# INTERIM REPORT 2010

美克國際控股有限公司
MEIKE INTERNATIONAL HOLDINGS LIMITED

*(Incorporated in the Cayman Islands with limited liability)*
Stock Code: 00953

# CONTENTS

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### *Executive Directors*

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

### *Independent Non-executive Directors*

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

## BOARD COMMITTEES

### *Audit Committee*

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

### *Nomination Committee*

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

### *Remuneration Committee*

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

## COMPANY SECRETARY

Mr. Li Yik Sang

## AUTHORISED REPRESENTATIVES

Mr. Li Dongxing
Mr. Li Yik Sang

## REGISTERED OFFICE

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

## HEAD OFFICE IN THE PRC

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

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

## STOCK CODE

00953

## CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

## HONG KONG SHARE REGISTRAR

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

## AUDITOR

SHINEWING (HK) CPA Limited

## LEGAL ADVISORS AS TO HONG KONG LAWS

Loong & Yeung

## COMPLIANCE ADVISOR

China Merchants Securities (HK) Co., Limited

## PRINCIPAL BANKERS

Industrial and Commercial Bank of China Limited
Agricultural Bank of China

## COMPANY WEBSITE

www.meike.cn

# MANAGEMENT DISCUSSION AND ANALYSIS

## INDUSTRY REVIEW

The continuous stimulus measures launched by the Chinese Government to drive the domestic demand after the global financial crisis have effectively restored the market confidence and driven up the domestic consumption. The overall retail industry had achieved a robust growth in the first half of 2010.

Although China's sportswear industry is under intensive competition with more entrants and new brands entering into the industry, growth potential is still huge as China has the most sizable population in the world. Besides, the urbanization in China also increased the number of consumers and enhanced the potential consumption power.

## BUSINESS REVIEW

As at June 30, 2010, the Group had 24 distributors, overseeing 1,621 outlets which comprised 586 Meike distributor outlets and 1,035 Meike retailer outlets. These outlets, together with the outlets owned and operated by the Group (the "Self-operated Meike Outlets") cover 23 provinces, autonomous regions and municipalities and more than 521 districts, counties and county-level cities in the PRC. The number of outlets expanded by 303 outlets over 1,318 outlets as at December 31, 2009. The Group will continue to expand and optimize its retail network through cooperation with distributors and utilization of their local resources and business network. The Group expects that the number of its outlets will grow to over 1,800 by the end of 2010.

Through the export companies and overseas customers, the Group's export products were ultimately sold to 27 overseas countries, including Germany, Netherlands, the United States, Switzerland, Turkey, Argentina, France, South Africa and Poland.

The following diagram map sets out the Group's distribution network in China as at June 30, 2010

The following table sets out the total number of the Group's distributors and outlets (including Meike distributor outlets and Meike retailer outlets) in China as at December 31, 2009 and June 30, 2010, respectively by geographical location:

| | **As at June 30, 2010** | | As at December 31, 2009 | |
|---|---|---|---|---|
| | **Distributors** | **Outlets** | Distributors | Outlets |
| Central South China[1] | **6** | **612** | 6 | 510 |
| East China[2] | **10** | **675** | 10 | 529 |
| Southwest China[3] | **4** | **232** | 4 | 219 |
| Northwest China[4] | **2** | **33** | 2 | 31 |
| North China[5] | **2** | **69** | 1 | 29 |
| Total | **24** | **1,621**[7] | 23 | 1,318[6] |

*Notes:*

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

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

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

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

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

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

(7) 586 were Meike distributor outlets and 1,035 were Meike retailer outlets.

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

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

## PRODUCT DEVELOPMENT AND DESIGN

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

As at June 30, 2010, the Group had a total of 53 full-time employees in its design and development department.

## FINANCIAL REVIEW

*Revenue by product category*

| | Six months ended June 30, 2010 RMB'000 | Six months ended June 30, 2009 RMB'000 | Change (%) | Six months ended June 30, 2010 % of total revenue | Six months ended June 30, 2009 % of total revenue |
|---|---|---|---|---|---|
| Footwear | | | | | |
| Domestic | **158,055** | 89,513 | 76.6% | **51.5** | 42.2 |
| Export | **50,845** | 45,873 | 10.8% | **16.5** | 21.7 |
| | **208,900** | 135,386 | 54.3% | **68.0** | 63.9 |
| Apparel | **78,928** | 69,871 | 13.0% | **25.7** | 33.0 |
| Accessories and shoe soles | **19,348** | 6,634 | 191.6% | **6.3** | 3.1 |
| Total | **307,176** | 211,891 | 45.0% | **100** | 100 |
| Gross profit margin (%) | **34.1** | 32.2 | | | |

For the six months ended June 30, 2010 (the "Period"), the revenue of the Group increased by 45.0% to RMB307,176,000 (six months ended June 30, 2009: RMB211,891,000) and the gross profit margin rose by 5.9% to 34.1% (six months ended June 30, 2009: 32.2%).

Revenue from domestic sales of footwear products grew by 76.6% from RMB89,513,000 for the six months ended June 30, 2009 to RMB158,055,000 for the Period, mainly as a result of the successful implementation of exclusive distribution business model, speedy expansion of the Group's retail network, successful promotion and marketing strategies, product design upgrade and diversification of product mix. In addition, the increase in domestic sales was also attributable to the growth in market demand for sportswear products in China and the recovery of the economic conditions in China.

Revenue from export sales grew by 10.8% from RMB45,873,000 for the six months ended June 30, 2009 to RMB50,845,000 for the Period, predominantly due to the economic recovery in the overseas markets.

Revenue from the sales of the Group's apparel products increased by 13.0% from RMB69,871,000 for the six months ended June 30, 2009 to RMB78,928,000 for the Period, primarily attributable to the upgrade of product design, and quality and diversification of product mix, which enhanced the market acceptance of the Group's apparel products and increased the sales volume of the Group's apparel products.

## COST OF SALES

Cost of sales increased by 40.8% to RMB202,354,000 for the Period (six months ended June 30, 2009: RMB143,672,000), primarily as a result of increase in sales of the Group's products.

## SELLING AND DISTRIBUTION COSTS

Selling and distribution costs increased by 90.8% from RMB9,174,000 for the corresponding period in 2009 to RMB17,506,000 for the Period, primarily as a result of increase in the advertising and market expenses.

## ADMINISTRATIVE EXPENSES

Administrative expenses increased by 105.6% from RMB8,899,000 for the corresponding period in 2009 to RMB18,292,000 for the Period, primarily due to the increase in staff salary and welfare payment, depreciation charges and listing expenses for the listing of the Company in early 2010.

## INCOME TAX EXPENSE

The income tax expense of the Group for the Period was RMB10,625,000 (six months ended June 30, 2009: RMB5,060,000) calculated at the effective tax rate of 17.7%.

## PROVISION FOR INVENTORIES

As at June 30, 2010, the Group did not make any provision for inventories.

## PROVISION FOR DOUBTFUL DEBTS

As at June 30, 2010, the Group did not make any provision for doubtful debts.

## LIQUIDITY AND FINANCIAL RESOURCES

During the Period, net cash outflow from operating activities of the Group amounted to RMB44,884,000 (2009: net cash inflow of RMB3,764,000). As at June 30, 2010, cash and cash equivalents, including bank deposits and cash in hand, and short-term bank deposits with original maturities not exceeding three months, amounted to RMB185,577,000, representing a net increase of RMB106,899,000 as compared to the position as at December 31, 2009.

## PLEDGE OF ASSETS

As at June 30, 2010, the Group secured its bank borrowings by prepaid land lease payments and building held for own uses with a carrying amount of RMB58.8 million (December 31, 2009: RMB92.2 million) and trade receivables of RMB29.7 million (December 31, 2009: RMB22.0 million).

## CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

Details of the capital commitments as at June 30, 2010 are set out in note 20 to the condensed consolidated interim financial statements of this report. As at June 30, 2010, the Group did not have any material contingent liabilities.

## PROFIT ATTRIBUTABLE TO SHAREHOLDERS AND NET PROFIT MARGIN

For the Period, total comprehensive income attributable to the Company amounted to RMB49,523,000, representing an increase of 34.2% over that in the same period of 2009 (six months ended June 30, 2009: RMB36,895,000). Net profit margin of the Group also dropped by 7.5% to 16.1% (2009: 17.4%).

## FOREIGN EXCHANGE RISK

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

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

## GEARING RATIO

As at June 30, 2010 the gearing ratio of the Group was approximately 24.1% (December 31, 2009: 35.2%), which was derived by dividing interest-bearing debt incurred in the ordinary course of business by total assets.

## INTEREST-BEARING BANK LOANS

As at June 30, 2010, the Group's bank loans balance amounted to RMB221,900,000, bearing interest rates from 4.779% to 5.841%.

## HUMAN RESOURCES

As at June 30, 2010 the Group had a total of 2,173 employees (December 31, 2009: 2,111 employees).

## MATERIAL ACQUISITION AND DISPOSAL

The Group did not have any material acquisition and disposal in the first half of 2010.

## USE OF NET PROCEEDS FROM THE SHARE OFFERING

The shares of the Company were listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on February 1, 2010 with net proceeds from the share offering and the exercise of the over-allotment option received by the Company of approximately HK$335.4 million (approximately RMB295.2 million) and HK$46.3 million (approximately RMB40.7 million) respectively (after deducting underwriting commission and related expenses)

| Use of Net Proceeds (RMB million) | Available to utilise | Utilised (as at June 30, 2010) | Unutilised (as at June 30, 2010) |
|---|---|---|---|
| Expansion of production capacity | 102.1 | 17.5 | 84.6 |
| Expansion of the sales network and market penetration | 102.4 | 1.5 | 100.9 |
| Develop and increase brand awareness | 80.0 | 9.5 | 70.5 |
| Enhancement of research and development capabilities | 26.9 | 5.6 | 21.3 |
| Working capital | 24.5 | – | 24.5 |
| | 335.9 | 34.1 | 301.8 |

## FUTURE PROSPECTS

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

Looking forward, the Group will focus on the development of "Meike" brand and apply the net proceeds in accordance with the proposed application set out in the prospectus of the Company dated January 19, 2010 (the "Prospectus").

## OTHER INFORMATION

### INTERIM DIVIDEND

The Board has resolved the payment of an interim dividend of HK$0.022 per share (2009: nil). The interim dividend will be distributed on or around October 15, 2010 to shareholders whose name appear on the register of members of the Company as at the close of business on September 24, 2010.

### CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from September 21, 2010 to September 24, 2010, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers of shares of the Company accompanied by the relevant share certificates and transfer form must be lodged with the Company's branch share register in Hong Kong, Tricor Investor Services Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong before 4:30 p.m. on September 20, 2010.

### INTERESTS OF DIRECTORS IN CONTRACTS

During the Period, none of the Directors had a material interest, whether directly or indirectly, in any contract of significance to which the Company or any of its subsidiaries or affiliates was a party.

### DIRECTORS' INTEREST IN COMPETING BUSINESS

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

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

(a) As at June 30, 2010, the interests and short positions of the Directors or chief executive of the Company in the shares, underlying shares and debentures of the Company or any of the associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests which they are taken or deemed to have under such provisions of the SFO) or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

*Long position in the Shares of the Company (the "Shares")*

| Name of Director | Capacity/Nature | No. of shares held | Approximate percentage of shareholding |
|---|---|---|---|
| Mr. Ding Siqiang ("Mr. Ding") | Interest in controlled corporation *(Note 1)* | 562,500,000 | 54.22% |
| Ms. Ding Xueleng ("Ms. Ding") | Interest of spouse *(Note 2)* | 562,500,000 | 54.22% |

*Long position in the ordinary shares of associated corporation*

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

*Note 1:* Mr. Ding owns the entire issued share capital of Glory Hill Enterprises Limited ("Glory Hill"), which owns 54.22% equity interest in the Company. Therefore, Mr. Ding is deemed or taken to be interested in all the Shares which are beneficially owned by Glory Hill for the purpose of the SFO. Mr. Ding is the sole director of Glory Hill.

*Note 2:* Ms. Ding is the spouse of Mr. Ding, and therefore, she is deemed or taken to be interested in all the Shares and the share of Glory Hill which are deemed or taken to be interested by Mr. Ding.

(b) So far as is known to the Directors, as at June 30, 2010, the following persons (not being a Director or chief executive of the Company as disclosed in paragraph (a) above) had interests or short positions in Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

*Long position in the Shares*

| **Name** | **Nature of Interest** | **No. of Shares held** | **Approximate percentage of shareholding** |
|---|---|---|---|
| Glory Hill | Beneficial owner *(Note 1)* | 562,500,000 | 54.22% |
| Mr. Ding Jinbo (丁金波先生) *(Notes 2 & 3)* | Interest in controlled corporation | 75,000,000 | 7.23% |
| Deep Wealth Resources Limited | Beneficial owner | 75,000,000 | 7.23% |
| Mr. Ding Haibo (丁海波先生) *(Notes 2 & 4)* | Interest in controlled corporation | 75,000,000 | 7.23% |
| Bromyard Investments Limited | Beneficial owner | 75,000,000 | 7.23% |

*Note 1:* Mr. Ding owns the entire issued share capital of Glory Hill, which owns 54.22% equity interest in the Company. Therefore, Mr. Ding is deemed or taken to be interested in all the Shares which are beneficially owned by Glory Hill for the purpose of the SFO. Mr. Ding is the sole director of Glory Hill.

*Note 2:* Mr. Ding Jinbo (丁金波先生) and Mr. Ding Haibo (丁海波先生) are the sons of Mr. Ding and Ms. Ding.

*Note 3:* Mr. Ding Jinbo (丁金波先生) owns the entire issued share capital of Deep Wealth Resources Limited, which owns 7.23% equity interest in the Company. Therefore, Mr. Ding Jinbo (丁金波先生) is deemed or taken to be interested in all the Shares which are beneficially owned by Deep Wealth Resources Limited for the purpose of the SFO. Mr. Ding Jinbo (丁金波先生) is the sole director of Deep Wealth Resources Limited.

*Note 4:* Mr. Ding Haibo (丁海波先生) owns the entire issued share capital of Bromyard Investments Limited, which owns 7.23% equity interest in the Company. Therefore, Mr. Ding Haibo (丁海波先生) is deemed or taken to be interested in all the Shares which are beneficially owned by Bromyard Investments Limited for the purpose of the SFO. Mr. Ding Haibo (丁海波先生) is the sole director of Bromyard Investments Limited.

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

## PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

On February 17, 2010, the over-allotment option referred to in the Prospectus has been fully exercised by China Merchants Securities (HK) Co., Limited (as the Lead Manager), on behalf of the Placing Underwriters, in respect of an aggregate of 37,500,000 Shares (the "Over-allotment Shares") which represented 15% of the Offer Shares initially available under the Share Offer (assuming no exercise of the over-allotment option), for the sole purpose of covering over-allocations in the Placing.

The 37,500,000 Over-allotment Shares were issued and allotted by the Company at HK$1.43 per Share (excluding brokerage fee of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%), being the Offer Price per Offer Share in connection with the Share Offer. For details of the exercise of over-allotment option, please refer to the announcement of the Company dated February 17, 2010.

Save as disclosed above, during the Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## CODE ON CORPORATE GOVERNANCE

Save as disclosed below, during the Period, the Company complied with the Code of Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

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

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

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

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding directors' securities transactions. Having made specific enquiry of all Directors, all Directors have complied with the code of conduct and the required standard set out in the Model Code throughout the Period.

## AUDIT COMMITTEE

The Company has an audit committee with terms of reference aligned with the provision of the CG Code as set out in Appendix 14 to the Listing Rules for the purpose of reviewing and providing supervision on the financial reporting process and internal controls of the Group. The audit committee comprise three members, all being independent non-executive Directors.

During the Period, the audit committee reviewed the accounting principles and practices adopted by the Group and the unaudited condensed consolidated interim financial statements of the Group for the Period and discussed auditing, internal control and financial reporting matters, such as the review of the interim report with the management. The audit committee has reviewed this report and has provided advice and comments thereon to the Board. The audit committee is of the opinion that this report complied with applicable accounting standards, the Listing Rules, and that adequate disclosures have been made.

## SHARE OPTION SCHEME

A share option scheme (the "Share Option Scheme") was conditionally approved by resolutions of the shareholders of the Company on January 6, 2010. Since the Share Option Scheme has become effective upon the Company's listing, no share options were granted, exercised or cancelled by the Company under the Share Option Scheme during the Period and there were no outstanding share options under the Share Option Scheme as at June 30, 2010.

On behalf of the Board
**Ding Siqiang**
*Chairman*

Hong Kong
August 20, 2010

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the six months ended June 30, 2010*

| | Notes | Six months ended June 30, 2010 | 2009 |
|---|---|---|---|
| | | **RMB'000** | RMB'000 |
| | | **unaudited** | unaudited |
| Revenue | 5 | **307,176** | 211,891 |
| Cost of sales | | **(202,354)** | (143,672) |
| Gross profit | | **104,822** | 68,219 |
| Other income | | **3,699** | 812 |
| Selling and distribution costs | | **(17,506)** | (9,174) |
| Administrative expenses | | **(18,292)** | (8,899) |
| Other operating expenses | | **(6,372)** | (3,947) |
| Finance costs | 7 | **(6,203)** | (5,056) |
| Profit before tax | 8 | **60,148** | 41,955 |
| Income tax expense | 9 | **(10,625)** | (5,060) |
| Profit for the period | | **49,523** | 36,895 |
| Other comprehensive income: | | | |
| Exchange differences arising on translation | | **(532)** | (7) |
| Total comprehensive income for the period | | **48,991** | 36,888 |
| Profit for the period attributable to: | | | |
| Owners of the parent | | **49,523** | 32,147 |
| Non-controlling interests | | **–** | 4,748 |
| | | **49,523** | 36,895 |
| Total comprehensive income attributable to: | | | |
| Owners of the parent | | **48,991** | 32,141 |
| Non-controlling interests | | **–** | 4,747 |
| | | **48,991** | 36,888 |
| Earnings per share | 11 | | |
| Basic and diluted (RMB) | | **0.050** | 0.043 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At June 30, 2010*

| | Notes | June 30, 2010 unaudited RMB'000 | December 31, 2009 audited RMB'000 |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 12 | **110,558** | 97,821 |
| Prepaid lease payments | | **49,816** | 50,358 |
| | | **160,374** | 148,179 |
| Current assets | | | |
| Inventories | | **88,652** | 53,006 |
| Trade and other receivables | 13 | **340,670** | 263,359 |
| Prepaid lease payments | | **1,097** | 1,097 |
| Fixed deposits held at banks with maturity over three months | 14 | **142,609** | – |
| Short-term bank deposit | 14 | **–** | 35,000 |
| Cash and bank balances | 14 | **185,577** | 43,678 |
| | | **758,605** | 396,140 |
| Current liabilities | | | |
| Trade and other payables | 15 | **60,791** | 52,809 |
| Amount due to a director | 16 | **–** | 204 |
| Interest-bearing bank loans | 17 | **162,200** | 157,500 |
| Current portion of long term interest-bearing bank loans | 17 | **–** | 17,000 |
| Income tax payable | | **5,456** | 3,957 |
| | | **228,447** | 231,470 |
| Net current assets | | **530,158** | 164,670 |
| Total assets less current liabilities | | **609,532** | 312,849 |

| | Notes | June 30, 2010 unaudited RMB'000 | December 31, 2009 audited RMB'000 |
|---|---|---|---|
| Capital and reserves | | | |
| Share capital | 18 | **9,093** | 9 |
| Reserves | | **619,546** | 291,897 |
| Equity attributable to owners of the parent | | **628,639** | 291,906 |
| Non-controlling interests | | **–** | – |
| Total equity | | **628,639** | 291,906 |
| Non-current liabilities | | | |
| Interest-bearing bank loans | 17 | **59,700** | 17,000 |
| Deferred tax liabilities | | **2,193** | 3,943 |
| | | **61,893** | 20,943 |
| | | **690,532** | 312,849 |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended June 30, 2010 (unaudited)*

| | Attributable to owners of the parent | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 | Share premium RMB'000 | Statutory reserve RMB'000 (Note a) | Other reserves RMB'000 (Note b) | Exchange reserve RMB'000 | Retained earnings RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| Six months ended June 30, 2010 | | | | | | | | | |
| At January 1, 2010 | **9** | **–** | **22,279** | **136,801** | **(18)** | **132,835** | **291,906** | **–** | **291,906** |
| Profit for the period | **–** | **–** | **–** | **–** | **–** | **49,523** | **49,523** | **–** | **49,523** |
| Other comprehensive income | **–** | **–** | **–** | **–** | **(532)** | **–** | **(532)** | **–** | **(532)** |
| Total comprehensive income | **–** | **–** | **–** | **–** | **(532)** | **49,523** | **48,991** | **–** | **48,991** |
| Issuance of new shares | **2,520** | **357,786** | **–** | **–** | **–** | **–** | **360,306** | **–** | **360,306** |
| Transaction costs | **–** | **(26,029)** | **–** | **–** | **–** | **–** | **(26,029)** | **–** | **(26,029)** |
| Capitalisation of share premium | **6,564** | **(6,564)** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| Dividends recognised as distribution | **–** | **–** | **–** | **–** | **–** | **(46,535)** | **(46,535)** | **–** | **(46,535)** |
| At June 30, 2010 | **9,093** | **325,193** | **22,279** | **136,801** | **(550)** | **135,823** | **628,639** | **–** | **628,639** |
| Six months ended June 30, 2009 | | | | | | | | | |
| At January 1, 2009 | 87,316 | 14,926 | 7,789 | – | (14) | 88,971 | 198,988 | 29,821 | 228,809 |
| Profit for the period | – | – | – | – | – | 32,147 | 32,147 | 4,748 | 36,895 |
| Other comprehensive income | – | – | – | – | (6) | – | (6) | (1) | (7) |
| Total comprehensive income | – | – | – | – | (6) | 32,147 | 32,141 | 4,747 | 36,888 |
| Acquisition of non-controlling interests | 12,684 | 2,230 | – | 19,654 | – | – | 34,568 | (34,568) | – |
| At June 30, 2009 | 100,000 | 17,156 | 7,789 | 19,654 | (20) | 121,118 | 265,697 | – | 265,697 |

*Notes:*

**(a) Statutory reserve**

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

**(b) Other reserves**

The other reserves comprise the cumulative net non-controlling interests upon the transfer of interests and the reserves arising from corporate reorganization.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

*For the six months ended June 30, 2010*

| | | Six months ended June 30, | |
|---|---|---|---|
| | | **2010** | 2009 |
| | | **unaudited** | unaudited |
| | *Note* | **RMB'000** | RMB'000 |
| Cash (used in) generated from operations | | **(34,008)** | 5,038 |
| PRC Enterprise Income Tax paid | | **(10,876)** | (1,274) |
| Net cash (used in) generated from operating activities | | **(44,884)** | 3,764 |
| Net cash used in investing activities | | **(159,420)** | (1,508) |
| Net cash generated from financing activities | | **311,735** | 54,444 |
| Net increase in cash and cash equivalents | | **107,431** | 56,700 |
| Cash and cash equivalents at January 1, | | **78,678** | 92,833 |
| Effect of foreign exchange rate changes | | **(532)** | (7) |
| Cash and cash equivalents at June 30, represented by: | | **185,577** | 149,526 |
| Short-term bank deposit | | **–** | 35,000 |
| Cash and bank balances | | **185,577** | 114,526 |
| | | **185,577** | 149,526 |

Net cash used in investing activities for the period included the placement of fixed deposits held at banks with maturity over three months of approximately RMB142,609,000 which included a portion of the proceeds arising from the issue of new shares in the initial public offering and placing and full exercise of the over-allotment option as described in note 18 (iii) and (iv) to the condensed consolidated interim financial statements.

### 1. GENERAL

Meike International Holdings Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability on June 23, 2009.

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

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

The Group resulting from the Corporate Reorganization is regarded as a continuing entity under common control. Accordingly, for the purpose of this report, the consolidated financial statements of the Group have been prepared using principles of merger accounting. The interim information of the Group for the six months ended June 30, 2009 shown as comparatives in this report have been prepared as if the current group structure had been in existence throughout both periods presented, or since the respective dates of incorporation or establishment of the group companies, rather than from the date when the Company became the holding company of the Group pursuant to the Corporate Reorganization.

### 2. BASIS OF PREPARATION

The condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting", issued by the HKICPA. The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended December 31, 2009, which have been prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRSs").

## 3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

The accounting policies used in the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2009 except as described below.

In the current period, the Group has applied, for the first time, the following new standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA which are effective for the Group's financial year beginning January 1, 2010.

| | |
|---|---|
| HKFRSs (Amendments) | Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008 |
| HKFRSs (Amendments) | Improvements to HKFRSs 2009 |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements |
| HKFRS 1 (Revised) | First-time Adoption of Hong Kong Financial Reporting Standards |
| HKFRS 1 (Amendment) | Additional Exemptions for First-time Adopters |
| HKAS 39 (Amendment) | Eligible Hedged Items |
| HKFRS 2 (Amendments) | Group Cash-settled Share-based Payment Transactions |
| HKFRS 3 (Revised) | Business Combinations |
| HK(IFRIC) – Int 17 | Distributions of Non-cash Assets to Owners |

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

As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the condensed consolidated interim financial statements of the Group for the current or prior accounting periods. Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

In addition, as part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. The amendments will be effective from January 1, 2010, with earlier application permitted. Before the amendments to HKAS 17, leasees 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 extend 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 did not affect the classification and measurement of the Group's leasehold land during the current interim period.

## 3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

The application of the other new and revised HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented.

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

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs 2010[1] |
| HKAS 24 (Revised) | Related Party Disclosures[4] |
| HKAS 32 (Amendment) | Classification of Rights Issues[2] |
| HKFRS 1 (Amendment) | Limited Exemption from comparative HKFRS 7 Disclosures for First-time Adopters[3] |
| HKFRS 9 | Financial Instruments[5] |
| HK(IFRIC) – Int 14 (Amendments) | Prepayments of a Minimum Funding Requirement[4] |
| HK(IFRIC) – Int 19 | Extinguishing Financial Liabilities with Equity Instruments[3] |

1 Effective for annual periods beginning on or after July 1, 2010 or January 1, 2011, as appropriate

2 Effective for annual periods beginning on or after February 1, 2010

3 Effective for annual periods beginning on or after July 1, 2010

4 Effective for annual periods beginning on or after January 1, 2011

5 Effective for annual periods beginning on or after January 1, 2013

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from January 1, 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 the 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 Group's financial assets.

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

## 4. SEASONALITY OF OPERATIONS

Due to the seasonal nature of the sports goods products, higher revenues and operating profits are usually expected in the second half of the year than in the first six months. Higher sales during the second half of the year are mainly attributed to the sale of winter clothing which generally has a higher unit price.

## 5. REVENUE

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

| | **Six months ended June 30,** | |
|---|---|---|
| | **2010** | 2009 |
| | **Unaudited** | Unaudited |
| | **RMB'000** | RMB'000 |
| Footwear | **208,900** | 135,386 |
| Apparel | **78,928** | 69,871 |
| Accessories and shoe sole | **19,348** | 6,634 |
| | **307,176** | 211,891 |

## 6. SEGMENT INFORMATION

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

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

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

## 7. FINANCE COSTS

| | Six months ended June 30, | |
|---|---|---|
| | **2010** | 2009 |
| | **Unaudited** | Unaudited |
| | **RMB'000** | RMB'000 |
| Interest on bank loans wholly repayable within five years | **6,203** | 5,056 |

## 8. PROFIT FOR THE PERIOD

Profit for the period has been arrived after charging:

| | Six months ended June 30, | |
|---|---|---|
| | **2010** | 2009 |
| | **Unaudited** | Unaudited |
| | **RMB'000** | RMB'000 |
| Depreciation and amortisation | **4,454** | 3,747 |
| Research cost (included in other operating expenses) *(Note)* | **4,952** | 3,198 |

*Note:*

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

## 9. INCOME TAX EXPENSE

| | Six months ended June 30, | |
|---|---|---|
| | **2010** | 2009 |
| | **Unaudited** | Unaudited |
| | **RMB'000** | RMB'000 |
| Current tax: | | |
| Provision for the period | | |
| – PRC Enterprise Income Tax ("EIT") | **12,375** | 3,771 |
| Deferred tax | **(1,750)** | 1,289 |
| | **10,625** | 5,060 |

## 10. DIVIDENDS

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

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

The board has resolved the payment of an interim dividend of HK$0.022 per share (2009: nil). The interim dividend will be distributed on or around October 15, 2010 to shareholders whose name appear on the register of member of the Company as at the close of business on September 24, 2010.

## 11. EARNINGS PER SHARE

The weighted average number of shares for the purpose of calculating basic earnings per share for the period ended June 30, 2009 is based on the assumption that the 1,000,000 shares issued and outstanding upon the Corporate Reorganization had been in issue as at beginning of the period.

The weighted average number of ordinary shares used in the calculation of basic earnings per share for each of the two periods ended June 30, 2010 and 2009 has been adjusted for the capitalization issue which took effect on February 1, 2010.

The Company did not have any potential dilutive shares throughout the six months ended June 30, 2010 and 2009.

The calculation of basic and diluted earnings per share are based on:

| | Six months ended June 30, | |
|---|---|---|
| | **2010** | 2009 |
| | **Unaudited** | Unaudited |
| | **RMB'000** | RMB'000 |
| Earnings | | |
| Profit for the period attributable to the owners of the parent | **49,523** | 32,147 |

| | **2010** | 2009 |
|---|---|---|
| | **'000** | '000 |
| Number of shares | | |
| Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation | **984,530** | 750,000 |

## 12. PROPERTY, PLANT AND EQUIPMENT

Assets with a net carrying value of approximately RMB1,852,000 was disposed of by the Group during the six months ended June 30, 2010 (six months ended June 30, 2009: RMB1,814,000) resulting in a net loss on disposal of RMB1,149,000 (six months ended June 30, 2009: RMB749,000).

During the six months ended June 30, 2010, the Group acquired assets with a cost of approximately RMB3,754,000 (six months ended June 30, 2009: RMB2,514,000), not including additions to construction in progress and addition of buildings transferred from construction in progress.

Construction costs of approximately RMB14,638,000 had been capitalised in construction in progress by the Group during the six months ended June 30, 2010 (six months ended June 30, 2009: RMB481,000) and construction in progress of approximately RMB2,489,000 had been transferred out of construction in progress to buildings during the six months ended June 30, 2010 (six months ended June 30, 2009: RMB290,000).

## 13. TRADE AND OTHER RECEIVABLES

| | **June 30, 2010 unaudited RMB'000** | December 31, 2009 audited RMB'000 |
|---|---|---|
| Trade receivables | **314,092** | 235,672 |
| Other receivables | **468** | 502 |
| Prepayments | **26,110** | 27,187 |
| | **26,578** | 27,689 |
| Less: Allowance for impairment loss | **–** | (2) |
| Other receivables and prepayments, net | **26,578** | 27,687 |
| Trade and other receivables | **340,670** | 263,359 |

The Group allows an average credit period of 90 to 180 days to its trade customers. The following is an aged analysis of trade receivables presented based on the invoice date at the reporting date:

## 13. TRADE AND OTHER RECEIVABLES *(continued)*

| | **June 30, 2010 unaudited RMB'000** | December 31, 2009 audited RMB'000 |
|---|---|---|
| Within 90 days | **168,884** | 163,017 |
| 91 – 180 days | **119,699** | 72,655 |
| 181 – 365 days | **25,509** | – |
| Total | **314,092** | 235,672 |

The Group generally allows an average credit period of 90 to 180 days to its trade customers, except for new customers, where payment in advance is normally required.

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

As at June 30, 2010, included in the Group's trade receivables balances are debtors with aggregate carrying amount of RMB25,509,000 (2009: Nil) which were past due as at the reporting date for which the Group has not provided for impairment loss. Trade receivables that were past due but not impaired related to a number of customers that have a good track record with the Group. Based on past experience, the management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances. Subsequently, such balances had been fully recovered before the date of this report.

## 14. FIXED DEPOSITS HELD AT BANKS WITH MATURITY OVER THREE MONTHS, SHORT TERM BANK DEPOSITS AND CASH AND BANK BALANCES

Pursuant to the issue of new shares in the initial public offering and placing and full exercise of the over-allotment option as described in note 18 (iii) and (iv) to the condensed consolidated interim financial statements, net proceeds amounting to HK$381,700,000 (equivalent to approximately RMB335,900,000) was fully received through the Company's bank account and a portion of the proceeds were then placed as and included in fixed deposits held at banks with maturity over three months as of June 30, 2010.

## 15. TRADE AND OTHER PAYABLES

| | **June 30, 2010 unaudited RMB'000** | December 31, 2009 audited RMB'000 |
|---|---|---|
| Trade payables | **40,435** | 29,296 |
| Other payables | **6,941** | 9,696 |
| Receipts in advance | **3,066** | 3,050 |
| Accrued payroll and welfare | **10,349** | 10,767 |
| | **20,356** | 23,513 |
| Trade and other payables | **60,791** | 52,809 |

The following is an analysis of trade payables by age based on the invoice date:

| | **June 30, 2010 unaudited RMB'000** | December 31, 2009 audited RMB'000 |
|---|---|---|
| Within 90 days | **28,596** | 12,762 |
| 91 – 180 days | **7,135** | 9,463 |
| 181 – 365 days | **4,671** | 6,059 |
| Over 365 days | **33** | 1,012 |
| Total | **40,435** | 29,296 |

## 16. AMOUNT DUE TO A DIRECTOR

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

| | **June 30, 2010 unaudited RMB'000** | December 31, 2009 audited RMB'000 |
|---|---|---|
| Amount due to | | |
| – Mr. Ding Siqiang | **–** | 204 |

Mr. Ding Siqiang is the director and shareholder of the Company. The balance due to Mr. Ding Siqiang was fully repaid prior to the listing of the Company.

## 17. INTEREST-BEARING BANK LOANS

Secured bank loans totaling RMB111,500,000 and unsecured bank loans totaling RMB24,000,000 bearing interest rates from 4.779% to 6.804% had been repaid during the period. During the interim period, the Group had borrowed a total of RMB165,900,000 from banks bearing interest rates from 4.779% to 5.841% and of which RMB144,400,000 were secured by assets of the Group and RMB21,500,000 were unsecured.

## 18. SHARE CAPITAL

| | | Number of shares | Nominal value of ordinary shares | |
|---|---|---|---|---|
| | | | HK$'000 | RMB'000 |
| Ordinary of HK$0.01 each | | | | |
| Authorised: | | | | |
| On incorporation, and at June 30, 2009 and December 31, 2009 | | 38,000,000 | 380 | |
| Increase in authorised capital | (i) | 9,962,000,000 | 99,620 | |
| | | 10,000,000,000 | 100,000 | |
| Issue and fully paid: | | | | |
| On incorporation and at June 30, 2009 | | 1 | – | – |
| Issue of shares for the Corporate Reorganization | | 999,999 | 10 | 9 |
| As at December 31, 2009 | | 1,000,000 | 10 | 9 |
| Allotment upon capitalisation | (ii) | 749,000,000 | 7,490 | 6,564 |
| Issue by placing and public offer | (iii) | 250,000,000 | 2,500 | 2,191 |
| Issue upon over-allotment option | (iv) | 37,500,000 | 375 | 329 |
| As at June 30, 2010 | | 1,037,500,000 | 10,375 | 9,093 |

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

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

## 18. SHARE CAPITAL *(continued)*

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

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

## 19. OPERATING LEASES COMMITMENT

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

| | **June 30, 2010 unaudited RMB'000** | December 31, 2009 audited RMB'000 |
|---|---|---|
| Within one year | **1,625** | 1,642 |
| In the second to fifth years, inclusive | **2,185** | 215 |
| | **3,810** | 1,857 |

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated and rentals are fixed for an average of two to three years.

## 20. CAPITAL COMMITMENTS

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

| | **June 30, 2010 unaudited RMB'000** | December 31, 2009 audited RMB'000 |
|---|---|---|
| Contracted but not provided for in the condensed consolidated financial statements | **8,272** | – |

## 21. RELATED PARTY TRANSACTIONS

During the six months ended June 30, 2010, the Group leased certain interest in leasehold land held for own use under operating leases and buildings from a related company, Hengqiang (China) Co., Ltd. at total rental expenses of approximately RMB305,000 (six months ended June 30, 2009: RMB425,000). Mr. Ding Siqiang, a director of the Company, is holding 80% of Hengqiang (China) Co., Ltd., which is the ultimate holding company of Hengqiang (China) Co., Ltd.