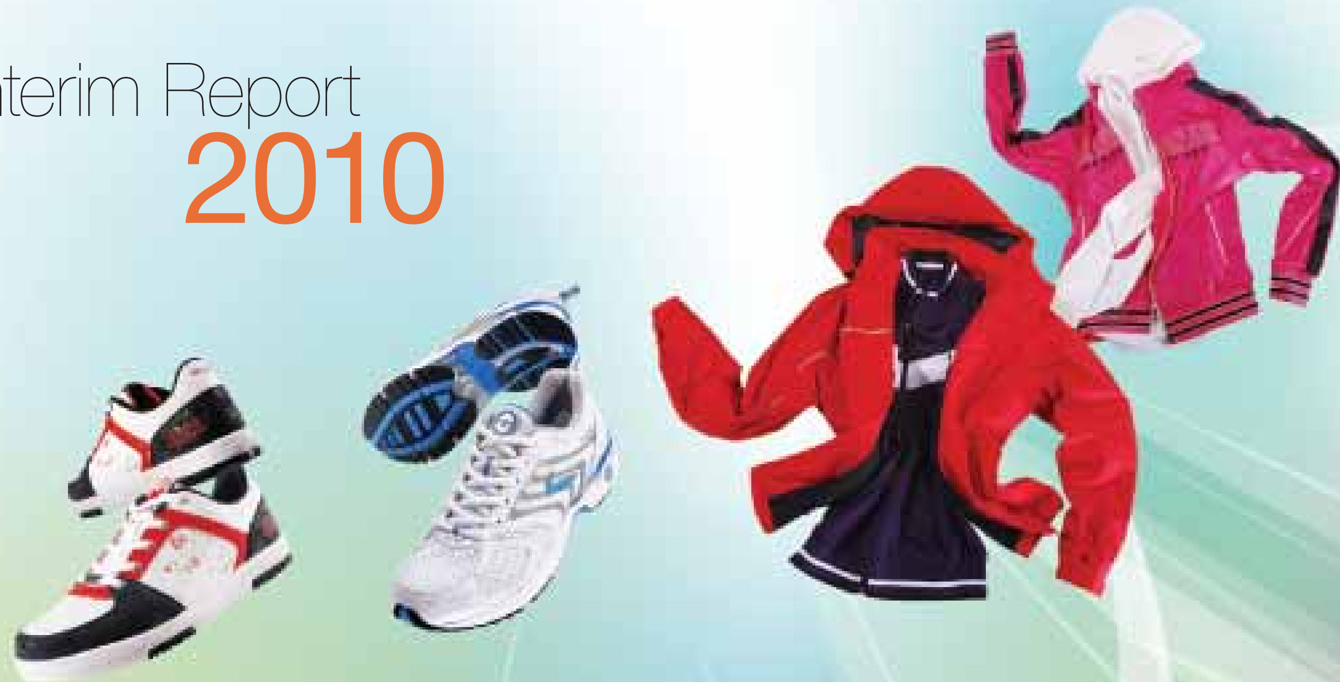
飛克國際控股有限公司
# FLYKE INTERNATIONAL HOLDINGS LTD.

*(incorporated in the Cayman Islands with limited liability)*

Stock Code: 1998

# Interim Report 2010



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# 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

Squire, Sanders & Dempsey

## COMPLIANCE ADVISER

China Everbright Capital Limited

## AUDITOR

SHINEWING (HK) CPA 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

# Financial Highlights

| | For the six months ended 30 June 2010 | 2009 | Change % |
|---|---|---|---|
| **OPERATING RESULTS** | | | |
| Turnover (RMB'000) | **632,064** | 329,906 | 91.6% |
| Gross Profit (RMB'000) | **171,291** | 74,023 | 131.4% |
| Profit for the period (RMB'000) | **73,450** | 49,549 | 48.2% |
| Basic earnings per share (RMB) | **0.092** | 0.062 | 48.4% |
| Income tax expense (RMB'000) | **29,068** | 4,818 | 503.3% |
| **KEY FINANCIAL RATIOS (%)** | | | |
| Gross profit margin | **27.1%** | 22.4% | 4.7% |
| Return on equity holders' equity | **14.8%** | 24.4% | (9.6%) |
| | **As of 30 June 2010** | As of 31 December 2009 | Change % |
| **FINANCIAL POSITION** | | | |
| Net assets (RMB'000) | **496,793** | 204,220 | 143.3% |
| Bank balances and cash (RMB'000) | **347,015** | 98,747 | 251.4% |
| Bank borrowings (RMB'000) | **144,770** | 116,370 | 24.4% |

# Management's Discussion and Analysis

## BUSINESS REVIEW

### *Flyke* brand

#### Industry review

China's sports shoes, sportswear and accessories market is competitive. The rapid growth of China's economy and urbanization has improved the living standards of the population in China and increases the market demand for sports shoes, sportswear and accessories. Such increasing demand accelerates the growth of the industry as a whole and is expected to provide players in the sports shoes, sportswear and accessories industry with a sustainable growth in the future.

#### Business

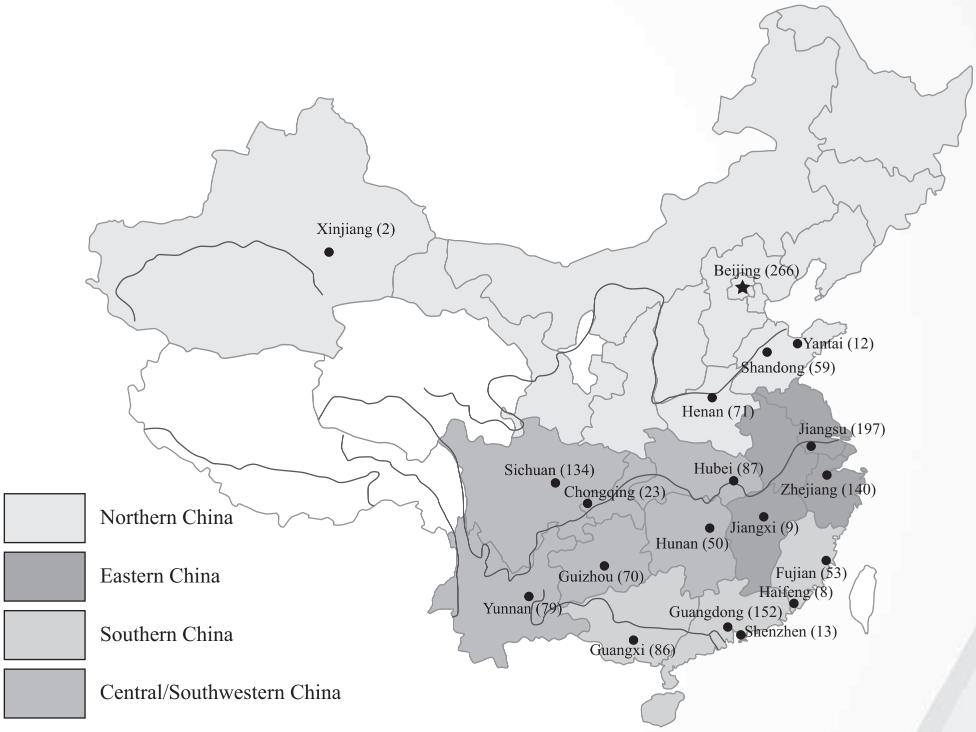
The Group is principally engaged in the design, production and sales of sports shoes with the *Flyke* brand in China. Since 2007, the Group has been engaged in the design and sales of sportswear and accessories with the *Flyke* brand which are produced by the Group's independent contract manufacturers. During the six months ended 30 June 2010 (the "**review period**"), the turnover from the sales of the *Flyke* products increased significantly by approximately RMB240.6 million, or 130.1%, to RMB425.6 million. The Group achieved such encouraging results due to the expansion of the distribution network, additional value-added product lines and increases in the *ex-factory prices* and retail prices for the sportswear and accessories.

The sales generated from the *Flyke* brand continue to be the main driver for the Group's growth and contributed approximately 67.3% of the Group's total turnover. The growth of the sales was due to the expansion in the distribution network, improvement of product designs as well as effective marketing and promotion campaigns.

#### Distribution network

The Group has enjoyed a rapid expansion since the implementation of new exclusive distribution arrangements from the beginning of 2009 and expansion of the distribution network within the university campus in China. As of 30 June 2010, the Group had 1,511 authorised retail stores, an increase of 365 stores since 31 December 2009, which were operated by 19 independent authorised distributors in 218 cities in China. Apart from the 1,511 authorised retail shops, the Group's business partner, Saier, operated 93 authorised campus retail stores at selected universities and tertiary institutions in China. The increase in the number of the retail stores strengthened the recognition of the *Flyke* brand among the Group's target customers. The Group will continue to expand the distribution network by working closely with the authorised distributors and providing additional value-added and supporting services to enhance their network management capability in the course of expansion. For administrative purposes, the Group divides the China market into four sales regions, namely Northern China, Eastern China, Central/Southwestern China and Southern China.

The map below illustrates the number and the geographical locations of the 1,511 authorised retail stores, operated by the Group's authorised distributors as of 30 June 2010:–




*Notes:*

(1) Northern China includes Xinjiang, Shandong, Beijing, Yantai, Henan.

(2) Eastern China includes Jiangsu, Zhejiang and Jiangxi.

(3) Southern China includes Fujian, Haifeng, Guangdong, Shenzhen and Guangxi.

(4) Central/Southwestern China includes Hubei, Sichuan, Chongqing, Hunan, Guizhou and Yunnan.

| | Number of authorised retail stores | | |
|---|---|---|---|
| | **As of 30 June 2010** | As of 31 December 2009 | Change % |
| Northern China | **410** | 321 | 27.7% |
| Eastern China | **346** | 261 | 32.6% |
| Southern China | **312** | 223 | 39.9% |
| Central/Southwestern China | **443** | 341 | 29.9% |
| Total | **1,511** | 1,146 | 31.8% |

**Production**

To meet the increase in demand for the *Flyke* sports shoes, the Group expanded its production capacity to a total of 12 shoes production lines, with an annual production capacity of approximately 12 million pairs of sports shoes by adding two production lines during the review period. The two additional production lines have commenced production since May 2010. The Directors expect to increase the annual production capacity to 13 million pairs of sports shoes by adding one more sports shoe production line by the end of 2010. The Group is also planning to establish new production facilities for the sportswear with the *Flyke* brand with an annual production capacity of five million pieces of sportswear which currently is produced by the Group's independent contract manufacturers.

*Product design and development*

The Directors believe that the product design and development capability of the Group is one of the edges to help the Group grow persistently in the competitive market. The Group has entered into contracts with selected international designers to strengthen both the product mix and the product design, which is expected to facilitate the future growth of the Group.

*Marketing and promotion*

The *Flyke* products are recognised in the target markets which are second and third-tier cities in China because of their high-quality, design, diversified product range and appropriate pricing strategy. To further strengthen the Group's brand image, the Group launched a series of promotion activities on various media including television and printed media.

## Export ODM Business

As the world economy stabilised during the first half of 2010, the Group actively participated in a number of national exhibitions and international trade fairs to promote its new products and identify new buyers.

The Export ODM Business involves the design, production and sales of sport shoes targeting overseas markets. Turnover increased by approximately RMB47.8 million, or 34.9%, to RMB184.7 million during the review period due to the sales to new overseas buyers gained through participations in national exhibitions in China and international trade fairs, as well as the increase in the average selling prices. The Export ODM business segment accounted for approximately 29.2% of the Group's turnover for the review period.

## Soles

The Group is also engaged in the design and production of soles for its own shoes and for sales to sports shoe manufacturers in China. During the review period, sales increased by RMB13.8 million, or 171.9%, to approximately RMB21.8 million. This business segment accounted for approximately 3.5% of the Group's turnover for the review period. The Group had 21 production lines for soles with an annual production capacity of approximately 13 million pairs.

## FINANCIAL REVIEW

### Turnover

The Group's turnover increased significantly during the review period. The Group recorded a turnover of approximately RMB632.1 million representing an increase of approximately RMB302.2 million or 91.6% as compared with the corresponding period in 2009. The increase in turnover was primarily due to the increase in sales of the *Flyke* products and the Export ODM Business by approximately 130.1% and 34.9%, respectively, as compared with the same period in 2009. During the review period, the sales of the *Flyke* products and the Export ODM Business contributed 67.3% and 29.2% of the Group's total turnover, respectively.

The following table sets forth a summary of the turnover of the Group by three principal activities for the six months ended 30 June 2010 (with comparative figures for the six months ended 30 June 2009):–

| | For the six months ended 30 June | | | | |
|---|---|---|---|---|---|
| | 2010 | | 2009 | | Change |
| | RMB'000 | % of Turnover | RMB'000 | % of Turnover | % |
| Sales of sports shoes, sportswear and sports accessories with the *Flyke* brand | 425,589 | 67.3% | 184,965 | 56.1% | 130.1% |
| Sales under the Export ODM Business | 184,686 | 29.2% | 136,926 | 41.5% | 34.9% |
| Sales of soles | 21,789 | 3.5% | 8,015 | 2.4% | 171.9% |
| Total | 632,064 | 100.0% | 329,906 | 100.0% | 91.6% |

#### 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 independent contract manufacturers. With the implementation of the exclusive distribution system since 1 January 2009, the Group sells all the *Flyke* products directly to the authorised distributors. During the review period, the turnover increased by approximately RMB240.6 million or 130.1%, to RMB425.6 million due to the expansion of retail network, additional value added products and the increases in *ex-factory prices* and retail prices for sportswear and accessories. The Directors believe that this trend will continue because of the enhanced brand promotion and brand building activities to be launched by the Group, the opening of image stores and flag-ship stores as well as the expansion of the Group's distribution network.

The following table illustrates an analysis of the sales of the *Flyke* products by product categories during the six months ended 30 June 2010 (with comparative figures for the six months ended 30 June 2009):–

| | For the six months ended 30 June | | | | |
|---|---|---|---|---|---|
| | 2010 | | 2009 | | Change |
| | RMB'000 | % of Turnover | RMB'000 | % of Turnover | % |
| Sales of sports shoes | 208,706 | 49.0% | 91,586 | 49.5% | 127.9% |
| Sales of sportswear and sports accessories | 216,883 | 51.0% | 93,379 | 50.5% | 132.3% |
| Total | 425,589 | 100.0% | 184,965 | 100.0% | 130.1% |

The following table sets forth a breakdown of the Group's turnover by regions during the periods:–

| | For the six months ended 30 June | | |
|---|---|---|---|
| | **2010 RMB'000** | 2009 RMB'000 | Change % |
| Northern China | **100,803** | 51,672 | 95.1% |
| Eastern China | **76,810** | 30,424 | 152.5% |
| Southern China | **110,553** | 46,097 | 139.8% |
| Central/Southwestern China | **137,423** | 56,772 | 142.1% |
| Total | **425,589** | 184,965 | 130.1% |

The following table sets forth the number of pairs/pieces sold and the average *ex-factory prices* of the Group's *Flyke* products during the periods:–

| | For the six months ended 30 June | | | | |
|---|---|---|---|---|---|
| | **2010** | | 2009 | | |
| | **Total pairs pieces sold '000** | **Average ex-factory price RMB** | Total pairs pieces sold '000 | Average ex-factory price RMB | Change of average ex-factory price % |
| Sports shoes | **3,334** | **62.6** | 1,473 | 62.2 | 0.7% |
| Sportswear and accessories | **4,448** | **48.8** | 2,242 | 41.6 | 17.1% |

**Sales under the Export ODM Business**

The Export ODM Business enjoyed a steady growth during the review period, albeit that the percentage contributing to the aggregate turnover of the Group was decreasing. This was principally due to the increased sales of the *Flyke* products. During the review period, the Export ODM Business turnover increased by approximately RMB47.8 million or 34.9% to RMB184.7 million, of which approximately RMB101.0 million or 54.7% was from sales of outsourced shoes. The increase in turnover is due to attraction of new overseas buyers through frequent participation in national exhibitions in China and international trade fairs to promote our products and successful price adjustment.

The following table illustrates an analysis of the sales of the Export ODM Business by nature during the six months ended 30 June 2010 (with comparative figures for the six months ended 30 June 2009):–

| | For the six months ended 30 June | | | | |
|---|---|---|---|---|---|
| | **2010** | | 2009 | | Change |
| | **RMB'000** | **%** | RMB'000 | % | % |
| Sales of own produced sports shoes | **83,668** | **45.3%** | 98,702 | 72.1% | (15.2%) |
| Sales of outsourced shoes | **101,018** | **54.7%** | 38,224 | 27.9% | 164.3% |
| Total | **184,686** | **100.0%** | 136,926 | 100.0% | 34.9% |

The following table sets forth the number of pairs/pieces sold and the average selling price of sport shoes for the Export ODM Business for the six months ended 30 June 2010(with comparable figures for the six months ended 30 June 2009):–

| | For the six months ended 30 June | | | | |
|---|---|---|---|---|---|
| | **2010** | | 2009 | | |
| | **Total pairs/ pieces sold '000** | **Average ex-factory price RMB** | Total pairs/ pieces sold '000 | Average ex-factory price RMB | Change of average ex-factory price % |
| Sports shoes | **3,389** | **54.5** | 3,080 | 44.5 | 22.6% |

**Sales of soles**

During the review period, the sales of soles increased by approximately RMB13.8 million or 171.8% principally due to the increased demand of sports shoes for the market and improvement in the design and quality of our soles.

## 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.

During the review period, total cost of sales increased by approximately RMB204.9 million or 80.1% to RMB460.8 million as compared with the same period in 2009 of which the outsourcing fee to contract manufacturers increased by RMB130.7 million or 117.5% to RMB241.8 million for the six months ended 30 June 2010 as compared with the same period in 2009.

The increase in cost of sales was primarily as a result from the increase in sales volume of *Flyke* products and the Export ODM Business during the review period. The increase in outsourcing fee was principally due to the increase in sales volume of sportswear and sports accessories with the *Flyke* brand as well as the increase in outsourcing portion of the Export ODM Business.

## Gross profit and gross profit margin

The overall gross profit of the Group increased by approximately RMB97.3 million or 131.4% with the gross profit margin increasing by 4.7% to 27.1% as compared with the same period in 2009.

The increase in gross profit was principally due to the increase in sales of *Flyke* products and the Export ODM Business products while the increase in gross profit margin was due to the improvement of our product design and quality on both *Flyke* products and the Export ODM Business products.

The following table illustrates the gross profit and the gross profit margins of the Group by its principal activities, namely sports shoes, sportswear and sports accessories with the *Flyke* brand, the Export ODM Business and soles during the six months ended 30 June 2010 (with comparative figures for the six months ended 30 June 2009):–

| | For the six months ended 30 June | | | | |
|---|---|---|---|---|---|
| | **2010** | | 2009 | | Change |
| | **RMB'000** | **Gross profit margin %** | RMB'000 | Gross profit margin % | % |
| Sales of sports shoes, sportswear and sports accessories with the *Flyke* brand | **127,597** | **30.0%** | 43,585 | 23.6% | 6.4% |
| Sales under our Export ODM Business | **38,753** | **21.0%** | 28,803 | 21.0% | – |
| Sales of soles | **4,941** | **22.7%** | 1,635 | 20.4% | 2.3% |
| Total | **171,291** | **27.1%** | 74,023 | 22.4% | 4.7% |

### *Flyke* products

The gross profit for the sales of the *Flyke* products during the review period increased by approximately RMB84.0 million or 192.8% with the gross profit margin increasing by 6.4% to 30.0% as compared with the same period in 2009 as a result of the increase in *ex-factory prices* and retail prices of sportswear and accessories, in addition to the retail network expansion and brand promotion activities launched.

The following table illustrates an analysis of the gross profit and profit margin of the *Flyke* products by product categories during the six months ended 30 June 2010 (with comparative figures for the six months ended 30 June 2009):–

| | For the six months ended 30 June | | | | |
|---|---|---|---|---|---|
| | **2010** | | 2009 | | Change |
| | **RMB'000** | **Gross profit margin %** | RMB'000 | Gross profit margin % | % |
| Sales of sports shoes | **68,847** | **33.0%** | 28,439 | 31.1% | 1.9% |
| Sales of sportswear and sports accessories | **58,750** | **27.1%** | 15,146 | 16.2% | 10.9% |
| Total | **127,597** | **30.0%** | 43,585 | 23.6% | 6.4% |

### Export ODM Business

The gross profit for the Export ODM Business for the review period increased by approximately RMB10.0 million or 34.5% while the gross profit margin remained stable at 21.0%. The increase in gross profit was a result of increase in demand for our products and increase in average selling price. During the review period, the gross profit margin of own produced sports shoes and outsourced sports shoes increased by 1.8% and 3.3% respectively due to product innovation. However, the overall profit margin was stable in light of the increase in outsourced sports shoes by approximately RMB12.0 million or 228.2% as compared with the same period in 2009.

The following table illustrates an analysis of the gross profit and profit margin of the Export ODM Business by nature during the six months ended 30 June 2010 (with comparative figures for the six months ended 30 June 2009):–

| | For the six months ended 30 June | | | | |
|---|---|---|---|---|---|
| | **2010** | | 2009 | | Change |
| | **RMB'000** | **Gross profit margin %** | RMB'000 | Gross profit margin % | % |
| Sales of own produced sports shoes | **21,436** | **25.6%** | 23,527 | 23.8% | 1.8% |
| Sales of outsourced sports shoes | **17,317** | **17.1%** | 5,276 | 13.8% | 3.3% |
| Total | **38,753** | **21.0%** | 28,803 | 21.0% | – |

### Sales of soles

The gross profit for the sales of soles increased by RMB3.3 million or 202.1% with the gross profit margin increased by 2.3% as compared with same period in 2009 due to improvement of design and technology and increase demand for sport shoes in the market.

## Other income

The other income of the Group for the review period increased by approximately RMB3.2 million to approximately RMB3.8 million due to the increase in government grants from the local government.

## 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 and salary. The selling and distribution expenses increased by RMB7.8 million or 73.4% from RMB10.6 million in last corresponding period to approximately RMB18.4 million for the review period primarily as a result of increase in promotion related to television and other media advertising etc. The selling and distribution expenses represented approximately 2.9% to the total turnover of the Group of which 45.8% was the advertising and marketing expenses, as compared to 18.5% in the last corresponding period. The advertising and marketing expenses represented 2.0% and 1.1% of *Flyke* brand during the review period and last corresponding period respectively.

## Administrative expenses

The administrative expenses mainly consisted of professional fees and staff cost including salary of administrative staff (other than those involved in the production process), welfare and other benefits for employees. The administrative expenses increased by RMB26.8 million or 587.0% from RMB4.6 million in the last corresponding period to approximately RMB31.4 million during the review period primarily as a result of an increase in legal and professional fees paid by RMB17.7 million to RMB18.3 million. The staff cost increased more than three times from RMB1.9 million in the last corresponding period to RMB7.9 million during the review period due to the increase in both the number of staff and salary. The increase was primarily due to the strengthening in the office supports and administrative functions for the Group's business expansion. The administrative expenses contributed 5.0% of total turnover of the Group for the current period, as compared to 1.4% in the same period in 2009.

## 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 and increase in hiring designers, such expenses increased more than 5 times from RMB3.1 million in the last corresponding period to RMB19.5 million for the review period. For the six months ended 30 June 2010, other operating expenses contributed 3.1% of total turnover of the Group for the current period, as compared to 0.9% in the same period in 2009.

## Finance costs

The finance costs consisted of interest expense on bank borrowings. The finance costs incurred by the Group increased by RMB1.2 million or 59.9% from RMB2.0 million in the last corresponding period to approximately RMB3.2 million during the period due to the increase in the bank borrowings of the Group by RMB28.4 million from RMB116.4 million in the last corresponding period to RMB144.8 million during the review period 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 generated any assessable profit in Hong Kong during the review period. The Group was not subject to any tax in the Cayman Islands and the British Virgin Islands during the review period.

The Group's income tax expense increased by RMB24.3 million or 503.3% from RMB4.8 million in the last corresponding period to RMB29.1 million during the review period, which was due to the increase in turnover of the Group and one of the subsidiaries – Feike Sports Products Co., Ltd. Fujian# (福建省飛克體育用品有限公司), being subject to income tax at 12.5%, in addition to the withholding tax of dividend declared and paid in March 2010 and deferred tax liabilities were recognized of the dividend withholding tax for the review period. The Group's effective income tax rate was approximately 28.4% for the review period, as compared to 8.9% in the last corresponding period.

### Profit for the period

Profit for the period increased by approximately 48.2% from approximately RMB49.5 million in the last corresponding period to RMB73.5 million for the review period. The increase in the profitability of the Group was principally driven by the increase in sales in *Flyke* brand and Export ODM Business.

## USE OF PROCEEDS

### Use of Net Proceeds from the Global Offering

The Company successfully listed on the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 29 March 2010. The net proceeds from the global offering were approximately HK$363.3 million (after deducting related expenses). The following table sets forth the use of the net proceeds during the six months ended 30 June 2010:–

| | | (HK$ million) | |
|---|---|---|---|
| **Use of net proceeds from the global offering** | **Available to utilise** | **Utilised as of 30 June 2010** | **Unutilised as of 30 June 2010** |
| Improvement in our information technology systems | 22.5 | – | 22.5 |
| Expansion of our product research and development teams | 63.9 | 6.0 | 57.9 |
| Establishment of seven flagship stores and 23 image stores | 63.9 | – | 63.9 |
| Increase three sports shoes production lines | 23.0 | 7.8 | 15.2 |
| Establish new production facilities for sportswear with the *Flyke* brand | 80.0 | – | 80.0 |
| Advertising and marketing activities | 110.0 | 9.7 | 100.3 |
| Total | 363.3 | 23.5 | 339.8 |

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The bank balances and cash of the Group increased by RMB248.3 million from approximately RMB98.7 million for the year ended 31 December 2009 to approximately RMB347.0 million as of 30 June 2010. 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.

The net assets increased to RMB496.8 million as of 30 June 2010 from RMB204.2 million as of 31 December 2009.

The bank borrowings increased from RMB116.4 million as of 31 December 2009 to RMB144.8 million as of 30 June 2010, all denominated in Renminbi.

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The Group mainly operates in the PRC and most of the transactions were settled in Renminbi. However, part of the Group's bank deposit is denominated in Hong Kong dollars. During the review period, the Group did not hedge against any exposure in foreign currency risk. Any substantial exchange rate fluctuation of foreign currencies against Renminbi may impact on the financial condition of the Group.

## PLEDGE OF ASSETS OF THE GROUP AND GUARANTEE

The Group had pledged property, plant and equipment, prepaid lease payments and bank deposits with carrying amount of RMB39.6 million, RMB5.5 million and RMB2.2 million, respectively, to secure the bank borrowings and the banking facilities granted to the Group at of 30 June 2010. During the review period, 福建鑫豪體育發展有限公司 which was wholly-owned by Ms. LIN Ezhi, who is the spouse of Mr. LIN, granted a guarantee to a bank for lending a loan of RMB7.5 million to the Group. The guarantee was released on 11 August 2010.

## CONTINGENT LIABILITIES

As of 30 June 2010, we had no material contingent liabilities.

## BUSINESS OUTLOOK

### *Flyke* brand

The Directors are confident on the prospects of the sports goods industry in China in light of the rapid growth in China's economy and continuous urbanization. There is an increasing number of international events held in China, such as the Guangzhou 2010 Asian Games, which is expected to increase the overall demand for sports products. To grasp these business opportunities, the Group will continue to expand the distribution network through collaborations with our authorised distributors, establish 23 image stores in the second and third-tier cities and seven flagship stores at first-tier cities in China and launch advertising campaigns in anticipation of the increasing demand for sports products.

To effectively capture the youth market segment of consumers ranging from 14 to 25 years old in China, the Group will continue its successful pricing strategy of and innovative design of the *Flyke* products. The Group's cooperation with Saier will continue to assist the Group in distributing sports shoes, sportswear and sports accessories at the university campus in China. There were 93 campus retail stores at the selected universities and tertiary institutions as of 30 June 2010. In addition, the Group will continue to sponsor sports events held at the universities and tertiary institutions in China and provide to the students discounts and other loyalty programmes for the purchase of the *Flyke* products. All of these are expected to allow the Group to capture the business opportunities arising from the rapidly growing market.

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 has entered into contracts with selected international designers to develop new sports shoes, sportswear and sports accessories.

In order to expand the Group's operations, the Directors plan to increase one production line for sports shoes by the end of 2010. Moreover, 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 is one of the core businesses of the Group due to the steady growth of the business and generation of a stable cash inflow and income to the Group. The Directors believe that the sales from the Export ODM Business will continue to increase as a result of the recovery of overseas markets and the increase in recognition of the quality of the Group's products in overseas markets, in addition to participation in various international exhibitions and trade fairs.

## SHARE OPTIONS

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 interim report, no option has been granted or agreed to be granted under the Share Option Scheme.

## 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 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 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.

## PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the six months ended 30 June 2010.

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the "**Code**") as set out in Appendix 14 to The Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") from the date of listing of the shares on the Stock Exchange to 30 June 2010 save for the provision requiring the roles of the chairman and chief executive officer to be undertaken by two individuals under paragraph A.2 of the Code. The Board and the audit committee of the Board have reviewed the effectiveness of the Group's internal control systems and considered that the Group's internal control systems are reasonably implemented and the Group has fully complied with the Code provisions regarding internal control systems in general.

## 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 code 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 throughout the six-month period ended 30 June 2010.

## REVIEW OF INTERIM RESULTS BY THE AUDIT COMMITTEE

The Company established the audit committee 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 six months ended 30 June 2010, including the accounting principles and practices adopted by the Group.

# Independent Review Report

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

**REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION**
**To the Board of Director of FLYKE INTERNATIONAL HOLDINGS LTD.**
*(incorporated in the Cayman Islands with limited liability)*

## Introduction

We have reviewed the interim financial information set out on pages 18 to 30, which comprises the condensed consolidated statement of financial position of Flyke International Holdings Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") as at 30 June 2010 and the related condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard ("HKAS") 34"Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to form an independent conclusion, based on our review, on this interim financial information, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Without qualifying our review conclusion, we draw our attention to the fact that the comparative condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period ended 30 June 2009 and the relevant explanatory notes disclosed in the interim financial information have not been reviewed in accordance with Hong Kong on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

**SHINEWING (HK) CPA Limited**
*Certified Public Accountants*
**Ip Yu Chak**
Practising Certificate Number: P04798

Hong Kong
20 August 2010

# Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2010

| | Notes | 2010 RMB'000 (Unaudited) | 2009 RMB'000 (Unaudited) |
|---|---|---|---|
| | | For the six months ended 30 June | |
| Turnover | 4 | **632,064** | 329,906 |
| Cost of sales | | **(460,773)** | (255,883) |
| Gross profit | | **171,291** | 74,023 |
| Other income | | **3,829** | 664 |
| Selling and distribution expenses | | **(18,445)** | (10,640) |
| Administrative expenses | | **(31,415)** | (4,573) |
| Other operating expenses | | **(19,497)** | (3,078) |
| Finance costs | | **(3,245)** | (2,029) |
| Profit before tax | 6 | **102,518** | 54,367 |
| Income tax expense | 7 | **(29,068)** | (4,818) |
| Profit for the period | | **73,450** | 49,549 |
| Exchange differences arising on translation of foreign operations | | **(457)** | 2 |
| Total comprehensive income for the period | | **72,993** | 49,551 |
| Earnings per share (RMB) | | | |
| Basic and diluted | 8 | **0.092** | 0.062 |

# Condensed Consolidated Statement of Financial Position

As at 30 June 2010

| | Notes | 30 June 2010 RMB'000 (Unaudited) | 31 December 2009 RMB'000 (Audited) |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 10 | **113,055** | 96,579 |
| Prepaid lease payments | | **24,116** | 23,779 |
| Deferred tax assets | | **92** | – |
| | | **137,263** | 120,358 |
| **Current assets** | | | |
| Inventories | | **41,696** | 25,824 |
| Trade and other receivables | 11 | **344,938** | 221,181 |
| Prepaid lease payments | | **505** | 500 |
| Pledged bank deposits | | **2,220** | 2,220 |
| Bank balances and cash | | **347,015** | 98,747 |
| | | **736,374** | 348,472 |
| **Current liabilities** | | | |
| Trade and other payables | 12 | **204,463** | 135,783 |
| Amount due to the controlling shareholder | 13 | **1,277** | 3,768 |
| Income tax payable | | **26,334** | 8,689 |
| Bank borrowings | 14 | **144,770** | 116,370 |
| | | **376,844** | 264,610 |
| **Net current assets** | | **359,530** | 83,862 |
| | | **496,793** | 204,220 |
| **Capital and reserves** | | | |
| Share capital | 15 | **70,483** | – |
| Reserves | | **425,526** | 203,452 |
| **Total equity** | | **496,009** | 203,452 |
| **Non-current liability** | | | |
| Deferred tax liabilities | | **784** | 768 |
| | | **496,793** | 204,220 |

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2010

| | Share capital RMB'000 (Note 15) | Share premium RMB'000 | 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 2010 (audited) | – | – | 28,256 | 27,110 | 25 | 148,061 | 203,452 |
| Total comprehensive income for the period | – | – | – | – | (457) | 73,450 | 72,993 |
| Issue of shares during the period | 88 | – | – | – | – | – | 88 |
| Capitalisation of share premium | 52,776 | (52,776) | – | – | – | – | – |
| Shares issued under placing and public offering, net of issuing expenses | 17,619 | 301,857 | – | – | – | – | 319,476 |
| Dividend paid during the period | – | – | – | – | – | (100,000) | (100,000) |
| At 30 June 2010 (unaudited) | 70,483 | 249,081 | 28,256 | 27,110 | (432) | 121,511 | 496,009 |
| As at 1 January 2009 (audited) | 28,256 | – | – | 12,786 | – | 97,272 | 138,314 |
| Total comprehensive income for the period | – | – | – | – | 2 | 49,549 | 49,551 |
| Dividend paid during the period | – | – | – | – | – | (20,158) | (20,158) |
| At 30 June 2009 (unaudited) | 28,256 | – | – | 12,786 | 2 | 126,663 | 167,707 |

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 the accumulated loss 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.

# Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2010

| | For the six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| Net cash from operating activities | **26,271** | 46,733 |
| Net cash used in investing activities | **(20,137)** | (76,813) |
| Net cash from financing activities | **242,228** | 10,283 |
| Net increase (decrease) in cash and cash equivalents | **248,362** | (19,797) |
| Cash and cash equivalents at beginning of period | **98,747** | 26,849 |
| Effect of foreign exchange rate changes | **(94)** | – |
| Cash and cash equivalents at end of period, representing bank balances and cash | **347,015** | 7,052 |

# Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2010

## 1. Group Restructuring and Basis of Preparation of Consolidated Financial Information

Flyke International Holdings Ltd. (the "**Company**") was incorporated in the Cayman Islands as an exempted company with limited liability on 21 April 2008. Its parent company is Super Creation International Limited ("**Super Creation**"), a company incorporated in the British Virgin Islands ("BVI"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Company Information" section to the interim report. The Company and its subsidiaries (hereinafter collectively referred to as the "**Group**") are principally engaged in design, production and sales of sports shoes, sportswear and sports accessories.

Pursuant to a reorganisation (the "**Reorganisation**"), the Company acquired the equity interests of entities under common control and became the holding company of the subsidiaries now comprising 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**"). Details of the Reorganisation are set out in the prospectus of the Company dated 16 March 2010 (the "Prospectus").

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

The condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows are prepared as if the current group structure had been in existence throughout the six months ended 30 June 2010 and 30 June 2009, or since the respective dates of incorporation of the relevant entity, where this is a shorter period. The condensed consolidated statement of financial position as at 31 December 2009 presents the assets and liabilities of the companies comprising the Group which had been incorporated as at 31 December 2009 as if the current group structure had been in existence on 31 December 2009.

The consolidated financial information has been presented in Renminbi ("RMB"), which is the same as the functional currency of the Group.

## 2. Basis of Preparation

The condensed consolidated interim financial information has been prepared in accordance with the applicable disclosure provisions of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and with the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

## 3. Principal Accounting Policies

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

## 3. Principal Accounting Policies *(continued)*

In the current period, the Group has applied the following new and revised standards, amendments and interpretation ("**INT**") (herein collectively referred to as ("**new and revised HKFRSs**")), issued by the HKICPA.

| | |
|---|---|
| HKFRSs (Amendments) | Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008 |
| HKFRSs (Amendments) | Improvements to HKFRSs 2009 |
| Hong Kong Accounting Standard ("HKAS") 1 (Revised 2007) | Presentation of Financial Statements |
| HKAS 23 (Revised 2007) | Borrowing cost |
| HKAS 32 & 1 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation |
| HKFRS 1 (Amendment) | Additional Exemptions for First-time Adopters |
| HKFRS 1 & HKAS 27 (Amendments) | Cost of an investment in a Subsidiary, Jointly Controlled Entity or Associate |
| HKFRS 2 (Amendment) | Vesting Conditions and Cancellations |
| HKFRS 2 (Revised) | Group Cash-settled Share-based Payment Transactions |
| HKFRS 7 (Amendment) | Improving Disclosures about Financial Instruments |
| HKFRS 8 | Operating Segments |
| HK(IFRIC) – INT 9 & HKAS 39 (Amendments) | Embedded Derivatives |
| HK(IFRIC) – INT 13 | Customer Loyalty Programmes |
| HK(IFRIC) – INT 15 | Agreements for the Construction of Real Estate |
| HK(IFRIC) – INT 16 | Hedges of a Net Investment in a Foreign Operation |
| HK(IFRIC) – INT 18 | Transfers of Assets from Customers |

The adoption of the new and revised HKFRSs had no material effect on the condensed consolidated interim financial information of the Group for the current or prior accounting periods.

The Group applies HKFRS 3 (Revised) Business Combinations prospectively to business combinations for which the acquisition date is on or after 1 January 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 1 January 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 information 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.

## 3. Principal Accounting Policies *(continued)*

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

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs Issued in 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 (Amendment) | Prepayments of a Minimum Funding Requirement[4] |
| HK(IFRIC)-INT 19 | Extinguishing Financial Liabilities with Equity Instruments[3] |

1 Amendments that are effective for annual periods beginning on or after 1 July 2010 and 1 January 2011 as appropriate
2 Effective for annual periods beginning on or after 1 February 2010
3 Effective for annual periods beginning on or after 1 July 2010
4 Effective for annual periods beginning on or after 1 January 2011
5 Effective for annual periods beginning on or after 1 January 2013

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.

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 condensed interim consolidated financial information.

## 4. 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:

| | For the six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| Sports shoes | **393,392** | 228,512 |
| Sportswear and sports accessories | **216,883** | 93,379 |
| Soles | **21,789** | 8,015 |
| | **632,064** | 329,906 |

## 5. Segment Information

Operating segments and the amounts of each segment item reported in the condensed consolidated financial information are identified from the financial information provided regularly to the Group's chief operation 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, sportwear in the People's Republic of China (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.

## 6. Profit Before Tax

| | For the six months ended 30 June | |
|---|---|---|
| | **2010<br>RMB'000<br>(Unaudited)** | 2009<br>RMB'000<br>(Unaudited) |
| Profit before tax has been arrived at after charging (crediting): | | |
| Directors' emoluments | **598** | 155 |
| Salaries and other allowances | **49,469** | 32,134 |
| Retirement benefits scheme contributions (excluding directors) | **3,148** | 168 |
| Total staff costs | **53,215** | 32,457 |
| Amortisation of prepaid lease payments | **181** | 63 |
| Auditors' remuneration | **350** | – |
| Cost of inventories recognised | **460,773** | 255,883 |
| Depreciation of property, plant and equipment | **3,327** | 3,298 |
| Listing expenses | **14,542** | 299 |
| Operating lease rental paid in respect of rented premises | **82** | 79 |
| Research and development costs (included in other operating expenses)* | **19,497** | 3,078 |
| Bank interest income | **(189)** | (179) |
| Government grants ** | **(3,300)** | (50) |

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

** There are no unfulfilled conditions or contingencies relating to these subsidies.

## 7. Income Tax Expense

| | For the six months ended 30 June | |
|---|---|---|
| | **2010<br>RMB'000<br>(Unaudited)** | 2009<br>RMB'000<br>(Unaudited) |
| The charge comprises: | | |
| PRC Enterprise Income Tax ("EIT") | | |
| – Current | **29,145** | 4,818 |
| Deferred tax | **(77)** | – |
| | **29,068** | 4,818 |

## 7. Income Tax Expense *(continued)*

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 periods ended 30 June 2010 and 2009.

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%.

## 8. Earnings Per Share

The calculation of the basic earnings per share for the period is based on the consolidated profit attributable to owners of the Company and on 800,000,000 shares in issue during the period on the assumption that the Reorganisation and the capitalisation issue have been effective on 1 January 2009.

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 periods ended 30 June 2010 and 2009.

## 9. Dividends

| | For the six months ended 30 June | |
|---|---|---|
| | **2010 RMB'000 (Unaudited)** | 2009 RMB'000 (Unaudited) |
| Dividend paid during the period | **100,000** | 20,158 |

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

During the period ended 30 June 2009, Xin Wei (Fujian) Light Industry Co., Ltd.# (鑫威(福建)輕工有限公司) declared a final dividend of approximately RMB20,158,000 in respect of the year ended 31 December 2007 and settled with its then shareholder in April 2009.

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2010 (30 June 2009: nil).

# English name is for identification purpose only

## 10. Property, Plant and Equipment

During the six months ended 30 June 2010, the Group spent approximately RMB19,803,000 (six months ended 30 June 2009: RMB24,644,000) on additions to property, plant and equipment.

## 11. Trade and Other Receivables

| | 30 June 2010 RMB'000 (Unaudited) | 31 December 2009 RMB'000 (Audited) |
|---|---|---|
| Trade receivables | 337,803 | 196,959 |
| Prepayments | 5,013 | 24,216 |
| Other receivables | 2,122 | 6 |
| | 344,938 | 221,181 |

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

An aged analysis of trade receivables, net of impairment losses recognised is as follows:

| | 30 June 2010 RMB'000 (Unaudited) | 31 December 2009 RMB'000 (Audited) |
|---|---|---|
| Within 60 days | 302,914 | 196,545 |
| 61 to 180 days | 34,874 | 414 |
| 181 to 365 days | 15 | – |
| Total | 337,803 | 196,959 |

## 12. Trade and Other Payables

| | 30 June 2010 RMB'000 (Unaudited) | 31 December 2009 RMB'000 (Audited) |
|---|---|---|
| Trade payables | 155,411 | 88,853 |
| Bills payables | 7,400 | 7,400 |
| Trade and bills payables | 162,811 | 96,253 |
| Other payables and accruals | 19,759 | 22,078 |
| Valued added tax payables | 21,893 | 17,452 |
| | 204,463 | 135,783 |

## 12. Trade and Other Payables *(continued)*

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

| | 30 June 2010 (Unaudited) RMB'000 | 31 December 2009 (Audited) RMB'000 |
|---|---|---|
| Within 90 days | 162,684 | 95,906 |
| 91 to 180 days | 127 | 347 |
| Trade and bills payables | 162,811 | 96,253 |

## 13. Amount Due to the Controlling Shareholder

The amount is unsecured, non-interest bearing and repayment on demand. The amount has been fully settled in August 2010.

## 14. Bank Borrowings

During the period ended 30 June 2010, the Group obtained new bank loans amounting approximately RMB124,050,000. Included in bank borrowings of approximately RMB59,770,000 carried interest at fixed interest rate of ranging from 5.310% to 6.903% per annum; approximately RMB44,000,000 carried variable interest at 5.841% and approximately RMB41,000,000 carried at The People's Bank of China Base Lending Rate. The bank borrowings are repayment within one year.

## 15. Share Capital

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

| | Number of shares | Amount *US$* | Amount *HK$* | Amount as presented *RMB'000* |
|---|---|---|---|---|
| Authorised: | | | | |
| At 1 January 2009 and 31 December 2009 | 50,000 | 50,000 | | |
| Increase in authorised capital (Note b (i)) | 2,000,000,000 | N/A | 200,000,000 | |
| Cancellation of authorised capital (Note b (iii)) | (50,000) | (50,000) | N/A | |
| At 30 June 2010 | 2,000,000,000 | – | 200,000,000 | |
| Issued and fully paid: | | | | |
| At 1 January 2009 and 31 December 2009 | 1 | 1 | N/A | – |
| Issued during the period (Note b (i)) | 1,000,000 | N/A | 100,000 | 88 |
| Repurchased during the period (Note b (ii)) | (1) | (1) | N/A | – |
| Capitalisation issue (Note c) | 599,000,000 | N/A | 59,900,000 | 52,776 |
| New issue of shares (Note d) | 200,000,000 | N/A | 20,000,000 | 17,619 |
| At 30 June 2010 | 800,000,000 | – | 80,000,000 | 70,483 |

Pursuant to the Reorganisation completed on 22 December 2009, the Company became the holding company of the companies comprising the Group.

## 15. Share Capital *(continued)*

Notes:

a. The Company was incorporated on 21 April 2008 with an authorised share capital of US$50,000 dividing into 50,000 shares of US$1 each. On 21 April 2008, 1 ordinary share of US$1 each was allotted and issued to Super Creation and is beneficially owned by Mr. Lin Wenjian ("Mr. LIN"), for cash at par as initial working capital.

b. On 24 February 2010, pursuant to written resolutions passed by the then sole shareholder,

(i) the authorised share capital of US$50,000 was increased by HK$200,000,000 divided into 2,000,000,000 shares of HK$0.1 each, of which 1,000,000 shares of HK$0.1 were issued and allotted to Super Creation;

(ii) the Company repurchased the one existing share of US$1.0 held by Super Creation for a cash consideration of US$1 and the said existing share capital of the Company was cancelled following the repurchase; and

(iii) the amount of authorised share capital of the Company was diminished to HK$200,000,000 by the cancellation of all the 50,000 unissued shares of par value US$1.0 each in the capital of the Company.

c. Pursuant to written resolutions passed on 24 February 2010, the Company allotted and issued 599,000,000 shares of HK$0.1 each to the then existing shareholders of the Company. This resolution was conditional on the share premium account being credited as a result of the Company's public offering and pursuant to this resolution, a sum of HK$59,900,000 (equivalent to approximately RMB52,776,000) standing to the credit of the share premium account was subsequently applied in paying up this capitalisation in full.

d. On 26 March 2010, the Company issued 200,000,000 shares with a par value of HK$0.10 each, at a price of HK$1.90 per share by way of a global initial public offering. Net proceeds from such issue amounted to RMB319,476,000 (after offsetting share issuance expenses of RMB15,293,000), out of which RMB17,619,000 and RMB301,857,000 were recorded in the share capital and share premium respectively.

## 16. Capital Commitments

| | **30 June 2010 RMB'000 (Unaudited)** | 31 December 2009 RMB'000 (Audited) |
|---|---|---|
| Capital expenditure contracted for but not provided in the condensed consolidated interim financial information in respect of: | | |
| – Construction in progress | **–** | 12,873 |
| – Land use rights | **5,720** | – |
| | **5,720** | 12,873 |

## 17. 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:

| | **30 June 2010 RMB'000 (Unaudited)** | 31 December 2009 RMB'000 (Audited) |
|---|---|---|
| Within one year | **80** | 122 |
| In the second to fifth year, inclusive | **–** | 18 |
| | **80** | 140 |

## 18. Related Party Transactions

Save as those disclosed in notes 13, the Group has entered into the following significant transactions with related parties during the two periods ended 30 June 2010 and 2009.

**(a)** A tax indemnity dated 15 March 2010 were entered into by among others, Super Creation, 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.

### (b) Compensation of key management personnel

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

| | **For the six month ended 30 June** | |
|---|---|---|
| | **2010 RMB'000 (Unaudited)** | 2009 RMB'000 (Unaudited) |
| Short-term benefits | **1,056** | 356 |
| Retirement benefits scheme contributions | **11** | 12 |
| | **1,067** | 368 |

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

**(c)** During the period ended 30 June 2010, 福建鑫豪體育發展有限公司 which was wholly-owned by Ms. Lin Ezhi, who is the spouse of Mr. LIN, granted a guarantee to a bank for lending a loan of RMB7,500,000 to the Group. The guarantee was released on 11 August 2010.