of the Listing Rules as to his independence. The Directors consider that all three independent non-executive Directors are independent under the independence guidelines set out in rule 3.13 of the Listing Rules and are capable to effectively exercise independent judgement.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGAGEMENT

Brief biographical details of the Directors and senior management are set out on pages 22 to 24 of this report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company for an initial fixed term of three years commencing on 24 February 2010.

Each of the independent non-executive Directors has been appointed by the Company for an initial fixed term of one year commencing on 24 February 2010.

None of the Directors proposed for re-election at the forthcoming annual general meeting has entered into any service agreement with the Company which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

REMUNERATION OF THE DIRECTORS

The remuneration of each Director is approved at general meetings. Other emoluments will be determined by the members of the nomination and remuneration committee with reference to the duties, responsibilities, performance of the Directors and the results of the Group.

Details of the remuneration of the Directors are set out in note 13 to the consolidated financial statements of this annual report.

EMOLUMENTS POLICY

The Group's emolument policies are formulated on the performance of individual employee and on the basis of the salary trends in Hong Kong and the PRC, and will be reviewed regularly. Subject to the Group's profitability, the Group may also distribute discretionary bonus to its employees as an incentive for their contribution to the Group. The Group has adopted a share option scheme for its employees.

RETIREMENT BENEFIT SCHEMES

The Group participates in a state-managed defined contribution retirement scheme organised by the relevant local government authority in the PRC. Certain employees of the Group eligible to participate in the retirement scheme are entitled to retirement benefits from the scheme. The local government authority is responsible for the pension liabilities to these retired employees. The Group is required to make monthly contributions to the retirement scheme up to the time of retirement of the eligible employees.

SHARE OPTIONS

Pursuant to a written resolution passed by our then sole shareholder on 24 February 2010, the Company has adopted a share option scheme on 24 February 2010 (the "**Share Option Scheme**"). The purpose of the Share Option Scheme is to recognize and acknowledge the contributions that the eligible participants (the "**Eligible Participants**") have made or may make to the business development of our Group.

Eligible Participants include the Directors, any employee or officer (whether full-time or part-time) of the Group, and any customer, supplier, agent, business or joint venture partner, consultant, distributor, promoter, service provider, adviser or contractor to any member of the Group.

The subscription price in respect of each Share under the Share Option Scheme shall, will be a price determined by the Board and notified to a Participant and will be no less than the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of offer to the Participant, which must be a day on which licensed banks are open for business in Hong Kong and the Stock Exchange is open for business of dealing in securities (a "**Trading Day**"); (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five consecutive Trading Days immediately preceding the date of offer to the Participant; and (iii) the nominal value of a Share.

The maximum number of Shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not, in aggregate, exceed 30% of the total number of Shares in issue from time to time. Options may not be granted under any schemes of our Company (including the Share Option Scheme) if this will result in the said 30% limit being exceeded.

Unless approved by the Shareholders, no option may be granted to any Eligible Participants which if exercised in full would result in the total number of Shares issued and to be issued upon exercise of the share options already granted or to be granted to such Eligible Participant (including exercised, cancelled and outstanding share option) in the 12-month period up to and including the date of such new grant exceeding 1% of the total number of Shares in issue as at the date of such new grant.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during the period to be notified by the Board to the grantee save that such period shall not be more than 10 years from the business day on which the option is deemed to have been granted in accordance with the terms of the Share Option Scheme. There is no minimum period for which an option must be held before it can be exercised.

The Share Option Scheme will remain in force for a period of 10 years from the date of its adoption.

As of the date of this annual report, no option has been granted or agreed to be granted under the Share Option Scheme.

CONTRACTS OF SIGNIFICANCE

No contracts of significance in relation to the business of the Group, to which the Company, its holding companies, its subsidiaries or fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

No contracts of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder of the Company or any of its subsidiaries subsisted at the end of year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

None of the Directors or any of their respective associates, has engaged in any business that competes or may compete with the business of the Group, or has any other conflict of interest with the Group.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

As at the date of this report, the following Directors or the chief executives of the Company had or were deemed to have interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong ("**SFO**")) (i) 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 interests or short positions which they were taken or deemed to have under such provision of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "**Model Code**") contained in the Listing Rules:

(i) Long positions in shares of the Company

Name of Director	Capacity	Number of shares held	Position	Approximate Percentage of issued share capital
Mr. LIN Wenjian	Interest of controlled corporation	480,000,000 *(note 1)*	Long	60%
Mr. LIN Mingxu	Beneficial owner	60,000,000 *(note 2)*	Long	7.5%
Mr. LIN Wenzu	Beneficial owner	60,000,000 *(note 2)*	Long	7.5%

Notes:

1. These shares are held by Super Creation International Limited ("**Super Creation**"), the entire issued share capital of which is wholly and beneficially owned by Mr. LIN Wenjian. By virtue of the SFO, Mr. LIN Wenjian is deemed to be interested in the entire 480,000,000 shares held by Super Creation.

2. Each of Mr. LIN Wenzu and Mr. LIN Mingxu is a beneficiary of a trust scheme established by Super Creation, The Flyke Trust. As at the date of this annual report, 120,000,000 shares are held on trust by the trustee of The Flyke Trust for the benefit of Mr. LIN Wenzu and Mr. LIN Mingxu equally.

(ii) Long positions in associated corporations of the Company

Name of the Director	Name of the associated corporation	Capacity	Position	No of shares in the associated corporation	Approximate percentage of shareholding in the associated corporation
Mr. LIN Wenjian	Super Creation	Beneficial owner	Long	1	100%

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN AND/OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

So far as is known to the Directors and chief executives of the Company, as the date of this report, the following persons (not being a Director or chief executive of the Company) had, or were deemed to have, interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions 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 under section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange:

Name of shareholder	Capacity	Number of shares held	Position	Approximate Percentage of issued share capital
Super Creation	Beneficial owner	480,000,000	Long	60%
Equity Trust (HK) Limited	Trustee	120,000,000 *(note)*	Long	15%

Note:

The Shares are held on trust for Mr. LIN Wenzu and Mr. LIN Mingxu, the beneficiaries of The Flyke Trust.

CORPORATE GOVERNANCE

Principal corporate governance practices as adopted by the Company are set out in the Corporate Governance Report section set out on pages 18 to 21 of this annual report.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge, as at the date of this report, 25% of the Company's issued shares are held by the public as required under the Listing Rules.

AUDITOR

The financial statements have been audited by SHINEWING (HK) CPA Limited who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Flyke International Holdings Ltd.
LIN Wenjian
Chairman

Jinjiang, 26 April 2010

Corporate Governance Report

The Directors believe that strong corporate governance is important to ensure that the Company's business activities are monitored and regulated so as to protect the interests of the Company and the shareholders. A high standard of corporate governance measures also contributes to the Group's success and the Directors have adopted The Code on Corporate Governance Practices (the "**Code**") as set out in Listing Rules upon its Listing on 29 March 2010. Since the Listing, the Company has complied with the applicable code provisions under the Code save for the provision requiring the chairman and chief executive officer to be undertaken by two individuals.

THE BOARD OF DIRECTORS

The Company is governed by the Board which is responsible for leading and controlling the Company and responsible for promoting the success of the Company by directing and supervising the Company's affairs. More specifically, the Board formulates strategy, monitors its financial performance and maintains effective overall management of the Company's activities. Daily operations and administration are delegated to the management which will report to the Board from time to time on the business activities of the Company.

The Board currently has four executive Directors and three independent non-executive Directors. As at the date of this annual report, the Board comprises the following Directors:

Executive Directors

Mr. LIN Wenjian *(Chairman, Chief Executive Officer)*
Mr. LIN Mingxu
Mr. LIN Wenzu
Mr. LI Yong

Independent non-executive Directors

Mr. CHU Kin Wang, Peleus
Mr. ZHU Guohe
Mr. HUANG Shanhe

Mr. LIN Wenjian is the elder brother of Mr. LIN Mingxu and Mr. LIN Wenzu. Mr. LI Yong has no relationship with the other executive Directors. Further details on the Directors' biographies are set in the section entitled "Directors and Senior Management" in this annual report.

In compliance with Rule 3.10(1) of the Listing Rules, the Board currently comprises three independent non-executive Directors. Amongst the three independent non-executive Directors, Mr. CHU Kin Wang, Peleus has the appropriate professional qualifications and accounting and related financial management expertise required under Rule 3.10(2) of the Listing Rules.

Pursuant to the Listing Rules, each of the independent non-executive Directors has confirmed to the Company that he has complied with the independence requirements set out in Rule 3.13 of the Listing Rules. The Directors consider that all three independent non-executive Directors are independent under these independence guidelines as set out in Rule 3.13 of the Listing Rules. All of the independent non-executive Directors were appointed for an initial term of one year from 24 February 2010. The Company considers that all the independent non-executive Directors are independent in accordance with the Listing Rules.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. LIN Wenjian, our executive Director is the Chairman of the Group responsible for the leadership and effective running of the Board, ensuring that all material issues are decided by the Board in a conducive manner as well as the chief executive officer of the Group. Mr. LIN Wenjian is also responsible for running the Group's business and effective implementation of the strategies of the Group. The Company is aware of the requirement under paragraph A.2 of the Code that the roles of Chairman and Chief Executive Officer should be separated and should not be performed by the same individual. Nevertheless, the Board considers that the combination of the roles of Chairman and Chief Executive Officer will not impair the balance of power and authority between the Board and the management of the Company as the Board will meet regularly to consider major matters affecting the operations of the Group. The Board is of the view that this structure provides the Group with strong and consistent leadership, which can facilitate the formulation and implementation of its strategies and decisions and enable it to grasp business opportunities and react to changes efficiently and therefore it is in the interests of the Company as a whole and beneficial to the business prospects of the Group for Mr. LIN Wenjian to undertake the roles of the Chairman and the Chief Executive.

During the year ended 31 December 2009, there were no meetings as the Company was listed on the Stock Exchange on 29 March 2010. Pursuant to the Code, the Company will hold Board regularly for at least four times a year at approximately quarterly intervals and ad-hoc meetings will also be convened if necessary to discuss the strategy and the operation of the Group. During the period from 29 March 2010 to the latest date prior to the printing of this annual report, the Board held one Board meeting attended by all the Directors.

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as the standard for securities transactions by the Directors. The Company has made specific enquiries of all the Directors and all the Directors have confirmed that they have complied with the required standards set out in the Model Code since the listing of the shares of the Company on the Main Board on 29 March 2010.

BOARD COMMITTEES

To strengthen our corporate governance practices and in compliance with the Code, the Board established the following Board committees to oversee particular aspects of the Group's affairs. Each of these committees comprises entirely independent non-executive Directors and is governed by the respective written terms of reference approved by the Board.

Audit Committee

The Company established the Audit Committee pursuant to a resolution of the Directors passed on 24 February 2010 in compliance with Rule 3.21 and Appendix 14 of the Listing Rules. The primary duties of the Audit Committee are to review and monitor the financial reporting process and internal control of the Group, to review the financial information of the Group and to consider issues relating to the external auditor. The Audit Committee consists of all three independent non-executive Directors and Mr. CHU Kin Wang, Peleus is the chairperson of the Audit Committee. The Audit Committee has reviewed the Company's financial statements and the Group's combined financial statements for the year ended 31 December 2009, including the accounting principles and practices adopted by the Group. Since the Listing and up to the date of this report, the audit committee held one meeting which was attended by all the independent non-executive Directors.

Remuneration Committee

The Company established the Remuneration Committee pursuant to a resolution of the Directors passed on 24 February 2010 in compliance with Appendix 14 of the Listing Rules. The primary duties of the Remuneration Committee are to make recommendations to the Board on the Company's policy for remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration and for fixing the remuneration packages for all Directors. The Remuneration Committee consists of three members, namely Mr. LI Yong, an executive Director and two independent non-executive Directors, Mr. HUANG Shanhe and Mr. Zhu Guohe. Mr. HUANG is the chairperson of the Remuneration Committee. As the Company was only listed on 29 March 2010, no meetings of the remuneration committee have been held up to the date of this report.

Nomination Committee

The Company established a Nomination Committee pursuant to a resolution of the Directors passed on 24 February 2010 in compliance with Appendix 14 of the Listing Rules. The primary duties of the Nomination Committee are to make recommendations to the Board regarding candidates to fill vacancies on the Board. The Nomination Committee consists of three members, namely Mr. LIN Wenzu, an executive Director and Mr. HUANG Shanhe and Mr. ZHU Guohe. Mr. HUANG is the chairperson of the Nomination Committee. As the Company was only listed on 29 March 2010, no meetings of the nomination committee have been held up to the date of this report.

DEED OF NON-COMPETITION

For the purpose of the Listing, namely Mr. LIN Wenjian, Mr. LIN Mingxu and Mr. LIN Wenzu and Super Creation International Limited (the "**Covenantors**") entered into a deed of non-competition on 24 February 2010 in favour of the Company whereby each of the Covenantors jointly and severally, irrevocably and unconditionally, undertook, among other things, not to directly or indirectly engage in any business in competition with or likely to be in competition with the existing business activity of the Group. Pursuant to the deed on non-competition, each of the Covenantors have confirmed to the Company their compliance with their undertakings in the deed of non-competition. The independent non-executive Directors have also reviewed the compliance by the Covenantors and confirm, that as far as they can ascertain, there is no breach of the non-competition undertaking by the Covenantors.

INTERNAL CONTROL

The internal control system has been designed to safeguard the assets of the Group and the interest of shareholders, maintaining proper accounting records, execution with appropriate authority and compliance of the relevant laws and regulations. The Board acknowledges its responsibility to develop internal control systems and risk management and is also responsible for regular reviewing and maintaining an adequate and effective internal control system of the Group.

During the year, the Board has conducted reviews of the internal control system of the Group and considered the internal control system of the Group is adequate and has implemented effectively as a whole. External consultants were hired to assist the Board to perform high-level review of internal control systems for selected business operations and processes.

AUDITOR'S REMUNERATION

During the year ended 31 December 2009, the fee paid/payable to the external auditors of the Company in respect of audit services amounted to approximately HK$500,000.

DIRECTORS' RESPONSIBILITY ON THE FINANCIAL STATEMENTS

The Directors acknowledge that it is their responsibility to prepare the financial statements of the Group and other financial disclosures in accordance with HKFRSs promulgated by the HKICPA, the disclosure requirements of the Companies Ordinance and the applicable disclosure provisions of the Listing Rules. The management will provide information and explanation to the Board to enable it to make an informed assessment of the financial and other Board decisions.

Directors and Senior Management

BOARD OF DIRECTORS

Executive Directors

Mr. LIN Wenjian, aged 40, is the Chairman, Chief Executive Officer and an executive Director of the Company. Mr. LIN Wenjian was appointed on 21 April 2008 as a Director. Mr. LIN Wenjian became a director and general manager of 鑫威(福建)輕工有限公司 (Xinwei (Fujian) Light Industry Co., Ltd.*) ("**Xinwei (China)**") in 1998 responsible for its daily operation. In 2000, Mr. LIN Wenjian acquired Xinwei (China) from an Independent Third Party and since then he is responsible for the overall business operations of Xinwei (China). Hence, with more than 20 years' experience, Mr. LIN he has in-depth knowledge on the shoe/sportswear industry in China. In particular, Mr. LIN Wenjian is experienced in the shoe production process, research and development of shoe products and the management of shoe manufacturing facilities. Prior to joining Xinwei (China) in 1998, Mr. LIN Wenjian was a senior management of 泉州恒達製鞋有限公司 (Quanzhou Hengda Shoes Manufacturing Company Limited*) during 1988 to 1998 from which he gained working experience in the production process, design, trading and development and sales of shoes. Mr. LIN Wenjian was awarded the "*Outstanding Entrepreneurship in Brand-building in China*" (中國品牌建設優秀企業家) in July 2007 by 中國國際名牌發展協會 (The China International Nameplate Development Association*) and has been a standing council member of 福建省鞋業行業協會 (Fujian Shoe Industry Association*) since 2004. Mr. LIN Wenjian is now the Vice Chairman of 陳埭商業協會 (Chendai Business Association*) and Vice Chairman of 晋江市慈善協會 (Jinjiang City Charity Association*). Mr. LIN Wenjian graduated from a three-year course on enterprise management held by the Adult Education College of Huaqiao University in 2002. Mr. LIN is the elder brother of Mr. LIN Mingxu and Mr. LIN Wenzu.

Mr. LIN Mingxu, aged 38, is an executive Director, the deputy general manager and the head of the procurement department responsible for the management and the procurement of raw materials for the production requirements. Mr. LIN Mingxu received his secondary school education in Jinjiang City, China during the period between 1986 and 1989. Mr. LIN Mingxu joined the Company in 1998 to be a director and deputy general manager of Xinwei (China) and was appointed as a Director on 21 April 2008. With over 18 years' experience in the shoe manufacturing industry, Mr. LIN Mingxu has extensive knowledge on each stage of the shoe production process including, procurement of raw materials, development, design and production. Prior to joining the Company, Mr. LIN Mingxu worked as the head of the design and development department and the purchase manager of 泉州恒達製鞋有限公司 (Quanzhou Hengda Shoes Manufacturing Company Limited*) for over 10 years responsible for product design and development, sourcing and selecting raw materials for production of shoes. Mr. LIN Mingxu is a younger brother of Mr. LIN Wenjian and the elder brother of Mr. LIN Wenzu.

Mr. LIN Wenzu, aged 35, is an executive Director, the deputy general manager and the head of the Export ODM Business. Mr. LIN Wenzu received his secondary school education in Jinjiang City, China during the period between 1987 and 1990. Mr. LIN Wenzu became a deputy general manger of Xinwei (China) in 1998 and was appointed as a Director on 21 April 2008. Mr. LIN Wenzu is responsible for overseeing all matters in relation to the Export ODM Business. Mr. LIN Wenzu has over 16 years of experience in design, development and sales of shoes, and has over 10 years of experience in the export business. During 1990 to 1992, Mr. LIN Wenzu worked as an export trading officer of 鑫達盛鞋服貿易公司 (Xin Da Fu Shoes and Apparel Trading Company*) responsible for the export business of sports shoes and apparel items to countries in South America. From 1992 to 1998, Mr. LIN Wenzu worked as an export manager of 泉州恒達製鞋有限公司 (Quanzhou Hengda Shoes Manufacturing Company Limited*) responsible for export of sports shoes to countries in America and Europe. Mr. LIN Wenzu is the Vice Chairman of 晋江市青年商業協會 (Jinjiang City Youth Business Association*). Mr. LIN Wenzu is a younger brother of Mr. LIN Wenjian and Mr. LIN Mingxu.

Mr. LI Yong, aged 36, is an executive Director and the head of the sales and marketing department for the *Flyke* products. Mr. LI has been with the Company since 2000 and was appointed as a Director on 28 October 2009. Mr. LI is responsible for the positioning and formulation of the development plan for the *Flyke* brand and oversees the sales and marketing department. Mr. LI has over 17 years of experience in marketing and sales. Prior to joining the Company, Mr. LI had worked in other shoe companies including 溫州時代集團有限公司 (Wenzhou Times Group Company Limited*) and 浙江紅蜻蜓鞋業股份有限公司 (Zhejiang Red Dragonfly Shoes Stock Company Limited*) responsible for marketing and sales. Mr. LI graduated from a two-year course on history held by Hangzhou University in 1992.

Independent non-executive Directors

Mr. CHU Kin Wang, Peleus, aged 45, is an independent non-executive Director appointed on 24 February 2010. Mr. CHU is also the chairman of the audit committee of the Board. Mr. CHU has over 20 years of experience in corporate finance, audit, accounting and taxation. Mr. CHU is the company secretary of Hong Long Holdings Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 1383), responsible for corporate finance, financial reporting and compliance and company secretarial matters. Mr. CHU is also an executive director of Chinese People Holdings Company Limited (中民控股有限公司) (stock code: 681), and an independent non-executive director of Eyang Holdings (Group) Co., Limited (宇陽控股(集團)有限公司) (stock code: 117), Bright Prosperous Holdings Limited (晉盈控股有限公司) (stock code: 723), and Huayu Expressway Group Limited (華昱高速集團有限公司) (stock code: 01823), all are companies listed on the Main Board of the Stock Exchange. During the period from September 2005 to March 2007 Mr. CHU was the executive director of Mastermind Capital Limited (慧德投資有限公司), during the relevant period known as Haywood Investments Limited, a company listed on the Main Board of the Stock Exchange (stock code: 905). Mr. CHU graduated from The University of Hong Kong with a Master Degree in Business Administration in 1998. Mr. CHU is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Mr. CHU is also an associate member of both the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Company Secretaries.

Mr. ZHU Guohe, aged 39, is an independent non-executive Director appointed on 24 February 2010. Mr. ZHU is also a member of the audit committee, remuneration committee and nomination committee of our Board. Mr. ZHU graduated from the Huaqiao University (國立華僑大學) in 1994 with a bachelor's degree in electrical technology. Mr. ZHU has over 14 years of experience in advertising, and is experienced in managing brands of certain industries including sports equipment. Mr. ZHU is now the owner and general manager of several advertising companies in Fujian Province. Mr. ZHU was accredited as "*China's Sports Brands Strategy Experts*" (中國體育策劃專家) in 2005 and "*China's Outstanding Sports Brand Strategic Expert*" (中國傑出運動品牌策劃專家) in 2008. Mr. ZHU is now the special lecturer of the Humanities College of Quanzhou Normal University (泉州師範學院). Since August 2009, Mr. ZHU has been an independent non-executive director of Xi De Lang Holdings Ltd., a company listed on Bursa Malaysia.

Mr. HUANG Shanhe, aged 60, is an independent non-executive Director appointed on 24 February 2010. Mr. HUANG is also the chairperson of the remuneration committee and nomination committee of our Board and a member of the audit committee of our Board. Mr. HUANG obtained a bachelor's degree in economics from Xiamen University in 1982 and a master's degree in world economics from Xiamen University in 1984. In 2000, Mr. HUANG completed a diploma course in computer information systems from Langara College of Canada. Mr. HUANG was a visiting scholar (訪問學者) at the Institute of East Asian Studies of University of California at Berkeley of the United States from 1991 to 1993. Mr. HUANG has been the editor of a magazine "*Economic Issues in China*" (中國經濟問題), the Chief Technology Officer of Domino Computer, a U.S. company, and a consultant of Ding Sheng (Xiamen) Computer Systems Co. Ltd. (鼎盛(廈門)電腦系統有限公司). From 2004, Mr. HUANG has been an information technology consultant of Xiamen Huaxia College (廈門華夏學院). Mr. HUANG became a professor of electronic commerce at Jiageng College (嘉庚學院) of Xiamen University in 2006 and became the department head of electronic commerce in 2009.

SENIOR MANAGEMENT

Chief financial officer and company secretary

Mr. CHIM Kam Pang, aged 32, is the Chief Financial Officer and company secretary and one of the authorised representatives. Mr. CHIM has over six years of experience in auditing including auditing and internal control reviews for various companies listed on the Stock Exchange. Mr. CHIM graduated from Lingnan University and obtained a bachelor's degree in business administration in 2003. Prior to joining the Company, Mr. CHIM worked for various accounting firms in Hong Kong. Mr. CHIM is a member of both the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

Other senior management

Mr. CHEN Wenshan, aged 48, is the finance manager and joined our Group in 2008. Mr. CHEN is responsible for overseeing our financial management. Mr. CHEN graduated from a three-year course on finance accounting held by the Wuhan University in 1996. Mr. CHEN has over 20 years of experience in finance and accounting. Prior to joining us, Mr. CHEN has worked in various companies in Fujian Province, China as finance manager and financial controller.

Mr. FANG Qing, aged 29, is the assistant to the head of sales and marketing for the *Flyke* products and joined the Group in 2005. Mr. FANG is responsible for conducting research and analyzing market data on industry trends, as well as implementing our Group's marketing campaigns and promotions. Mr. FANG graduated from a four-year course on computer science and technology held by the South West Jiaotong University, China in 2002. Prior to joining the Company, Mr. FANG worked in an information technology company as manager and the department head of network security, responsible for the development, sales and management of a network and information security project. Mr. FANG has also been a lecturer of 福建省信息產業廳 (Fujian Province Information Technology Bureau*).

Mr. HU Deming, aged 33, is the head of the production department. Mr. HU joined the Company in 2009. Mr. HU is responsible for overseeing and managing our production processes including quality control, product inspection and formulating and scheduling the production plans to meet customers' demands. Mr. HU is also involved in various cost control analyses for the production processes and training of the Company's employees in various areas of the production process. Mr. HU has over 10 years of experience in shoe production and was a member of the senior management team of a shoe manufacturing company prior to joining us. Mr. HU graduated from ShangRao Normal University in 1999 majoring in administrative management.

Mr. LIN Dehuo, aged 41, is the head of the product design and development department. Mr. LIN Dehuo joined the Company in 1998. Mr. LIN Dehuo is responsible for overseeing the design and development of new products and has extensive experience in the production process, material utilization and research and development. Mr. LIN Dehuo received his secondary school education in Jinjiang City during the period between 1983 and 1986. Prior to joining the Company, Mr. LIN Dehuo worked in various shoe companies as senior management and has over 20 years of industry experience.

Mr. LIN Zhiming, aged 45, is the assistant to the Chairman. Mr. LIN Zhiming joined the Company in 2000. Mr. LIN Zhiming is responsible for assisting the Chairman in his daily work and liaising with government agencies. Mr. LIN Zhiming received his secondary school education in Jinjiang City during the period between 1977 and 1980. Mr. LIN Zhiming has over 20 years of experience in the shoe industry. From 1980 to 2000, Mr. LIN Zhiming operated his own shoe company.

Mr. XIE Wubin, aged 35, is the head of the administration department and assistant to the chairman. Mr. XIE joined the Company in 2007, and is responsible for assisting the Chairman in his daily work, formulating work plans for the Group, and general administrative and human resources matters of the Group. Mr. XIE obtained a bachelor's degree in physics from Xiamen University in 1999 and a master's degree in industrial economics from Xiamen University in 2007. During 1999 to 2001, Mr. XIE worked in the research and development department of a company in Xiamen focusing on the development of digital microscopes. During 2001 to 2007, Mr. XIE worked for a company in Ningbo, Zhejiang Province, initially as project manager leading the research and development of digital microscopes, and later as assistant to the general manager.

Independent Auditor's Report

信永中和
ShineWing

SHINEWING (HK) CPA Limited
16/F., United Centre
95 Queensway, Hong Kong

TO THE SHAREHOLDERS OF
FLYKE INTERNATIONAL HOLDINGS LTD.
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Flyke International Holdings Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 26 to 60, which comprise the consolidated statement of financial position as at 31 December 2009, 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 notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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 and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by 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.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2009 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
Ip Yu Chak
Practising Certificate Number: P04798

Hong Kong
26 April 2010

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Turnover	7	**849,292**	413,594
Cost of sales		**(639,736)**	(288,799)
Gross profit		**209,556**	124,795
Other income	9	**876**	1,406
Selling and distribution expenses		**(30,578)**	(30,402)
Administrative expenses		**(14,065)**	(8,654)
Other operating expenses		**(11,697)**	(10,262)
Finance costs	10	**(4,679)**	(4,994)
Profit before tax	11	**149,413**	71,889
Income tax expense	12	**(14,633)**	(5,431)
Profit for the year		**134,780**	66,458
Exchange differences arising on translation of foreign operations		**25**	—
Total comprehensive income for the year, net of tax		**134,805**	66,458
Earnings per share (RMB)			
Basic and diluted	14	**0.168**	0.083

Consolidated Statement of Financial Position

As at 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Non-current assets			
Property, plant and equipment	16	96,579	91,931
Prepaid lease payments	17	23,779	5,555
Deferred tax assets	18	—	2,265
		120,358	99,751
Current assets			
Inventories	19	25,824	29,395
Trade and other receivables	20	221,181	123,293
Prepaid lease payments	17	500	126
Amount due from the controlling shareholder	21	—	10,801
Pledged bank deposits	22	2,220	19,296
Bank balances and cash	22	98,747	26,849
		348,472	209,760
Current liabilities			
Trade and other payables	23	135,783	114,018
Amount due to the controlling shareholder	24	3,768	—
Financial guarantee liabilities	25	—	60
Income tax payable		8,689	8,619
Bank borrowings	26	116,370	48,500
		264,610	171,197
Net current assets		83,862	38,563
Total assets less current liabilities		204,220	138,314
Capital and reserves			
Share capital	27	—	28,256
Reserves		203,452	110,058
Total equity		203,452	138,314
Non-current liability			
Deferred tax liabilities	18	768	–
		204,220	138,314

The consolidated financial statements on pages 26 to 60 were approved and authorised for issue by the board of directors on 26 April 2010 and are signed on its behalf by:

LIN Wenjian
Director

LIN Wenzu
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Share capital RMB'000 (Notes 27)	Special reserve RMB'000 (Note a)	Statutory reserve RMB'000 (Note b)	Translation reserve RMB'000	Retained earnings RMB'000	Total equity RMB'000
At 1 January 2008	25,515	—	5,675	—	41,629	72,819
Capital injection	2,741	—	—	—	—	2,741
Total comprehensive income for the year	—	—	—	—	66,458	66,458
Transfer from retained earnings	—	—	7,111	—	(7,111)	—
Dividend paid during the year	—	—	—	—	(3,704)	(3,704)
At 31 December 2008	28,256	—	12,786	—	97,272	138,314
Reserve arising from reorganisation	(28,256)	28,256	—	—	—	—
Total comprehensive income for the year	—	—	—	25	134,780	134,805
Transfer from retained earnings	—	—	14,324	—	(14,324)	—
Dividend paid during the year	—	—	—	—	(69,667)	(69,667)
At 31 December 2009	—	28,256	27,110	25	148,061	203,452

Notes:

a. Special reserve represents the difference between the nominal value of the share capital of subsidiaries acquired pursuant to a group reorganisation over the consideration paid for acquiring these subsidiaries.

b. In accordance with the relevant regulations applicable in the People's Republic of China (the "PRC"), subsidiaries established in the PRC are required to transfer at least 10% of their statutory annual profits after tax to the statutory reserve until the balance of the reserve reaches 50% of their respective registered capital. Subject to certain restrictions as set out in the relevant PRC regulations, the statutory reserve may be used to offset against accumulated losses of the respective PRC subsidiaries. The amount of the transfer is subject to the approval of the board of directors of the respective PRC subsidiaries.

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	2009 RMB'000	2008 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**149,413**	71,889
Adjustments for:		
Amortisation of prepaid lease payments	**126**	126
Depreciation of property, plant and equipment	**6,845**	5,522
Finance costs	**4,679**	4,994
Bank interest income	**(306)**	(786)
Loss on disposal of property, plant and equipment	**—**	50
Write down of inventories	**—**	824
Amortisation of financial guarantee liabilities	**(60)**	(251)
Fair value of the financial guarantee liabilities at date of grant	**—**	58
Additional provision for financial guarantee	**—**	58
Operating cashflows before movements in working capital	**160,697**	82,484
Decrease (increase) in inventories	**3,571**	(13,679)
Increase in trade and other receivables	**(97,888)**	(65,139)
Increase in trade and other payables	**21,765**	23,306
Cash generated from operations	**88,145**	26,972
Income tax refund	**35**	480
Income tax paid	**(11,565)**	(4,460)
NET CASH FROM OPERATING ACTIVITIES	**76,615**	22,992
INVESTING ACTIVITIES		
Purchase of property, plant and equipment and prepaid lease payments	**(30,217)**	(52,675)
Interest received	**306**	786
Repayment from the controlling shareholder	**10,801**	35,670
Decrease in pledged bank deposits	**17,076**	16,324
Proceeds from disposal of property, plant and equipment	**—**	2,191
NET CASH (USED IN) FROM INVESTING ACTIVITIES	**(2,034)**	2,296
FINANCING ACTIVITIES		
Dividend paid	**(69,667)**	(3,704)
Repayment of bank borrowings	**(62,000)**	(77,000)
Interest paid	**(4,679)**	(4,994)
Advance from the controlling shareholder	**3,768**	—
New bank borrowings raised	**129,870**	82,000
Capital injection	**—**	2,741
NET CASH USED IN FINANCING ACTIVITIES	**(2,708)**	(957)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**71,873**	24,331
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**26,849**	2,518
Effect of foreign exchange rate changes	**25**	—
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**98,747**	26,849

1. GENERAL

Flyke International Holdings Ltd. (the "Company") was incorporated in the Cayman Islands on 21 April 2008 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The addresses of the registered office and principal place of business of the Company are disclosed in the "Company Information" section to the annual report.

The directors of the Company consider that Super Creation International Limited, a company incorporated in the British Virgin Islands ("BVI") with limited liability, is the parent company of the Company and Mr. Lin Wenjian ("Mr. LIN") is the ultimate controlling shareholder.

Pursuant to a group reorganisation (the "Reorganisation") to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred to as 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 22 December 2009. Details of the Reorganisation were set out in the prospectus of the Company dated 16 March 2010 (the "Prospectus").

The Group resulting from the Reorganisation is regarded as a continuing entity. Accordingly, these consolidated financial statements have been prepared using the principles of merger accounting as prescribed in Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), assuming that the current structure of the Group had been in existence throughout the two years ended 31 December 2009 and 2008.

The shares of the Company have been listed on the Stock Exchange since 29 March 2010.

The Company is an investment holding company. Details of the principal activities of its subsidiaries are set out in Note 35.

These consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Group.

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

In the current year, the Group has applied, for the first time, all the revised HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations ("INT(s)") (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning on 1 January 2009.

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

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related Party Disclosures[6]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Rights Issues[4]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[5]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[7]
HK(IFRIC)-INT 14 (Amendment)	Prepayments of a Minimum Funding Requirement[6]
HK(IFRIC)-INT 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC)-INT 19	Extinguishing Financial Liabilities with Equity Instruments[5]

[1] Effective for annual periods beginning on or after 1 July 2009
[2] Amendments those are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate
[3] Effective for annual periods beginning on or after 1 January 2010
[4] Effective for annual periods beginning on or after 1 February 2010
[5] Effective for annual periods beginning on or after 1 July 2010
[6] Effective for annual periods beginning on or after 1 January 2011
[7] Effective for annual periods beginning on or after 1 January 2013

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

HKFRS 9 *Financial Instruments* introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

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

In addition, as part of *Improvements to HKFRSs (2009)*, HKAS 17 *Leases* has been amended in relation to the classification of leasehold land. The amendments will be effective from 1 January 2010, with earlier application permitted. Before the amendments to HKAS 17, leases were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of the amendments to HKAS 17 might affect the classification and measurement of the Group's leasehold land.

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

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards 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.

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 or 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 on consolidation.

Business combinations under common control

Business combinations under common control are accounted for using merger accounting. In applying merger accounting, 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 parties' 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations under common control (Continued)

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.

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 on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered and title has passed.

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.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's statement of financial position at cost less any identified impairment loss.

Property, plant and equipment

Property, plant and equipment, including buildings held for use in the production or for administrative purposes other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimate residual value, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category 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 derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

Prepaid lease payments

Prepaid lease payments are up-front payments to acquire leasehold land interests. The prepaid lease payments are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged to the consolidated statement of comprehensive income over the period of the land use right using the straight-line method.

Inventories

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment losses

At the end of the reporting period, the Group reviews the carrying amounts of its 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.

Financial instruments

Financial assets and financial liabilities are recognised in the 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 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 or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are all 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 on points 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.

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, amount due from the controlling shareholder, pledged bank deposits 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 loss on financial assets below).

Impairment loss on financial assets

Financial assets are assessed for indicators of impairment at the end of each 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment loss on financial assets (Continued)

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

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade and other 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 credit period of 60 days, observable changes in national or local economic conditions that correlate with default on receivables.

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 or 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

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 as 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Other financial liabilities

Other financial liabilities including trade and other payables, amount due to the controlling shareholder, bank borrowings and amount due to subsidiaries are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets", and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

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, 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.

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.

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 the relevant lease.

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 each 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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.

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, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

Borrowing costs

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

Government grants

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. Government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to state-managed retirement benefit schemes are charged as an expense when employees have rendered services entitling them to the contributions.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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 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 the end of each 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.

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 to 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.

Research and development expenditure

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

4. CRITICAL ACCOUNTING JUDGEMENT 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 associated 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 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.

Legal title of buildings and land use rights

Despite the Group has paid the full purchase consideration as detailed in Notes 16 and 17 respectively, certain of the Group's legal titles to certain buildings and land use rights have not been granted by the relevant government authorities. Despite the fact the Group has not obtained the relevant legal title, the directors of the Company determine to recognise these buildings and land use rights on the ground that they expect the legal titles being obtained in future should have no major difficulties and the Group is in substance controlling these buildings and land use rights.

Key sources of estimation uncertainty

The followings 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.

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

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 value. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the residual value and the useful life of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year and the estimate will be changed in the future period.

Estimated impairment of property, plant and equipment

The management of the Group determines whether the property, plant and equipment is impaired, at least on an annual basis. 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 (2008: Nil).

Write down of inventories

The management of the Group reviews an aging analysis at the end of each reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sale. The management estimates the net realisable value for finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period and makes allowance for obsolete items. As at 31 December 2009, the carrying amounts of inventories was approximately RMB25,824,000 (2008: RMB29,395,000). No impairment loss was recognised during the year (2008: RMB824,000).

Estimated impairment loss recognised in respect of trade receivables

The Group performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience. Credit losses have historically been within the Group's expectations and the Group will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses. No impairment loss was recognised during the year (2008: Nil).

Provision for guarantees

The Group follows the guidance of HKAS 37 "Provision, Contingent Liabilities and Contingent Assets" on determining the provision for guarantees. Provisions have been made based on management's best estimates and judgements if it is probable that an outflow of resources will be required to settle the defaulted guarantees and the amount of such provision can be measured reliably.

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 throughout the financial years presented.

The capital structure of the Group consists of net debts, which includes the bank borrowings disclosed in Note 26, cash and cash equivalents and equity attributable to the owners of the parent, 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 of the Company, the Group will balance its overall capital structure through the payment of dividends, issuance of new shares, raising of new debts or repayment of existing debts.

6. FINANCIAL INSTRUMENTS

6(a) Categories of financial instruments

	2009 RMB'000	2008 RMB'000
Loans and receivables (including cash and cash equivalents)	**297,932**	178,168
Financial liabilities at amortised cost	**230,498**	143,714
Financial guarantee liabilities at fair value	**–**	60

6(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amount due from (to) the controlling shareholder, pledged bank deposits, bank balances and cash, trade and other payables, financial guarantee liabilities and bank borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (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.

(i) Currency risk

As most of the Group's monetary assets and liabilities are denominated in RMB and the Group conducts its business transactions principally in RMB, the currency risk of the Group is not significant and the Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

In the opinion of the directors of the Company, since the currency risk is minimal, no sensitivity analysis is presented.

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank deposits and 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.

The Group is also exposed to cash flow interest rate risk in relation to bank balances carried at prevailing market rate. However, such exposure is minimal to the Group as the bank balances are all short-term in nature.

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 base lending rate published by the People's Bank of China arising from the Group's RMB borrowings.

6. FINANCIAL INSTRUMENTS (Continued)

6(b) Financial risk management objectives and policies (Continued)

(ii) Interest rate risk (Continued)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of reporting period. For variable-rate bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis points (2008: 50 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 50 basis points (2008: 50 basis points) higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2009 would decrease/increase by RMB417,000 (2008: RMB73,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

(iii) Credit risk

As at 31 December 2009, 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 provided by the Group or debtors which the Group has provided financial guarantees, is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position and the amount of contingent liabilities as disclosed in Note 30.

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 each 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.

With respect to financial guarantees given to a bank to secure the banking facilities granted to an independent third party by the Group, the directors of the Company consider that the Group's credit risk is limited because the independent third party has strong financial position and good credit rating.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

The Group has concentration of credit risk as 48% (2008: 55%) and 61% (2008: 66%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively. In the opinion of directors of the Company, the risk is gradually reduced as the Group's customer base has been diversified and became less concentrated during the year.

The Group has concentration of credit risk by geographical location, as all the trade receivables are located in the People's Republic of China (the "PRC") as at 31 December 2009 and 2008.

The Group has no other significant concentration of credit risk, with exposure spreading over a number of counterparties.

6. FINANCIAL INSTRUMENTS (Continued)

6(b) Financial risk management objectives and policies (Continued)

(iv) Liquidity risk

In management of 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 and other source of funding and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2009, the Group has available unutilised short-term bank loan facilities of approximately RMB4,630,000 (2008: RMB9,080,000). Details of which are set out in Note 26.

The following table details 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 table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

Liquidity tables

	Carrying amounts RMB'000	**Total undiscounted cash flows and due within one year** RMB'000
As at 31 December 2009		
Non-derivative financial liabilities		
Trade and other payables	**110,360**	**110,360**
Amount due to the controlling shareholder	**3,768**	**3,768**
Bank borrowings	**116,370**	**119,246**
	230,498	**233,374**
As at 31 December 2008		
Non-derivative financial liabilities		
Trade and other payables	95,214	95,214
Financial guarantee liabilities	60	15,000
Bank borrowings	48,500	50,945
	143,774	161,159

The amounts included above for financial guarantee liabilities represent the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on the expectation at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee.

6. FINANCIAL INSTRUMENTS (Continued)

6(c) Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- The fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input; and

- The fair value of financial guarantee contracts is determined using option pricing models where the major assumptions are the probability of default by the specified counterparty extrapolated from market-based credit information and the amount of loss, given the default.

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

7. TURNOVER

Turnover represents the net amounts received and receivable for goods sold in the normal course of business, net of discounts and sales related taxes and is analysed by major types of products as follows:

	2009 RMB'000	2008 RMB'000
Sports shoes	577,582	327,537
Sportswear and sports accessories	238,276	60,879
Soles	33,434	25,178
	849,292	413,594

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. No segment information is presented in respect of the Group's operating segment as the Group is principally engaged in one segment in the design, production and sales of shoes and sportwear in the PRC.

The Group's operations are all located in and carried out in the PRC. All of its turnover from operations are derived from customers in the PRC and substantial non-current assets are located in the PRC. Accordingly, no geographical information in regard of these has been presented.

The Group has only one (2008: one) customer with whom transactions have exceed 10% of the Group's aggregate turnover. The amounts of sales from this customer amounted to approximately RMB305,205,000 (2008: RMB145,896,000) for the year.

9. OTHER INCOME

	2009 RMB'000	2008 RMB'000
Bank interest income	306	786
Government grants (Note)	50	300
Amortisation of financial guarantee liabilities (Note 25)	60	251
Gain on sales of materials	307	—
Others	153	69
	876	1,406

Note:

Government grants were received from several of local government authorities for the Group's contribution to local economies, of which there are no unfulfilled conditions or contingencies relating to those subsidies.

10. FINANCE COSTS

	2009 RMB'000	2008 RMB'000
Interest on bank borrowings wholly repayable within one year	4,679	4,994

11. PROFIT BEFORE TAX

	2009 RMB'000	2008 RMB'000
Profit before tax has been arrived at after charging:		
Directors' emoluments (Note 13)	640	202
Salaries and other allowances	78,611	53,187
Retirement benefits scheme contributions (excluding directors)	1,026	478
Total staff costs	80,277	53,867
Amortisation of prepaid lease payments	126	126
Auditors' remuneration	441	37
Cost of inventories recognised	639,736	287,975
Depreciation of property, plant and equipment	6,845	5,522
Fair value of the financial guarantee liabilities at date of grant	—	58
Additional provision for financial guarantee	—	58
Loss on disposal of property, plant and equipment	—	50
Write down of inventories (included in cost of sales)	—	824
Operating lease rental paid in respect of rented premises	157	297
Research and development costs (included in other operating expenses)*	11,690	9,991

* Research and development costs included staff costs and depreciation of property, plant and equipment used in research and development activities.

12. INCOME TAX EXPENSE

	2009 RMB'000	2008 RMB'000
The charge comprises:		
PRC Enterprise Income Tax ("EIT") — Current	**11,600**	7,696
Deferred tax (Note 18)	**3,033**	(2,265)
	14,633	5,431

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profits subject to Hong Kong Profits Tax during the two years ended 31 December 2009 and 2008.

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

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards except for Feike Sports Products Co., Ltd. Fujian* (福建省飛克體育用品有限公司) ("Flyke (China)") that is entitled to different concessionary tax rates as disclosed below.

Pursuant to the income tax rules and regulations of the PRC, Flyke (China) is a foreign investment enterprise and is entitled to tax concessions whereby the profit for the first two financial years beginning with the first profit-making year is exempted from income tax in the PRC and the profit for each of the subsequent three years is taxed at 50% of the prevailing tax rate set by the PRC government (the "Tax Exemption").

The first profit-making year of Flyke (China) was 2007. As year 2007 was not a full year operation, accordingly, year 2008 was regarded the beginning year of Tax Exemption as the first profit-making year and is exempted from EIT from 1 January 2008 to 31 December 2009 and the applicable rate from 1 January 2010 to 31 December 2012 is 12.5%.

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

	2009 RMB'000	2008 RMB'000
Profit before tax	**149,413**	71,889
Tax at domestic tax rates applicable to profits of taxable entities in the countries concerned (Note)	**37,444**	18,088
Tax effect of expenses not deductible for tax purpose	**893**	1,066
Effect of Tax Exemption granted to a PRC subsidiary	**(27,099)**	(13,723)
Withholding tax on undistributed profits of subsidiaries	**3,395**	—
Income tax expense for the year	**14,633**	5,431

Note: As the Group operates in several different tax jurisdictions, separate reconciliations using the domestic tax rate in each individual tax jurisdiction have been aggregated.

* *English name is for identification purpose only.*

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors

Details of emoluments paid and payable to the directors of the Company for the two years ended 31 December 2009 and 2008 are as follows:

	Fees RMB'000	Salaries and other allowances RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
For the year ended 31 December 2009				
Executive directors:				
Mr. LIN	—	292	1	293
Mr. Lin Wenzu	—	170	5	175
Mr. Lin Mingxu	—	167	5	172
Mr. Li Yong	—	—	—	—
Independent non-executive directors:				
Mr. Chu Kin Wang, Peleus	—	—	—	—
Mr. Huang Shanhe	—	—	—	—
Mr. Zhu Guohe	—	—	—	—
Total	—	629	11	640
For the year ended 31 December 2008				
Executive directors:				
Mr. LIN	—	65	1	66
Mr. Lin Wenzu	—	65	3	68
Mr. Lin Mingxu	—	65	3	68
Mr. Li Yong	—	—	—	—
Independent non-executive directors:				
Mr. Chu Kin Wang, Peleus	—	—	—	—
Mr. Huang Shanhe	—	—	—	—
Mr. Zhu Guohe	—	—	—	—
Total	—	195	7	202

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(b) Employees

Details of emoluments of the five highest paid individuals of the Group for the two years ended 31 December 2009 and 2008 are as follows:

	2009 RMB'000	2008 RMB'000
Salaries, allowances and benefits-in-kind	897	317
Retirement benefits scheme contributions	14	13
	911	330
Number of directors	3	2
Number of other employees	2	3
	5	5

Note:

The emolument of each of the above employees is below RMB880,000 (approximately Hong Kong dollars ("HK$") 1,000,000).

During the two years ended 31 December 2009 and 2008, no emoluments was paid by the Group to any of the directors, or the five highest paid individuals (including director and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the director waived any emoluments during the two years ended 31 December 2009 and 2008.

14. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company is based on the profit for the year attributable to owners of the Company of approximately RMB134,780,000 (2008: RMB66,458,000) and on the assumption that 800,000,000 shares of the Company were in issue and issuable pursuant to the capitalisation and global offering as if the shares had been in issue throughout the entire years ended 31 December 2009 and 2008.

The dilutive earnings per share is equal to the basic earnings per share as there were no dilutive potential ordinary shares outstanding during the two years ended 31 December 2009 and 2008.

15. DIVIDENDS

	2009 RMB'000	2008 RMB'000
Final dividend paid during the year	69,667	3,704

Pursuant to board resolutions passed on 11 March 2010, the Company declared dividends of approximately RMB100,000,000 prior to the listing of the Company. Such dividends were fully settled in March 2010.

15. DIVIDENDS (Continued)

During the year ended 31 December 2009, Xin Wei (Fujian) Light Industry Co., Ltd.* (鑫威(福建)輕工有限公司) declared and approved a final dividend of approximately RMB20,158,000 and RMB13,567,000 in respect of the year ended 31 December 2007 and 2008 respectively and settled with its then shareholder in April 2009. In addition, Flyke (China) declared and approved a final dividend of approximately RMB35,942,000 in respect of the year ended 31 December 2008 and settled with its then shareholder in September 2009.

During the year ended 31 December 2008, Flyke (China) declared and approved a final dividend of approximately RMB3,704,000 in respect of the year ended 31 December 2007 and settled with its then shareholder in April 2008.

The rate of dividend per share is not presented as it is not indicative of the rate at which future dividends will be declared.

* *English name is for identification purpose only.*

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	**Plant and machinery** RMB'000	**Furniture, fixtures and office equipment** RMB'000	**Motor vehicles** RMB'000	**Construction in progress** RMB'000	**Total** RMB'000
COST						
At 1 January 2008	17,626	36,669	1,377	—	7,990	63,662
Additions	1,603	27,682	20	—	23,370	52,675
Disposals	—	(4,438)	(30)	—	—	(4,468)
Transfer	8,330	—	—	—	(8,330)	—
At 31 December 2008	27,559	59,913	1,367	—	23,030	111,869
Additions	1,320	84	—	1,620	27,193	30,217
Transfer	3,080	—	—	—	(21,804)	(18,724)
At 31 December 2009	31,959	59,997	1,367	1,620	28,419	123,362
DEPRECIATION						
At 1 January 2008	5,170	11,258	215	—	—	16,643
Provided for the year	1,164	4,145	213	—	—	5,522
Eliminated on disposals	—	(2,219)	(8)	—	—	(2,227)
At 31 December 2008	6,334	13,184	420	—	—	19,938
Provided for the year	1,332	5,306	201	6	—	6,845
At 31 December 2009	7,666	18,490	621	6	—	26,783
CARRYING VALUES						
At 31 December 2009	24,293	41,507	746	1,614	28,419	96,579
At 31 December 2008	21,225	46,729	947	—	23,030	91,931

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

The above items of property, plant and equipment are depreciated on a straight-line basis. The estimated useful lives of the property, plant and equipment are as follows:

Buildings	Over 10 to 20 years or over the lease terms of the relevant land, whichever is shorter
Plant and machinery	5–10 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	5 years

As at 31 December 2009, the Group has not yet obtained the legal title of the buildings with an aggregate carrying values of approximately RMB9,133,000 (2008: RMB9,580,000).

17. PREPAID LEASE PAYMENTS

	2009 RMB'000	2008 RMB'000
The carrying amounts of the Group's prepaid lease payments in the PRC under medium-term lease are analysed as follows for reporting purposes:		
Current asset	**500**	126
Non-current asset	**23,779**	5,555
	24,279	5,681

The prepaid lease payments are amortised over the lease term of 50 years.

As at 31 December 2009, the Group has not yet obtained the legal title of land use rights with an aggregate carrying amount of approximately RMB18,724,000 (2008: Nil). In February 2010, the legal title of land use right with a carrying amount of RMB1,860,000 has been granted by the relevant government authority.

18. DEFERRED TAXATION

The following are the major deferred tax assets (liabilities) recognised and movements thereof during the current and prior year:

	Accrued expenses and others RMB'000	Undistributed profits of subsidiaries RMB'000	Total RMB'000
At 1 January 2008	–	–	–
Credited to consolidated statement of comprehensive income for the year	2,265	–	2,265
At 31 December 2008	2,265	–	2,265
Credited (charged) to consolidated statement of comprehensive income for the year	362	(3,395)	(3,033)
At 31 December 2009	2,627	(3,395)	(768)

According to a joint circular of Ministry of Finance and State Administration of Taxation, Cai Shui 2008 No.1, dividend distributed out of the profits generated since 1 January 2008 held by the PRC entity shall be subject to PRC EIT pursuant to Articles 3 and 27 of the Income Tax Law Concerning Foreign Investment Enterprises and Foreign Enterprises and Article 91 of the Detailed Rules for the Implementation of the Income Tax Law for Enterprises with Foreign Investment Enterprises and Foreign Enterprises. Deferred tax of RMB3,395,000 (2008: Nil) on the undistributed earnings has been charged to the consolidated statement of comprehensive income for the year ended 31 December 2009.

19. INVENTORIES

	2009 RMB'000	2008 RMB'000
Raw materials	**3,027**	965
Work-in-progress	**6,173**	1,614
Finished goods	**16,624**	26,816
	25,824	29,395

20. TRADE AND OTHER RECEIVABLES

	2009 RMB'000	2008 RMB'000
Trade receivables	196,959	121,216
Prepayments	24,216	2,071
Other receivables	6	6
	221,181	123,293

The Group generally allows an average credit period of 60 days to its trade customers.

The aged analysis of the Group's trade receivables presented based on the invoice date at the reporting date is as follows:

	2009 RMB'000	2008 RMB'000
Within 60 days	196,545	111,455
61 to 180 days	414	9,761
Total	196,959	121,216

No impairment loss is provided for the trade receivables that are neither past due nor impaired because these receivables are within credit period granted to the respective customers and the management considers the default rate is low for such receivables based on historical information and past experience.

In determining the recoverability of a trade receivable, the Group considers any change in credit quality of the trade receivable from the date credit was initially granted up to the reporting date. In view of the good settlement history and substantial settlement from those receivables of the Group which are past due but not impaired for the year, the directors of the Company consider that no allowance is required.

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

			Past due but not impaired
	Total RMB'000	Neither past due nor impaired RMB'000	< 60 days RMB'000
2009	196,959	196,545	414
2008	121,216	111,455	9,761

The Group does not hold any collateral over these balances.

21. AMOUNT DUE FROM THE CONTROLLING SHAREHOLDER

	2009 RMB'000	2008 RMB'000
Amount due from Mr. LIN	–	10,801
Maximum amount outstanding during the year	126,200	85,114

The amount is unsecured, non-interest bearing and repayable on demand.

22. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Pledged bank deposits represent deposits pledged to bank to secure certain bank borrowings and short-term banking facilities granted to the Group and therefore classified as current assets. The deposits carry fixed bank interest rate of 1.98% (2008: 1.98% to 3.78%) per annum.

The bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The bank deposits carry interest at the prevailing market rate of 0.36% (2008: 0.36% to 0.72%) per annum.

The pledged bank deposits, bank balances and cash of the Group are all denominated in RMB. RMB is not freely convertible into other currencies, however, under PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks authorised to conduct foreign exchange business.

23. TRADE AND OTHER PAYABLES

	2009 RMB'000	2008 RMB'000
Trade payables	88,853	43,764
Bills payables	7,400	39,970
Trade and bills payables	96,253	83,734
Other payables and accruals	22,078	11,542
Valued added tax payables	17,452	18,742
	135,783	114,018

23. TRADE AND OTHER PAYABLES (Continued)

The aged analysis of the Group's trade and bills payables is as follows:

	2009 RMB'000	2008 RMB'000
Within 90 days	**95,906**	57,420
91 to 180 days	**347**	26,287
181 to 365 days	**—**	27
Trade and bills payables	**96,253**	83,734

The average credit period on purchases of goods is 30 to 90 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 THE CONTROLLING SHAREHOLDER

The amount is unsecured, non-interest bearing and repayable on demand.

25. FINANCIAL GUARANTEE LIABILITIES

	2009 RMB'000	2008 RMB'000
At beginning of the year	**60**	195
Fair value of the financial guarantee at date of grant	**—**	58
Amortisation of financial guarantee liabilities	**(60)**	(251)
Additional provision for the year	**—**	58
At end of the year	**—**	60

The Company had provided financial guarantees to an independent third party during the two years ended 31 December 2009 and 2008. The above balances represented the fair value of the financial guarantees. The financial guarantees were released during the year ended 31 December 2009.

26. BANK BORROWINGS

	2009 RMB'000	2008 RMB'000
Secured	**33,970**	—
Guaranteed	**82,400**	48,500
	116,370	48,500

26. BANK BORROWINGS (Continued)

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

	2009 RMB'000	2008 RMB'000
Fixed-rate borrowings	33,070	34,000
Variable-rate borrowings (Note)	83,300	14,500
	116,370	48,500

Note:

The Group's variable-rate borrowings carry interests at 100% to 130% of The People's Bank of China Base Lending Rate during two years ended 31 December 2009 and 2008.

The ranges of effective interest rates per annum of the Group's borrowings are as follows:

	2009 RMB'000	2008 RMB'000
Effective interest rate:		
Fixed-rate borrowings	3.219%–6.372%	6.138%–8.964%
Variable-rate borrowings	5.310%–6.903%	5.310%–6.372%

The Group's bank borrowings are all denominated in RMB.

During the year, the Group obtained new bank borrowings in the amount of approximately RMB129,870,000 (2008: RMB82,000,000). The borrowings bear interest at market rates and will be repayable on or before 31 December 2010. The proceeds were used to provide general working capital for the Group.

As at 31 December 2009 and 2008, the bank borrowings are secured or guaranteed by:

— certain assets of the Group as set out in Note 32;

— corporate guarantee and personal guarantee from independent third parties; and

— personal guarantee from Mr. LIN.

As at 31 December 2008, bank borrowings of approximately RMB11,000,000 were also guaranteed by land and buildings and construction in progress owned by an independent third party (the "Guaranteed Land and Buildings"). The Guaranteed Land and Buildings were released in September 2009 upon the repayment of the respective bank borrowings.

As at 31 December 2009, bank borrowings of approximately RMB11,970,000 were jointly guaranteed by the directors of the Company, namely, Mr. LIN, Mr. Lin Wenzu and Mr. Lin Mingxu.

27. SHARE CAPITAL

The share capital in the consolidated statement of financial position as at 1 January 2008 and 31 December 2008 represented the combined capital of the companies now comprising the Group in which the owners of the Company held direct interests.

During the year ended 31 December 2008, the controlling shareholder of Flyke (China), Mr. LIN, injected capital totaling RMB2,741,000 to the entity, which was satisfied by cash.

Details of the Company's share capital are set out below:

	Number of shares	**Amount** US$	**Amount as presented** RMB'000
Authorised:			
50,000 ordinary shares of US$1 each on 21 April 2008 (date of incorporation), at 31 December 2008 and 31 December 2009	50,000	50,000	
Issued and fully paid:			
1 ordinary share of US$1 each on 21 April 2008, at 31 December 2008 and 31 December 2009	1	1	—

The Company was incorporated on 21 April 2008 with an authorised share capital of US$50,000 dividing into 50,000 ordinary shares of US$1 each. On 21 April 2008, 1 ordinary share of US$1 each was allotted and issued for cash at par as initial working capital.

28. CAPITAL COMMITMENTS

	2009 **RMB'000**	2008 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of construction in progress	**12,873**	36,605

29. OPERATING LEASE COMMITMENT

The group leases certain of its factories premises and offices under operating lease arrangements. Lease for properties are negotiated for terms ranging from one to two years. Rental was fixed at the inception of the lease. No provision for contingent rent and terms of renewal was established in the leases.

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2009 RMB'000	2008 RMB'000
Within one year	**122**	110
In the second to fifth year, inclusive	**18**	131
	140	241

30. CONTINGENT LIABILITIES

	2009 RMB'000	2008 RMB'000
Guarantees given to a bank for:		
— bank loans granted to an independent third party	**–**	15,000

31. RETIREMENT BENEFITS SCHEME

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries of the Group participate in a defined contribution retirement benefit scheme (the "Scheme") organised by the PRC municipal government authority in the Fujian Province whereby the Group is required to make contributions to the Scheme at the rate of 18% of the eligible employees' basic salaries. The local government authority is responsible for the entire pension obligations payable to retired employees.

The total expenses charged to the consolidated statement of comprehensive income of approximately RMB1,037,000 (2008: RMB485,000) represents contributions payable to this scheme by the Group at rates or amount specified in the rules of the scheme.

The Group has no other material obligation for the payment of pension benefits associated with the Scheme beyond the annual contributions described above.

32. PLEDGED OF ASSETS

The Group had pledged certain of its property, plant and equipment, prepaid lease payments and bank deposits to secure bank borrowings and banking facilities granted to the Group at the end of the reporting period. The carrying values of the assets pledged are as follows:

	2009 RMB'000	2008 RMB'000
Property, plant and equipment	43,048	11,646
Prepaid lease payments	5,555	5,681
Bank deposits	2,220	19,296
	50,823	36,623

33. RELATED PARTY TRANSACTIONS

In addition to those disclosed in notes 21, 24 and 26 respectively, the Group has entered into the following significant transactions with related parties during the two years ended 31 December 2009 and 2008.

(a) As at 31 December 2009, a related party of the Company, Quanzhou Xinwei Shoes Company Limited* 泉州興威鞋業有限公司, in which Mr. LIN has beneficial interest, was in the process of filing and application to the relevant PRC Government for the acquisition of a piece of land in the PRC on behalf of the Company at nil consideration.

(b) A tax indemnity dated 15 March 2010 were entered into by among others, Super Creation International Limited, Mr. LIN, Mr. Lin Wenzu and Mr. Lin Mingxu, pursuant to which each of them provides indemnities in respect of, among other matters, taxation which might be payable by any members of the Group in respect of any income, profits or gains earned, accrued or received on or before the listing date.

(c) Compensation of key management personnel

The remuneration of directors and other members of key management during the year were as follows:

	2009 RMB'000	2008 RMB'000
Short-term benefits	1,310	487
Retirement benefits scheme contributions	22	16
	1,332	503

The remuneration of the directors and key management personnel is determined having regard to the performance of the individuals.

* *English name is for identification purpose only*

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2009 RMB'000	2008 RMB'000
Non-current asset			
Investment in a subsidiary		—	—
Current assets			
Other receivables		1,356	424
Bank balances		42	—
		1,398	424
Current liabilities			
Other payables		35	—
Amounts due to subsidiaries	(a)	1,761	1,740
Amount due to the controlling shareholder	(b)	1,968	26
		3,764	1,766
Net current liabilities		(2,366)	(1,342)
		(2,366)	(1,342)
Capital and reserve			
Share capital		—	—
Accumulated losses		(2,366)	(1,342)
		(2,366)	(1,342)

Notes:

(a) Amounts due to subsidiaries are unsecured, non-interest bearing and repayable on demand.

(b) Amount due to the controlling shareholder is unsecured, non-interest bearing and repayable on demand.

35. PARTICULARS OF SUBSIDIARIES

Name of company	Place of incorporation/ establishment/ operations	Class of shares held	Issued and fully paid share capital/registered capital	Equity interest attributable to the Group				Principal activities
				Directly		Indirectly		
				2009	2008	**2009**	2008	
Win Eagle International Holdings Limited	BVI	Ordinary	US$1	**100%**	100%	**–**	–	Investment holding
Xin Wei (Fujian) Light Industry Co., Ltd.* (鑫威(福建)輕工有限公司)#	The PRC	Contributed Capital	RMB14,464,000	**–**	–	**100%**	100%	Design, production and sales of shoes soles, sport shoes and sportswear
Feike Sports Products Co., Ltd. Fujian* (福建省飛克體育用品有限公司)#	The PRC	Contributed Capital	RMB13,792,000	**–**	–	**100%**	100%	Design, production and sales of shoes soles, sport shoes and sportswear
Xinwei Hong Kong Investment Limited	Hong Kong	Ordinary	HK$10,000	**–**	–	**100%**	100%	Investment holding
Flyke Hong Kong Holdings Limited	Hong Kong	Ordinary	HK$10,000	**–**	–	**100%**	100%	Investment holding

These entities are wholly-foreign owned enterprises established in the PRC and have operating periods of 20 years.

* *English name is for identification purpose only.*

None of the subsidiaries had any debt securities outstanding as at the end of the years or at any time during both years.

36. EVENTS AFTER THE REPORTING PERIOD

(a) Pursuant to the shareholders' written resolutions passed on 24 February 2010,

(i) the authorised share capital of the Company of US$50,000 was increased by HK$200,000,000 by the creation of 2,000,000,000 ordinary shares of HK$0.1 each, of which 1,000,000 ordinary shares were issued and allotted to Super Creation International Limited for cash at par;

(ii) the Company repurchased the one existing share of US$1.0 held by Super Creation International Limited for a cash consideration of US$1.0 and the said existing share was cancelled following the repurchase;

(iii) the amount of the authorised share capital of the Company was diminished to HK$200,000,000 by cancelling all the unissued shares of US$1.0 each; and

(iv) 599,000,000 ordinary shares of HK$0.1 each are to be issued upon capitalisation of part of the share premium account of the Company as a result of the completion of the Hong Kong Public Offer and the International Placing on the terms set forth in the Prospectus.

(b) Pursuant to the sole shareholder's written resolutions passed on 24 February 2010, a share option scheme was conditionally adopted.

(c) Pursuant to board resolutions passed on 11 March 2010, the Company declared dividends of approximately RMB100,000,000 prior to the listing of the Company. Such dividends were fully settled in March 2010.

(d) On 29 March 2010, the Company issued 200,000,000 new ordinary shares of HK$0.10 each for cash pursuant to the Company's initial public offering and placing at a price of HK$1.90 per share to the public for listing of those shares on The Stock Exchange. The shares issued rank pari passu in all respects with all shares then in issue. Net proceeds from such issue amounted to approximately HK$363,300,000 (equivalent to RMB318,824,000).