Potential investors should read the following discussions and analysis of our financial condition as of 31 December 2006, 2007 and 2008 and as of 30 September 2009 and results of operations together with our combined financial information for the three years ended 31 December 2008 and the nine months ended 30 September 2009 and the accompanying notes included in the accountants' report set forth in Appendix I to this prospectus. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Further information on these risks and uncertainties is set forth the section headed "Risk Factors" in this prospectus.

OVERVIEW

We are principally engaged in the design, production and sales of sports shoes with the *Flyke* brand in China. We launched the *Flyke* brand in April 2004 and as of the Latest Practicable Date, the products with the *Flyke* brand were sold by 19 authorised distributors at 1,169 authorised retail stores in 208 cities in China. In addition to sports shoes, the *Flyke* brand also includes sportswear and sports accessories which are produced by our contract manufacturers. The *Flyke* brand targets the youth market ranging from 14 to 25 years old in second- and third-tier cities in China. The *Flyke* brand is focusing on fashionable and leisure sports shoes, sportswear and sports accessories.

We enjoy a rapid growth in the sales of sports shoes, sportswear and sports accessories with the *Flyke* brand during the three years ended 31 December 2008 which recorded a CAGR of approximately 656.7%.

In December 2005, Xinwei (China) was accredited as a "*2005 China Sports Brand Top 100 Outstanding Enterprise*" (2005年中國體育品牌風雲100榜優秀企業). In July 2006, Xinwei (China) was named as an "*Advance Enterprise for Creation of Famous Brand for the Year 2003–2005*" (2003–2005年度創名牌先進企業). In July 2007, the *Flyke* brand was awarded the "*Top 10 Most Favourable Brands of sportswear as voted by consumers in China*" (中國體育用品市場消費者(用戶)最喜愛十佳品牌) and the "*A reputable brand in terms of protecting consumers' interest*" (全國保護消費者權益信譽品牌). In September 2008, Xinwei (China) was awarded "*Fujian Famous International Brand*" (福建國際知名品牌).

Prior to the launch of the *Flyke* products, Xinwei (China) had already started the design, production and sales of Soles and sport shoes for our Export ODM Business. These two business activities are part of our vertically integrated business models for the production and sales of sports shoes with the *Flyke* brand for our customers.

As part of our vertically integrated business models, we have strong product design and development capability dedicated for the sports shoes, sportswear and sports accessories with the *Flyke* brand and our Export ODM Business. During the year ended 31 December 2008, our product design and development teams designed and developed over 1,400 styles of sports shoes. We also design, develop and produce the Soles in our sports shoes and sell the Soles to other manufacturers according to their specifications.

BASIS OF PREPARATION OF FINANCIAL INFORMATION

Prior to the Reorganisation, Mr. LIN was the sole owner of Xinwei (China) and Flyke (China) which were principally engaged in three principal types of business activities, namely (a) design, production and sales of the *Flyke* sports footwear, sportswear and accessories; (ii) design, production and sales of sports footwear for our Export ODM business and (c) design, production and sales of Soles.

Prior to the Reorganisation, Super Creation is the sole Shareholder and our Company held all the issued shares of Xinwei (Hong Kong) and Flyke (Hong Kong) through Win Eagle. For the purpose of the Listing, all the equity interest in Xinwei (China) and Flyke (China) have been transferred to Xinwei (Hong Kong) and Flyke (Hong Kong), respectively. Further information on the Reorganisation is set forth in the section headed "Reorganisation" in this prospectus. As the companies that took part in the Reorganisation, and being members of our Group (other than Super Creation), were controlled by Mr. LIN through his shareholding in Super Creation, our Company, Win Eagle, Xinwei (Hong Kong) and Flyke (Hong Kong) before and after completion of the Reorganisation, there was a continuation of the risks and benefits to the controlling equity holders and therefore this is considered as a business combination under common control and the Accounting Guideline 5 "Merger Accounting for Common Control Combinations" has been applied. The combined financial information has been prepared using the merger basis of accounting as if we had always been in existence. The net assets of the combining companies are combined using the existing book values from the controlling equity holders' perspective.

Our combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flow set forth in Appendix I to this prospectus for the three years ended 31 December 2008 and the nine months ended 30 September 2009 include the results of operations of the companies of which our Group comprised (or where the companies were incorporated/established at a date later than 1 January 2006, for the period from the date of incorporation/establishment to 30 September 2009) as if the current corporate structure had been in existence throughout the Track Record Period. Our combined statements of financial position as of 31 December 2006, 2007 and 2008 and 30 September 2009 set forth in Appendix I to this prospectus have been prepared to present the state of affairs of the companies of which our Group is comprised as of those dates, as if the current corporate structure had been in existence as of the respective dates.

The combined financial information included in the accountants' report in Appendix I to this prospectus has been prepared in accordance with HKFRSs promulgated by the HKICPA, the disclosure requirements of the Companies Ordinance and the applicable disclosure provisions of the Listing Rules.

We did not prepare combined financial statements previously. This is our first HKFRSs combined financial statements, and HKFRS 1 "*First-time adoption of Hong Kong Financial Reporting Standards*" has been applied.

During the three years ended 31 December 2008 and the nine months ended 30 September 2009, the HKICPA issued a number of new and revised HKFRSs. For the purpose of preparing the financial statements, we have adopted all of these new and revised HKFRSs applicable to the three years ended 31 December 2008 and the nine months ended 30 September 2009, except for any new standards or interpretations that are not yet effective for the accounting periods beginning on or after 1 January 2009. Note 2 to the combined financial statements in Appendix I to this prospectus sets forth additional information.

Intra-group balances and transactions are eliminated in full in preparing the combined financial information.

FACTORS AFFECTING OUR OPERATING RESULTS AND FINANCIAL CONDITION

Our operating results and financial condition have been and will continue to be affected by various factors that may not be entirely without our control. A summary of these factors is set forth below:—

Our ability to strengthen the sales of the *Flyke* sports shoes, sportswear and sports accessories with improving profit margin and brand premium

We believe that the significant growth in the sales of the *Flyke* sports shoes, sportswear and sports accessories was attributable to the intensive advertising and marketing campaigns and the increasing number of the authorised retail stores. Competition of the sports shoes, sportswear and sports accessories industry in China is keen, and we have to strengthen our advertising and marketing campaigns in order to enhance the brand recognition amongst our target consumers. Increases in the advertising and marketing campaigns could affect our operating results and may not achieve the desirable outcome. During the year ended 31 December 2008, our advertising and marketing expenses increased by approximately 438.2% to approximately RMB9.9 million. We also rely on the expansion of the number of authorised retail stores as the principal growth driver to the sales of the *Flyke* products, which has its own inherent risks. Further information on these risks are set forth in the paragraphs under "Risk Factors — Risks relating to our Group — We rely on our authorised distributors and the authorised retail stores over which we have limited control" in this prospectus.

Our ability to maintain the business volume and the profit margin of our Export ODM Business

During the year ended 31 December 2008, our Export ODM Business represented approximately 42.4% of our aggregate turnover. During the nine months ended 30 September 2009, our Export ODM Business represented approximately 36.4% of our aggregate turnover. Although we plan to focus on our retail business with the *Flyke* brand, our Directors anticipate that our Export ODM Business will continue to be one of our core businesses in the future. In addition to its financial contribution, our Export ODM Business also provides us with opportunities and the latest information on the international marketing trends on the styles of sport shoes which is instrumental to our business as a whole. If we are not able to maintain a steady growth in our Export ODM Business, our operating results could be adversely affected. Further information on these risk are set forth in the paragraphs under "Risk Factors — Risks relating to our Group — The profit margin of our Export ODM Business is decreasing" in this prospectus.

Our ability to maintain a favourable pricing strategy for the *Flyke* products

We need to review and adjust the listed retail prices for our products with the *Flyke* brand in response to the changing market condition and the latest products offered by our competitors. The listed retail prices for the *Flyke* products (which form the bases in determining the *ex-factory* prices charged to our authorised distributors) are crucial to our operating results and the recognition of the *Flyke* brand. During the second-half of the year ended 31 December 2008 and the first-half of the year ended 31 December 2009, in response to the economic downturn in China, we reduced the *ex factory* prices of the sports shoes and the sportswear with the *Flyke* brand in order to provide incentive to our authorised distributors to promote the sales of the relevant products with additional discount to the listed retail prices to be provided to the consumers. As a result, our gross profit margin for the sales of the *Flyke* products decreased to approximately 26.1% during the nine months ended 30 September 2009. Our Directors consider that competition on the retail price levels cannot be a sustainable marketing strategy in the future. We need to strengthen the brand building for higher brand premium for the *Flyke* products. If we are not able to enhance the *Flyke* brand in the future, we will continue to face price pressure from our competitors. In such event, our operating results could be adversely affected. Further information on these risks is set forth in the paragraphs under "Risk Factors — Risks relating to our Group — Failure to promote or maintain the *Flyke* brand could materially and adversely affect our profitability" in this prospectus.

Our ability to maintain our competitive advantages that differentiate us from our competitors

The sports shoes and sportswear industry in China is highly competitive, and we face competition from leading domestic brands in terms of brand image, product design and quality, pricing and distribution network. Our Directors believe that our current market position is appropriate without encountering direct competition from the leading international brands. This market position is important to us, but it may also limit our future business development. We intend to expand our product portfolio, attract a wide spectrum of consumers and launch new products to enhance the recognition of the *Flyke* brand, but all of these could result in direct competition from our competitors. If we are not able to continue to maintain our competitive advantages or that the launch of new products cannot achieve the anticipated sales results, our business, operating results and financial condition could be adversely affected.

Our ability to expand the distribution network of the *Flyke* sports shoes, sportswear and sports accessories

Our Directors believe that our success will depend on our ability to enhance the distribution network, in terms of number, location and layout, for the *Flyke* sports shoes, sportswear and sports accessories. As part of our proposed use of the net proceeds from the Global Offering, we intend to expand the number of authorised retail stores. This will require financial and management resources on the establishment of an efficient distribution network. Further information on these risks is set forth in the paragraphs under "Risk Factors — Risks relating to our Group — We are dependent on our authorised distributors" in this prospectus.

Our ability to secure reliable contract manufacturers for the production of sports shoes under our Export ODM Business and sportswear and the sports accessories with the *Flyke* brand

During the nine months ended 30 September 2009, percentage of our sales of sportswear and sports accessories with the *Flyke* brand to our aggregate turnover of the products with the *Flyke* brand was increasing, represented approximately 59.9% of our aggregate turnover, as compared with 58.2% during the nine months ended 30 September 2008. Our Directors believe that the demand for the sportswear and sports accessories with the *Flyke* brand will continue to increase. The expansion of our product portfolio will also benefit us in the long-term with increased brand recognition. We outsource the production of the sportswear and sports accessories to our contract manufacturers which are Independent Third Parties. In view of the rapidly growing market for the sportswear and sports accessories with the *Flyke* brand, we plan to establish our own production facilities which will have an annual production capacity of five million pieces of sportswear by the middle of 2011. We also outsourced the production of some of the sports shoes under our Export ODM Business during the year ended 31 December 2008 and the nine months ended 30 September 2009. In the future, we need to continue to rely on our contract manufacturers. If our contract manufacturers are unable to meet our production requirements on time, or at all, our operating results could be adversely affected. Further information on these risks is set forth in the paragraphs under "Risks Factors — Risk relating to our Group — We are dependent on contract manufacturers for the production of sports accessories and apparel items" in this prospectus.

Our ability to control our cost of sales

The raw materials used in the production of our sports shoes are leather, fabrics and chemical materials. During the three years ended 31 December 2008 and the nine months ended 30 September 2009, the cost of our raw materials accounted for approximately 74.5%, 71.1%, 63.1% and 45.4%, respectively, of our cost of sales. The cost of raw materials was decreasing during the Track Record Period principally because of the increase in the percentage of our sales of sportswear and sports accessories with the *Flyke* brand, the production of which was outsourced to our contract manufacturers. The outsourcing fee included the cost of raw materials for production purpose. It is very important for us to obtain from our suppliers sufficient amount of the required raw materials in a timely manner at competitive prices. If we are unable to control these effectively, our operating results could be adversely affected.

Our ability to assess and react to changes in consumers' demand, preferences and taste

Our growth also depends on the consumers' demand, preferences and taste in China for sports shoes, sportswear and sports accessories. The level of demand is depending on the general economic growth of China, the level of household disposable income and the consumption preferences of our target customers. The increase in the overall consumption is expected to increase the purchase of sports shoes, sportswear and sports accessories, and such increase will not only benefit the international brands, but also the domestic brands, like *Flyke*, focusing on the second- and third-tier cities in China.

Sports shoes, sportswear and sports accessories are trendy products that would be significantly affected by the consumers' perception. If we are unable to target the right consumers at the right time with the right products, our target consumers may not like our products, and this will affect our operating results.

Level of PRC income tax and preferential tax treatment

Our profit attributable to our Shareholders is affected by the level of income tax that we pay and the level of preferential tax treatment to which we may be entitled. On 16 March 2007, the National People's Congress of the PRC (全國人民代表大會) promulgated the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (the "**New Tax Law**"), which came into effect on 1 January 2008. The New Tax Law consolidates the two separate tax regimes for domestic enterprises and foreign-invested enterprises and imposes a unified enterprise income tax rate of 25% for both domestic enterprises and foreign-invested enterprises in the PRC.

Under the New Tax Law, foreign-invested enterprises that enjoyed a preferential tax rate prior to the New Tax Law's promulgation will gradually transit to the new tax rate over five years from 1 January 2008. Foreign-invested enterprises that enjoyed a tax rate of 24% will have their tax rate increased to 25% in 2008. Enterprises which enjoyed a fixed period of tax exemption and reduction prior to the New Tax Law's promulgation will continue to enjoy such preferential tax treatment until the expiry of such prescribed period, and for those enterprises whose preferential tax treatment has not commenced before due to lack of profit, such preferential tax treatment will commence from 1 January 2008.

Flyke (China) 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 China and the profit for each of the subsequent three years is taxed at 50% of the prevailing tax rate set by the local authority (the "**Tax exemptions**"). 晉江市國家稅務局 (Jinjiang National Tax Bureau*) recognised and approved the year 2008 as the first profit-making year of Flyke (China) which is exempted from PRC Enterprise Income Tax from 1 January 2008 to 31 December 2009. The applicable tax rate from 1 January 2010 to 31 December 2012 is 12.5%. No provision for PRC Enterprise Income Tax has been made for Flyke (China) during the period from the date of establishment to 31 December 2006 as it had not yet commenced business operations.

Flyke (China) which is currently entitled to the Tax exemptions from 1 January 2008 would continue to enjoy such treatments until the Tax exemptions period expires, but not beyond 2012.

If the value of a company's export exceeds 70% or more of its total production value within a year, according to《中華人民共和國外商投資企業和外國企業所得稅法》(The Foreign Enterprise Income Tax Law of the PRC*), the company will enjoy a 50% deduction on enterprise income tax. During the two years ended 31 December 2007, Xinwei (China) was taxed at 12% enjoying the 50% deduction of the tax payment based on the prevailing tax rate.

In addition, under the New Tax Law, our Company may in the future be recognised as a PRC tax resident enterprise by the PRC taxation authorities, capital gains realised by foreign Shareholders from sales of our Shares and dividends on our Shares payable to foreign Shareholders may be regarded as income from "sources within the PRC" and therefore become subject to a 10% withholding income tax. If we are required under the New Tax Law to withhold the PRC income tax on capital gains on sales of Shares and/or dividends on our Shares payable to foreign Shareholders, the value of our foreign Shareholders' investment in our Shares may be materially and adversely affected.

CRITICAL ACCOUNTING POLICIES

The preparation of financial information in conformity with HKFRS requires us to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Judgements made by us in the application of HKFRS that have a significant effect on the financial information and estimates with a significant risk of material adjustment in the next year are discussed in note 4 to our combined financial statements in the accountants' report set out in Appendix I to this prospectus.

The accounting policies set forth below have been applied consistently to all periods presented in the financial information:—

Revenue recognition

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

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

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Property, plant and equipment

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

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

Prepaid lease payments

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

Inventories

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

Impairment losses

At the end of each reporting period, we review the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Financial instruments

Financial assets and financial liabilities are recognised on the statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

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

Effective interest method

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

Interest income is recognised on an effective interest basis.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables (including trade and other receivables, amount due from the controlling shareholder, pledged bank deposits and bank balances and cash) are carried at amortised cost, using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment loss on financial assets

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

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

— significant financial difficulty of the issuer or counterparty; or

— default or delinquency in interest or principal payments; or

— it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include our past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 60 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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

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

Financial liabilities and equity

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

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

Effective interest method

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

Interest expenses are recognised on an effective interest basis.

Other financial liabilities

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

Equity instruments

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

Financial guarantee contracts

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and we have transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

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

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange difference arising on the retranslation of non-monetary items at fair value are included in profit or loss for the period.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the combined statements of comprehensive income in the period in which they are incurred.

Government grants

Government grants are recognised in the combined statement of financial position initially when there is reasonable assurance that they will be received and that we will comply with the conditions attaching to them. Grants that compensate us for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the corresponding periods in which the expenses are incurred.

Retirement benefit costs

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

Taxation

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

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

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Research and development expenditure

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

RESULTS OF OPERATIONS

Selected statements of comprehensive income

The information presented below for the three years ended 31 December 2008 and the nine months ended 30 September 2008 and 2009 is derived from our combined financial statements included in the accountants' report set forth in Appendix I to this prospectus. Our combined financial information as of and for the nine months ended 30 September 2008 has not been audited.

	For the year ended 31 December			For the nine months ended 30 September	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Turnover	121,190	167,875	413,594	285,831	558,844
Cost of sales	(84,874)	(118,017)	(288,799)	(200,969)	(421,683)
Gross profit	36,316	49,858	124,795	84,862	137,161
Other operating income	549	1,082	1,406	957	770
Selling and distribution expenses	(6,975)	(7,811)	(30,402)	(23,854)	(21,661)
Administrative expenses	(2,395)	(4,603)	(8,654)	(5,940)	(9,926)
Other operating expenses	(1,084)	(1,542)	(10,262)	(7,882)	(7,574)
Finance costs	(1,015)	(2,396)	(4,994)	(4,068)	(3,212)
Profit before tax	25,396	34,588	71,889	44,075	95,558
Income tax expense	(2,243)	(5,183)	(5,431)	(2,117)	(6,557)
Profit for the year/period	23,153	29,405	66,458	41,958	89,001
Exchange differences arising on translation of foreign operations	—	—	—	—	17
Total comprehensive income for the year/period, net of tax	23,153	29,405	66,458	41,958	89,018
Earnings per share (RMB) Basic	0.029	0.037	0.083	0.052	0.111

ANALYSIS OF THE PRINCIPAL COMPONENTS IN OUR STATEMENTS OF COMPREHENSIVE INCOME

Turnover

During the three years ended 31 December 2008, our sales of sports shoes, sportswear and sports accessories with the *Flyke* brand represented approximately 3.1%, 19.3% and 51.5%, respectively, of our aggregate turnover. Our Export ODM Business contributed approximately 83.7%, 70.6% and 42.4% of our aggregate turnover during the three years ended 31 December 2008, respectively. During the nine months ended 30 September 2009, the sales under the *Flyke* brand and our Export ODM Business represented approximately 59.9% and 36.4% of our aggregate turnover, respectively. The remaining balance during the three years ended 31 December 2008 and the nine months ended 30 September 2009 was sales of our Soles.

The following table sets forth a summary of our turnover by these three principal business activities during the three years ended 31 December 2008 and the nine months ended 30 September 2008 and 2009:—

	For the year ended 31 December						For the nine months ended 30 September			
	2006		2007		2008		2008		2009	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Sales of sports shoes, sportswear and sports accessories with the *Flyke* brand	3,725	3.1	32,382	19.3	213,206	51.5	166,341	58.2	334,774	59.9
Sales under our Export ODM Business	101,436	83.7	118,499	70.6	175,210	42.4	102,529	35.9	203,568	36.4
Sales of Soles	16,029	13.2	16,994	10.1	25,178	6.1	16,961	5.9	20,502	3.7
Total	**121,190**	**100.0**	**167,875**	**100.0**	**413,594**	**100.0**	**285,831**	**100.0**	**558,844**	**100.0**

Sales of the Flyke products

The *Flyke* brand products include sports shoes, sportswear and sports accessories. All of the *Flyke* sports shoes were produced by us during the Track Record Period. All of the sportswear and sports accessories with the *Flyke* brand were produced by our contract manufacturers which are Independent Third Parties.

The following table illustrates an analysis of our sales of the *Flyke* products by product categories during the three years ended 31 December 2008 and the nine months ended 30 September 2008 and 2009:—

	For the year ended 31 December						For the nine months ended 30 September			
	2006		2007		2008		2008		2009	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Sports shoes	3,725	100	22,094	68.2	152,327	71.4	117,022	70.4	177,215	52.9
Sportswear and sports accessories	—	—	10,288	31.8	60,879	28.6	49,319	29.6	157,559	47.1
Total	**3,725**	**100.0**	**32,382**	**100.0**	**213,206**	**100.0**	**166,341**	**100.0**	**334,774**	**100.0**

The sales of the *Flyke* products during the two years ended 31 December 2008 grew substantially at the rates of approximately 769.3% and 558.4%, respectively. The growth was principally due to the effective advertising and marketing campaigns targeting the youth in the second- and third-tier cities in China. There were sales of the *Flyke* products during the year ended 31 December 2006, amounting to approximately RMB3.7 million, as the brand was just launched with the introduction of limited series of sports shoes towards the end of 2006. During the above period, the economy of China also grew which resulted in continuous increases in household income that stimulated the consumption on sports shoes, sportswear and sports accessories. The sales of the *Flyke* products during the nine months ended 30 September 2009 was approximately RMB334.8 million, representing an increase of approximately 101.3% as compared with the same for the nine months ended 30 September 2008.

The growth in the sales of the *Flyke* products was also attributable to the significant increase in the number of the specialty stores and concession counters for the sale of *Flyke* products (including those which were our direct customers and those operated by the distributors) from 85 as of 31 December 2006 to 825 as of 31 December 2008 and 1,125 as of 30 September 2009. As of the Latest Practicable Date, the *Flyke* products were sold at 1,169 authorised retail stores. From 1 January 2009, we sold all the *Flyke* products directly to our authorised distributors, but not separately to speciality stores, retail stores, concession counters or distributors. This change in the product distribution method was intended to enhance the role of our authorised distributors and provide incentives to them to promote and sell the *Flyke* products.

The following table sets forth an analysis of our sales to (i) authorised distributors, (ii) specialty stores and concession counters which were our direct customers, (iii) distributors and (iv) our image store in Shuitou, Fujian Province during the three years ended 31 December 2008 and the nine months ended 30 September 2009:—

	For the year ended 31 December			**For the nine months ended 30 September**
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Authorised distributors	—	—	—	331,584
Specialty stores and concession counters	3,689	26,398	126,811	—
Distributors	36	5,984	85,707	—
Image store	—	—	688	3,190
Total	**3,725**	**32,382**	**213,206**	**334,774**

Our sales of the *Flyke* products were consistently recognised during the Track Record Period at the time when the title and the risks of the products passed to our customers. During the three years ended 31 December 2008, products were sold to specialty stores, concession counters and distributors, and our sales were recognised when the sales were completed by delivery and passing of title in our products to these customers. From the beginning of 2009, the sales are recognised when the title in our products are passed to the authorised distributors upon the delivery of our products to them. We give a credit period of two months to our customers for the *Flyke* products.

Sales under our Export ODM Business

Our Export ODM Business enjoyed a steady growth during the three years ended 31 December 2008 and the nine months ended 30 September 2009, albeit that the percentage contributing to our aggregate turnover during the corresponding period was decreasing. This was principally due to the increased sales of the *Flyke* products.

During the two years ended 31 December 2008, our Export ODM Business recorded a growth of approximately 16.8% and 47.9%, respectively. During the nine months ended 30 September 2009, our Export ODM Business recorded a significant growth of approximately 98.5%, as compared with the same for the nine months ended 30 September 2008. The strong growth in our Export ODM Business was principally due to the re-filling of inventory by our overseas buyers and the prompt adjustment to our pricing policies in response to the global economic slowdown. Our overseas buyers purchased additional sports shoes but requested for low unit prices. There were also new purchase orders from new overseas buyers who previously placed their orders with other manufacturers.

Sales of Soles

During the three years ended 31 December 2008 and the nine months ended 30 September 2009, our sales of Soles increased principally due to the increased number of and improvement in the design of our Soles. There was an increase in the sales of Soles during the year ended 31 December 2008 because of the increasing demand for sports shoes as a result of the *Beijing Olympic 2008* and the increasing number of Soles designed by us.

Sales analysed by types of products

The following table sets forth an analysis of our sales contributed by our sports shoes, sportswear and sports accessories and Soles during the three years ended 31 December 2008 and the nine months ended 30 September 2008 and 2009:—

	For the year ended 31 December						For the nine months ended 30 September			
	2006		2007		2008		2008		2009	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000* *(Unaudited)*	%	*RMB'000*	%
Sports shoes	105,161	86.8	140,593	83.7	327,537	79.2	219,551	76.8	380,783	68.1
Sportswear and sports accessories	—	—	10,288	6.1	60,879	14.7	49,319	17.3	157,559	28.2
Soles	16,029	13.2	16,994	10.2	25,178	6.1	16,961	5.9	20,502	3.7
Total	**121,190**	**100.0**	**167,875**	**100.0**	**413,594**	**100.0**	**285,831**	**100.0**	**558,844**	**100.0**

Our sales of sports shoes continued to be our principal business activities during the Track Record Period. During the nine months ended 30 September 2009, the sales of sportswear and sports accessories represented approximately 28.2% of our aggregate turnover, as compared with 17.3% during the nine months ended 30 September 2008. Our Directors believe that this increasing trend will continue because of the consumers' expectation that a full-range of sportswear and sports accessories with the *Flyke* brand would be available.

Cost of sales

Our 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 our Export ODM Business; (c) the design and production of Soles and (d) the outsourcing fees payable to our contract manufacturers for the production of certain sport shoes for our Export ODM Business and the sportswear and sports accessories with the *Flyke* brand.

The following table sets forth an analysis of the principal components of our cost of sales during the three years ended 31 December 2008 and the nine months ended 30 September 2008 and 2009:—

	For the year ended 31 December						For the nine months ended 30 September			
	2006		2007		2008		2008		2009	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Raw materials	63,230	74.5	83,903	71.2	182,248	63.1	123,003	61.2	191,483	45.4
Direct labour	15,891	18.7	21,021	17.8	47,593	16.5	30,075	15.0	52,259	12.4
Production cost	5,753	6.8	7,017	5.9	13,238	4.6	9,416	4.7	12,216	2.9
Outsourcing fees to contract manufacturers	—	—	6,076	5.1	45,720	15.8	38,475	19.1	165,725	39.3
Total cost of sales	**84,874**	**100.0**	**118,017**	**100.0**	**288,799**	**100.0**	**200,969**	**100.0**	**421,683**	**100.0**

Our cost of sales may be broadly divided into internal production costs and external production cost. Our internal production costs principally consisted of purchase of raw materials, direct labour and production cost incurred in the production of the *Flyke* sports shoes and the sports shoes for our Export ODM Business.

Raw materials costs refer to the costs of procuring raw materials used in the production of our sports shoes, such as leather, fabrics and rubber, and the chemical materials used in the production of our Soles. Production cost mainly included salaries, bonuses and other compensation expenses for administrative staff involved in the production process, depreciation of production facilities, costs associated with operating our facilities, such as electricity and water and maintenance costs and other miscellaneous costs associated with our production operations. Direct labour consisted of wages and salaries for production staff.

External production cost refers to the amount of outsourcing fees payable to our contract manufacturers for the production of certain sports shoes for our Export ODM Business and the sportswear and sports accessories with the *Flyke* brand.

The following table sets forth a summary of our cost of sales by different business activities during the three years ended 31 December 2008 and the nine months ended 30 September 2008 and 2009:—

	For the year ended 31 December						For the nine months ended 30 September			
	2006		2007		2008		2008		2009	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
Flyke sports shoes, sportswear and sports accessories	3,333	3.9	23,084	19.6	141,366	49.0	109,403	54.4	247,464	58.7
Export ODM Business	67,684	79.8	80,281	68.0	127,181	44.0	77,227	38.4	158,314	37.5
Soles	13,857	16.3	14,652	12.4	20,252	7.0	14,339	7.2	15,905	3.8
Total	**84,874**	**100.0**	**118,017**	**100.0**	**288,799**	**100.0**	**200,969**	**100.0**	**421,683**	**100.0**

During the three years ended 31 December 2008 and the nine months ended 30 September 2009, we did not experience any material fluctuation in the key components of our cost of sales. The increases or decreases in our cost of sales were generally consistent with our sales volume of our sports shoes, sportswear and sports accessories.

Gross profit and gross profit margin

The following table sets forth an analysis of our gross profit and our gross profit margins for our sales of the *Flyke* products, our Export ODM Business and our sales of Soles during the three years ended 31 December 2008 and the nine months ended 30 September 2008 and 2009:—

	For the year ended 31 December						For the nine months ended 30 September			
	2006		2007		2008		2008		2009	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
Sales of the *Flyke* products	392	10.5	9,298	28.7	71,840	33.7	56,938	34.2	87,310	26.1
Export ODM Business	33,752	33.3	38,218	32.3	48,029	27.4	25,302	24.7	45,254	22.2
Sales of Soles	2,172	13.6	2,342	13.8	4,926	19.6	2,622	15.5	4,597	22.4
Total	**36,316**	**30.0**	**49,858**	**29.7**	**124,795**	**30.2**	**84,862**	**29.7**	**137,161**	**24.5**

The following table illustrates our gross profit and our gross profit margins by our principal products, namely sports shoes, sportswear and sports accessories and Soles during the three years ended 31 December 2008 and the nine months ended 30 September 2008 and 2009:—

	For the year ended 31 December						For the nine months ended 30 September			
	2006		2007		2008		2008		2009	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Sports shoes	34,144	32.5	43,304	30.8	99,952	30.5	66,640	30.4	102,709	27.0
Sportswear and sports accessories	—	—	4,212	40.9	19,917	32.7	15,601	31.6	29,855	18.9
Soles	2,172	13.6	2,342	13.8	4,926	19.6	2,621	15.5	4,597	22.4
Total	**36,316**	**30.0**	**49,858**	**29.7**	**124,795**	**30.2**	**84,862**	**29.7**	**137,161**	**24.5**

Gross profit for our sales of the Flyke products

During the three years ended 31 December 2008 and the nine months ended 30 September 2009, we experienced slight fluctuations in our overall gross profit margin.

Our sales of the *Flyke* products were minimal during the year ended 31 December 2006. Hence, the contribution to the gross profit was insignificant. We experienced a strong growth in the sales of the *Flyke* products during the year ended 31 December 2007, and our gross profit margin for the sales of the *Flyke* products also increased substantially to approximately 28.7% because of the commercial production and the increasing listed retail prices of the *Flyke* products (which were used as the bases to determine our *ex-factory* prices). During this year, we also launched the *Flyke* sportswear and sports accessories which enjoyed a high gross profit margin of approximately 40.9% as an industry norm.

During the year ended 31 December 2008, the amount of the gross profit continued to grow substantially. However, the gross profit margin only reached approximately 33.7%, representing an increase of approximately 5.0% as compared with the same for the previous year. During the year ended 31 December 2008, the gross profit margin for the *Flyke* sportswear and sports accessories recorded a decline of approximately 8.2% as compared with the same for previous year.

The increase in the gross profit margin during the year ended 31 December 2008 was principally attributable to the launch of new series of sports shoes, sportswear and sports accessories during the first three quarters of 2008. All of them were well received by our customers. The improvement in the gross profit margin was, however, offset by the economic downturn in China since the third quarter of 2008. We had to reduce the basis of our *ex factory* prices for our autumn/winter seasons in order to boost our sales and react to the changes in the market condition. The decrease in the gross profit margin for our sportswear and sports accessories was principally due to the expansion of the product portfolio, which substantially increased the amount of outsourcing fees payable to our contract manufacturers.

The gross profit margin during the nine months ended 30 September 2009 was substantially lower than the corresponding period in 2008 by approximately 8.1%, even though the amount of gross profit increased by approximately RMB30.4 million. There were two reasons attributable to the decrease in the gross profit margin but increase in the amount of the gross profit. First, the economic downturn in China during the first quarter of 2009 required us to further adjust our *ex factory* prices in order to boost our sales and to increase our market share. Second, as disclosed in the paragraphs under "Business — Our product distribution — Distribution of the *Flyke* products" in this prospectus, we sold the *Flyke* products direct to our authorised distributors effective from the beginning of 2009. This resulted in additional saving in our selling and distribution expenses (representing a reduction to approximately 3.9% of our aggregate turnover for the nine months ended 30 September 2009), but we had to adopt a lower basis for the *ex factory* prices.

The following table sets forth the number of pairs of sport shoes sold with the *Flyke* brand, their *ex-factory* prices and the listed retail prices during the three years ended 31 December 2008 and the nine months ended 30 September 2009:—

	For the year ended 31 December			For the nine months ended 30 September	
	2006	2007	2008	2008	2009
Number of sport shoes produced and sold with the *Flyke* brand *('000 pairs)*	54.4	263.8	1,747.6	1,328.4	2,820.8
Average *ex-factory* prices for the sports shoes with the *Flyke* brand *(RMB)*	68.5	83.7	87.2	88.1	62.8
Average listed retail prices for the sports shoes with the *Flyke* brand (RMB)	98	144	208	210	210

The increasing trend of the *ex factory* prices from 2006 to 2008 was due to the increased recognition of the *Flyke* brand and the increased interest in our products from our customers. Since 2009, we sold the *Flyke* products exclusively to our authorised distributors, and we reduced our *ex factory* prices by approximately 12.0% during the first-half of the year ended 31 December 2009 to support this arrangement and provide additional incentive to our authorised distributors. Besides, due to the new distributorship model, we cease to sell our products directly to retail specialty stores and concession counters, which inevitably lowers our average *ex factory* prices.

Gross profit for our Export ODM Business

During the three years ended 31 December 2008, the gross profit margin for our Export ODM Business was also on decreasing trend, from approximately 33.3% during the year ended 31 December 2006 to 32.3% during the year ended 31 December 2007 and 27.4% during the year ended 31 December 2008. The gross profit margin further decreased to approximately 22.2% during the nine months ended 30 September 2009.

There was no material fluctuation in the gross profit margin during the two years ended 31 December 2007. However, during the year ended 31 December 2008, the gross profit margin decreased by approximately 4.9%. The decrease in the gross profit margin was principally due to the sluggish overseas demand and as a result, we adopted a selling strategy to reduce the difference between costs and the selling prices of our shoes in order to boost our sales under the Export ODM Business.

During the nine months ended 30 September 2009, the gross profit margin further decreased to approximately 22.2% due to the continuous weakness in the overseas markets and the outsourcing of production of certain sports shoes sold under our Export ODM Business. We adopted a policy that our production facilities were to be first utilised for the production of our sports shoes with the *Flyke* brand.

The following table sets forth the number of sports shoes sold under our Export ODM Business during the three years ended 31 December 2008 and the nine months ended 30 September 2009:—

	For the year ended 31 December			For the nine months ended 30 September	
	2006	**2007**	**2008**	**2008**	**2009**
Number of sport shoes sold under our Export ODM Business *('000 pairs)*	2,528.8	2,810.2	3,972.8	2,690.5	4,365.6

The increase in sales volume for the nine months ended 30 September 2009 was principally due to our pricing adjustment to attract overseas buyers.

During the three years ended 31 December 2008 and the nine months ended 30 September 2009, the average *ex factory* price for each pair of sport shoes under our Export ODM Business was approximately RMB40.1, RMB42.2, RMB44.1 and RMB46.6, respectively. The average *ex factory* prices of our sports shoes have increased slightly principally because the overseas buyers have demanded sports shoes of better quality and design. The costs for us to manufacture such shoes of better quality and design were higher and thus we sold them at higher *ex factory* prices to cover our increased costs. On the other hand, our gross profit margin is equivalent to the degree of the difference between our costs and the *ex factory* prices of our sports shoes. While the *ex factory* prices of our sports shoes have increased, we have not increased the degree of the difference between the *ex factory* prices and our costs and hence our gross profit margin to the same extent, and as a result our gross profit margin has dropped. This was principally because we reduced our gross profit margin to boost our sales in light of the sluggish overseas demand. The increase in the sales volumes for the nine months ended 30 September 2009 was principally due to our pricing adjustments to attract overseas buyers.

Gross profit for our sales of Soles

During the three years ended 31 December 2008 and the nine months ended 30 September 2009, both the amount of our gross profit and the gross profit margin improved substantially. These results were partly due to the increasing demand for sport shoes in China as a result of the *Beijing Olympic 2008* and the increasing number of Soles designed by us. Throughout the period, we placed priority on the production of Soles for our own use and as such, we chose Soles produced for other manufacturers with high unit prices.

Other operating income

Our other operating income increased with our growth during the three years ended 31 December 2008 from approximately RMB0.6 million for the year ended 31 December 2006 to RMB1.4 million for the year ended 31 December 2008.

Other than the bank interest income which was increased with our cash and bank balance, we received government grants and subsidies from the PRC Government during the Track Record Period. These government grants and subsidies, which were non-recurring in nature received from various municipal PRC Government authorities for the achievements and contributions made by us, are available to any enterprise which meets the requirements stipulated by the relevant government authorities. There are no continuing obligations or requirements for us or conditions in relation to the government grants and subsidies. The amount of government grants and subsidies received by us varied during the Track Record Period principally due to the changes in the relevant government policies, as well as the amount of government grants and subsidies that we were qualified for, during the corresponding period.

Selling and distribution expenses

Our selling and distribution expenses consisted of advertising and marketing expenses, costs associated with our participation in exhibitions and holding of sales fairs, product transportation and delivery costs, expenses in managing the specialty stores, the concession counters and the distributors, entertainment expenses and salary and travelling expenses for our marketing and sales staff. Advertising and marketing expenses include fees paid for television advertising, advertising on magazines, billboard advertisements, posters and event sponsorship fees.

During the three years ended 31 December 2008, our selling and distribution expenses were approximately RMB7.0 million, RMB7.8 million and RMB30.4 million, respectively, representing approximately 5.8%, 4.7% and 7.4% of our aggregate turnover. During the nine months ended 30 September 2008 and 2009, our selling and distribution expenses were approximately RMB23.9 million and RMB21.7 million, respectively, representing approximately 8.3% and 3.9% of our aggregate turnover, respectively.

During the three years ended 31 December 2008 and the nine months ended 30 September 2009, we incurred increasing amount on our advertising and marketing activities on the *Flyke* products, ranging from advertising on television and other printed media, sponsoring sports events to engaging brand spokespersons. During the two years ended 31 December 2008, we supported sales to specialty stores, concession counters and distributors for the sales of the sports shoes, sportswear and sports accessories with the *Flyke* brand. Hence, we incurred our selling and distribution expenses which were in the range between approximately 4.7% and 7.4% of our aggregate turnover. From the beginning of 2009, we streamlined our distribution method to the effect that we only sell our sports shoes, sportswear and sports accessories with the *Flyke* brand to our authorised distributors. Our authorised distributors will sell the products to authorised retail stores. An insignificant amount of sales was conducted through our image store in Shuitou City, Fujian Province, China. The purpose of these arrangements was to increase the efficiency of our distribution network with additional cost savings in the selling and distribution expenses. We also incurred less on promotional activities during the first-half of the year ended 31 December 2009 in view of the global economic downturn.

In addition, we incurred transportation expenses for the delivery of the *Flyke* products to our authorised distributors and other specialty stores, concession counters and distributors during the two years ended 31 December 2008. During the year ended 31 December 2006, we kept most of our inventory in our warehouse in Fuzhou, Fujian Province, China and as such, we incurred significant amount of transportation cost for the delivery of the products to our warehouses and from our warehouses to the specialty stores, concession counters and distributors. During the year ended 31 December 2007, we reduced our transportation cost by engaging the warehousing services provided by Independent Third Parties in Beijing, Fuzhou, Changshu, Liuzhou and Hangzhou. During the year ended 31 December 2008, the increase in the sales of the *Flyke* products increased the storage and transportation cost, but the third-party warehousing arrangement assisted us in mitigating the increase in the storage and transportation cost. We have terminated the third-party warehousing arrangement effective from 1 January 2009 and have requested our authorised distributors to maintain the inventory of the products sold to them. We have also started using a logistics company in Jinjiang City, Fujian Province, China, which is an Independent Third Party, to be the delivery hub for our products. All of our products with the *Flyke* brand are currently delivered to the logistics company, and our authorised distributors then arrange for the delivery of the products for warehousing or forwarding to the authorised retail stores. As a result, during the nine months ended 30 September 2008 and 2009, our transportation expenses only decreased by approximately 6.4% from RMB2.4 million to RMB2.2 million.

As our Export ODM Business expanded, we incurred increased amount on delivery of sports shoes to the Export Services Company and the service fees paid to the Export Services Company. During the three years ended 31 December 2008, the service fees paid by us to the Export Services Company amounted to approximately RMB0.4 million, RMB0.6 million and RMB0.9 million, respectively, representing approximately 0.3%, 0.5% and 0.5% of our turnover from our Export ODM Business. During the nine months ended 30 September 2008 and 2009, the service fees paid to the Export Services Company amounted to approximately RMB0.6 million and RMB1.2 million, respectively, representing approximately 0.6% and 0.6% of our turnover from our Export ODM Business. We also incurred expenses in participating local and overseas exhibitions, which are the main venues for promoting our sport shoes under our Export ODM Business and securing purchase orders from our customers.

Administrative expenses

Our administrative expenses consisted of salary for administrative staff (other than those involved in the production process), welfare and other benefits for all employees (including production staff), professional fees, entertainment expenses and depreciation expenses for our fixed assets.

During the three years ended 31 December 2008, our administrative expenses amounted to approximately RMB2.4 million, RMB4.6 million, RMB8.7 million, respectively, representing approximately 2.0%, 2.7% and 2.1% of our aggregate turnover. During the nine months ended

30 September 2008 and 2009, our administrative expenses were approximately RMB5.9 million and RMB9.9 million, respectively, representing approximately 2.1% and 1.8% of our aggregate turnover. The general increases in the amount of our administrative expenses were attributable to our business expansion, which required us to employ more personnel for administrative functions, and our expenses for the Listing.

Other operating expenses

Our other operating expenses principally consisted of expenses incurred in our product design and development. The product research and development expenses included staff salary, raw materials and consumables used in the samples and prototypes and professional fees paid to design institutions. During the three years ended 31 December 2008 and the nine months ended 30 September 2009, we incurred approximately RMB1.1 million, RMB1.2 million, RMB10.0 million and RMB7.6 million, respectively, on our product research and development.

The sharp increase in the research and development expenses during the year ended 31 December 2008 was principally due to the expansion of our research and development teams (which used significant amount of utensils and consumables for making samples and prototypes) and our active participation in overseas exhibitions to promote our Export ODM Business during the same year. We also produced a significant number of sports shoes with different styles for selection by our customers, and the amount of materials and utensils used in the design of new products therefore increased significantly.

Finance costs

Our finance costs consisted of interest on bank borrowings. During the three years ended 31 December 2008 and the nine months ended 30 September 2009, our finance costs amounted to approximately RMB1.0 million, RMB2.4 million, RMB5.0 million and RMB3.2 million, respectively. During the three years ended 31 December 2008, the average effective interest rate on our bank borrowings was ranged from approximately 5.3% to 9.0%.

Income tax expense

Our income tax represented amounts of corporate income tax paid by us in China. No provision for Hong Kong profits tax has been made as we did not generate any assessable profit in Hong Kong during the Track Record Period. We were also not subject to any tax in the Cayman Islands and the BVI during the Track Record Period. However, our subsidiaries established in China are subject to PRC enterprise income tax pursuant to the income tax rules and regulations of China as follows:

– 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 China 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) is 2007. As Flyke (China) did not have a full year of operation in 2007, accordingly, year 2008 is regarded as the first year of Tax Exemption as the first profit-making year and Flyke (China) is exempted from PRC enterprise income tax from 1 January 2008 to 31 December 2009 and the applicable rate from 1 January 2010 to 31 December 2012 is 12.5%. No provision for PRC enterprise income has been made for Flyke (China) during the period from its date of establishment to 31 December 2006 as it had not yet commenced business operations.

– Xinwei (China) is a foreign investment enterprise which could enjoy 50% deduction on the prevailing tax rate under the old PRC corporate income tax regime if the percentage of goods sold to trading companies for export to overseas is more than 70% of the total sales. For the two years ended 31 December 2006 and 2007, Xinwei (China) was taxed at 12% after enjoying 50% deduction on the prevailing tax rate. Xinwei (China) is subject to 25% tax rate from 2008 onwards.

Further information on the tax implications is stated in the paragraphs under "______ — Factors affecting our operating results and financial condition — Level of income tax and preferential tax treatment" above.

The income tax expense (credit) for the three years ended 31 December 2008 and the nine months ended 30 September 2008 and 2009 can be reconciled to the profit before taxation set forth in the combined statements of comprehensive income as follows:—

	For the year ended 31 December			For the nine months ended 30 September	
	2006	2007	2008	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Profit before tax	**25,396**	**34,588**	**71,889**	**44,075**	**95,558**
Notional tax on profit before taxation, calculated at the standard tax rates applicable to the respective tax jurisdiction	6,857	9,340	18,088	11,133	23,894
Tax effect of expenses not deductible for tax purpose	61	484	1,066	648	249
Overprovision in prior years	(801)	—	—	—	—
Effect of tax exemption granted to PRC subsidiaries	(3,874)	(4,641)	(13,723)	(9,664)	(17,586)
Income tax expense for the year/period	**2,243**	**5,183**	**5,431**	**2,117**	**6,557**

Under the New Tax Law, withholding tax is imposed on dividends in respect of profits earned by our subsidiaries established in China from 1 January 2008 onwards (the "**Post-2008 Earnings**"). As of 31 December 2008, deferred taxation was not provided for in respect of temporary difference attributable to the Post-2008 Earnings as we are able to control the timing of reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Nine months ended 30 September 2008 compared to nine months ended 30 September 2009

Turnover

During the nine months ended 30 September 2009, our sales of the *Flyke* products increased by approximately 101.3% to approximately RMB334.8 million. The increase was principally due to the intensive advertising and marketing campaigns launched towards the end of 2008 and the reduction of the *ex factory* prices of the sport shoes, sportswear and sports accessories, as part or marketing strategies to provide incentive to our authorised distributors to sell our products. In addition, the total number of the authorised retail stores operated directly by our authorised distributors or by operators which are Independent Third Parties increased to 1,125 as of 30 September 2009. In January 2009, we launched a new series of sports shoes and sportswears named as "*Jet Fighter*" which recorded sales of approximately RMB133.3 million during the nine months ended 30 September 2009.

During this period, the sales under our Export ODM Business recorded a significant growth to approximately RMB203.6 million, representing an increase of approximately 98.5%. The increase was principally due to our active participation in overseas exhibitions. The strong growth in our Export ODM Business was because of our overseas buyers started to re-fill their inventory at lower unit prices following the economic downturn in the fourth quarter of 2008. There were also new purchase orders from new overseas buyers who previously placed orders with other manufacturers.

The sales of our Soles increased from approximately RMB17.0 million to RMB20.5 million which was principally due to the increase in demand for sport shoes in the market following the recovery of the economy and the increase in the number of and improvement in the design of our Soles.

Cost of sales

Cost of sales increased by approximately 109.8% from approximately RMB201.0 million to RMB421.7 million, principally due to the increased sales of the *Flyke* products. Our raw materials costs increased by approximately 55.7% from approximately RMB123.0 million to RMB191.5 million because of the increased production volume. Direct labour also increased by approximately 73.8% from approximately RMB30.1 million to RMB52.3 million, principally due to the increased number of workers engaged in the production. Our production cost increased by approximately 29.7% from approximately RMB9.4 million to RMB12.2 million, principally due to the increased production volume. Outsourcing fees to our contract manufacturers increased significantly by approximately 330.7% from approximately RMB38.5

million to RMB165.7 million, principally due to the increase in the production of our sportswear and sports accessories with the *Flyke* brand and some of our sports shoes under our Export ODM Business outsourced to our contract manufacturers.

Gross profit and gross profit margin

The amount of our gross profit during the period increased by approximately 61.6% from approximately RMB84.9 million to RMB137.2 million, principally due to the increase in the sales of the *Flyke* products and our Export ODM Business. However, the overall gross profit margin decreased from approximately 29.7% to 24.5%.

Gross profit and gross profit margin for our sales of the Flyke products

The amount of our gross profit increased by approximately 53.3% from approximately RMB56.9 million to RMB87.3 million and the gross profit margin, however, decreased from approximately 34.2% to 26.1%. Although there was a significant increase in the sales of the *Flyke* products to approximately RMB334.8 million, the increase in sales was boosted by a reduction in the *ex factory* prices of the sportswear and sports accessories. The reduction was part of our marketing strategy launched in the third quarter of 2008 in response to the economic downturn in China for the purpose of increasing our market share.

The gross profit margin for sportswear and sports accessories was approximately 18.9% which was lower than the gross profit margin for our sports shoes of 27.0%. Our Directors believe that a comprehensive collection of sportswear and sports accessories was important to the *Flyke* products even though it received a lower gross profit margin.

Gross profit and gross profit margin for the sales under our Export ODM Business

With the tremendous increase in the sales of our Export ODM Business, the amount of our gross profit increased significantly by approximately 78.8% from approximately RMB25.3 million to RMB45.3 million, and the gross profit margin decreased from approximately 24.7% to 22.2% because of the decrease in the basis of the *ex factory* prices of sports shoes under our Export ODM Business. The decrease was principally due to the sluggish overseas demand as a result of the economic slowdown.

Gross profit and gross profit margin for sales of the Soles

The amount of our gross profit increased from approximately RMB2.6 million to RMB4.6 million, representing an increase of approximately 75.4%. The gross profit margin increased by approximately 6.9% due to our production of new styles of Soles with high profit margin and the increased demand for our Soles.

Other operating income

During the nine months ended 30 September 2008 and 2009, there was no material change in the amount of our other operating income.

Selling and distribution expenses

Our selling and distribution expenses reduced from approximately RMB23.9 million to RMB21.7 million representing a decrease of approximately 9.2%, principally due to the decreased level of the promotional and marketing activities conducted by us. Our Directors intended to restrict the level of such activities in response to the then economic conditions in China.

Administrative expenses

Our administrative expenses increased from approximately RMB5.9 million to RMB9.9 million. The increase was principally due to an increase in the total amount of our salaries paid for our staff and the listing expenses.

Other operating expenses

During the nine months ended 30 September 2008 and 2009, our other operating expenses remained at similar levels, of RMB7.9 million and RMB7.6 million, respectively.

Finance costs

Our finance costs represented the bank interest payments on our bank borrowings. The average effective interest rate decreased to no more than 9.0% per annum. As a result, the amount of finance costs decreased to approximately RMB3.2 million.

Profit before tax

Our profit before tax increased by approximately 116.8% from approximately RMB44.1 million to RMB95.6 million for the factors described above.

Income tax

Our income tax expense was approximately RMB2.1 million and RMB6.6 million for the nine months ended 30 September 2008 and 2009, respectively. The increase in the income tax expense by 209.7% was principally due to the increase in our profits. The effective tax rate for the period was 6.9%.

Profit for the period

Profit for the period increased by approximately 112.1% from approximately RMB42.0 million to RMB89.0 million, principally due to the factors described above. Our net profit margin increased from approximately 14.7% to 15.9% due to the reasons stated above.

Year ended 31 December 2008 compared to year ended 31 December 2007

Turnover

During the year ended 31 December 2008, our sales of the *Flyke* products increased by approximately 558.4% to approximately RMB213.2 million. The year was the third year that we launched the *Flyke* products. The increase in the sales of products with the *Flyke* brand was principally due to the intensive advertising and marketing campaigns and the launch of new series of sports shoes in celebration of the *2008 Beijing Olympics*. During the year, the average *ex factory* price for the sports shoes with the *Flyke* brand increased from approximately RMB83.7 to RMB87.2. As of 31 December 2008, the number of the specialty stores and concession counters (including those which were our direct customers and those operated by the distributors) also increased to 825.

During the year ended 31 December 2008, the sales under our Export ODM Business recorded a growth to approximately RMB175.2 million, representing an increase of approximately 47.9%. Most of the increase was recorded during the second half of the year ended 31 December 2008 and was principally due to our active participation in overseas exhibitions and new purchase orders from our new buyers mainly in Asia. The sales to such new buyers amounted to approximately RMB45.9 million representing approximately 26.2% of the sales under our Export ODM Business.

During the year ended 31 December 2008, the sales of Soles increased by approximately 48.2% to approximately RMB25.2 million principally due to the increase in the production capacity of Soles following adjustments to our production process.

Cost of sales

Cost of sales increased by approximately 144.7% from approximately RMB118.0 million to RMB288.8 million, principally due to the increase in sales of the *Flyke* products. Our raw materials costs increased by approximately 117.2% from approximately RMB83.9 million to RMB182.2 million because of the increased production volume. Direct labour also increased by approximately 126.4% from approximately RMB21.0 million to RMB47.6 million, principally due to the increased number of workers engaged in the production and the increased in the total amount of wages and salaries. Our production cost increased by approximately 88.7% from approximately RMB7.0 million to RMB13.2 million principally due to the increased production volume. Outsourcing fees payable to our contract manufacturers increased significantly from approximately RMB6.1 million to RMB45.7 million, representing an increase of approximately 652.5%, principally due to the launch of additional series of sportswear and sports accessories which were manufactured by our contract manufacturers.

Gross profit and gross profit margin

The amount of our gross profit during the year increased by approximately 150.3% from approximately RMB49.9 million to RMB124.8 million, principally due to the significant increase in the sales of the *Flyke* products and the increased average selling prices of the sport shoes with the *Flyke* brand. Our Export ODM Business also recorded a growth. The overall gross profit margin was maintained at similar level.

Gross profit and gross profit margin for our sales of the Flyke products

The amount of our gross profit increased sharply by more than six times from approximately RMB9.3 million to RMB71.8 million and the gross profit margin increased from approximately 28.7% to 33.7%. With the intensive promotional and marketing campaigns, we were able to command a higher gross profit margin with the increased turnover by way of maintaining high listed retail prices of our sports shoes, sportswear and sports accessories with the *Flyke* brand.

Gross profit and gross profit margin for the sales under our Export ODM Business

The amount of our gross profit slightly increased by approximately 25.7% from approximately RMB38.2 million to RMB48.0 million and the gross profit margin was reduced from approximately 32.3% to 27.4%, principally due to sluggish overseas demand and as a result, we adopted a selling strategy to reduce the selling prices in order to boost our sales under the Export ODM Business.

Gross profit and gross profit margin for the sales of the Soles

The amount of our gross profit increased from approximately RMB2.3 million to RMB4.9 million, representing an increase of approximately 110.3%. The gross profit margin also substantially improved from approximately 13.8% to 19.6% due to the additional number of designs and better quality of our Soles which can be sold at high unit prices, particularly during the second half of 2008.

Other operating income

Our other operating income increased substantially by approximately 30.0%, principally due to the increase in interest income on our cash and bank balance. The increased interest income on our cash and bank balance was a result of our recorded amount of turnover derived from the sales of sports shoes, sportswear and sports accessories with the *Flyke* brand and our Export ODM business.

Selling and distribution expenses

Our selling and distribution expenses increased sharply by approximately 289.2% from approximately RMB7.8 million to RMB30.4 million. We incurred approximately RMB9.9 million on advertising and marketing and RMB2.7 million on exhibitions, both of these represented over two times the relevant expenses incurred during the year ended 31 December 2007. In addition to these expenses, other expenses increased correspondingly with the increase in our turnover. During the year ended 31 December 2008, the sales of the *Flyke* products increased substantially, and the increased sales stimulated the increase in our transportation cost.

In the year, we first organised regular sales fairs for our authorised distributors for the *Flyke* products and as such, we incurred approximately RMB2.4 million on sales fairs. We did not convene formal sales fairs in 2007 and there were no such expenses incurred during the year.

Administrative expenses

Our administrative expenses increased from approximately RMB4.6 million to RMB8.7 million. The increase was principally due to an increase in the total amount of wages and salaries, the professional fee incurred for the Listing as well as the travelling expenses for frequent business visits for our Export ODM Business. Our Directors consider the increase in the total amount of travelling expenses and the wages and salaries were consistent with the increase in our turnover.

Other operating expenses

Our operating expenses increased sharply by approximately 565.5% from approximately RMB1.5 million to RMB10.3 million. An aggregate amount of approximately RMB10.0 million was incurred principally on product design and development (which principally included salaries for designers and technicians, design fees and consumables for the production of prototypes and samples). The sharp increase in the other operating expenses was due to the expansion of our research and development teams and our active and frequent participations in overseas exhibitions to promote our Export ODM Business, which resulted in producing a significant number of styles of sports shoes with increased use of materials and utensils involved in the design of new products to show to our target overseas buyers at the exhibitions.

Finance costs

Our finance costs increased by approximately 108.4% as a result of increase in our bank borrowings during the year and the increased interest rate, particularly during the fourth quarter of the year ended 31 December 2008, was due to the financial crisis. As of 31 December 2008, our bank borrowings amounted to approximately RMB48.5 million, and the effective bank interest rate was in the range between 5.3% and 9.0%. We used the bank borrowings for the establishment of two footwear production lines for the *Flyke* brand and our Export ODM Business.

Profit before tax

Our profit before tax increased by approximately 107.8% from approximately RMB34.6 million to RMB71.9 million for the factors described above.

Income tax

Our income tax expense increased by approximately 4.8% from approximately RMB5.2 million to RMB5.4 million, principally because Xinwei (China) was subject to income tax rate of 25.0%. The effective rate during the year was approximately 7.6%.

Net profit for the year

Our net profit for the year increased significantly by approximately 126.0% from approximately RMB29.4 million to RMB66.5 million, principally due to the factors described above. Our net profit margin decreased from approximately 17.5% to 16.1% due to the reasons stated above.

Year ended 31 December 2007 compared to the year ended 31 December 2006

Turnover

During the year ended 31 December 2007, our sales of the *Flyke* products increased by more than seven times to approximately RMB32.4 million. The increase was principally due to the intensive advertising and marketing campaigns and the new launch of sport shoes. During the year, the average *ex factory* price for the sport shoes with the *Flyke* brand increased from RMB68.5 to RMB83.7 as compared with the year ended 31 December 2006. As of 31 December 2007, the number of the specialty stores and concession counters for the sale of the *Flyke* products (including those which were our direct customers and those operated by the distributors) increased to 188.

During the year ended 31 December 2007, the sales under our Export ODM Business recorded an increase to approximately RMB118.5 million, representing an increase of approximately 16.8%.

During the year ended 31 December 2007, the sales of our Soles slightly increased to approximately RMB17.0 million, representing an increase of approximately 6.0% as compared with the same for the year ended 31 December 2006.

Cost of sales

Cost of sales increased by approximately 39.0% from approximately RMB84.9 million to RMB118.0 million, principally as a result of the increase in sales of the *Flyke* products. Our raw materials costs increased by approximately 32.7% from approximately RMB63.2 million to RMB83.9 million because of the increased production. Our production cost increased by approximately 22.0% from approximately RMB5.7 million to RMB7.0 million principally due to the increased production volume. Direct labour also increased by approximately 32.3% from approximately RMB15.9 million to RMB21.0 million, principally because of the increase in the total amount of the wages and salaries.

Gross profit and gross profit margin

The amount of our gross profit during the year increased by approximately 37.3% from approximately RMB36.3 million to RMB49.9 million, principally due to the significant increase in the sales of the *Flyke* products and the increase in the average selling prices of the sport shoes with the *Flyke* brand. The gross profit margin was maintained at a similar level.

Gross profit and gross profit margin for our sales of the Flyke products

The amount of our gross profit increased sharply from approximately RMB0.4 million to RMB9.3 million and the gross profit margin increased substantially from approximately 10.5% to 28.7%. The year of 2007 was the second year in which we launched the *Flyke* products with full range of sports shoes, sportswear and sports accessories. As a results, we enjoyed relatively rapid growth and high profit margins in both sports shoes, sportswear and sports accessories.

Gross profit and gross profit margin for the sales under our Export ODM Business

The amount of our gross profit slightly increased by 13.2% from approximately RMB33.8 million to RMB38.2 million and the gross profit margin was generally maintained at a similar level.

Gross profit and gross profit margin for the sales of the Soles

The amount of our gross profit slightly increased from approximately RMB2.2 million to RMB2.3 million and the gross profit margin was approximately 13.8%.

Other operating income

Our other operating income increased substantially by approximately 96.4% principally due to the increase in interest income on our cash bank balance and the increase in government grants and subsidiaries to RMB1.1 million, as compared with RMB0.60 million during the year ended 31 December 2006. The increase in our cash bank balance was a result of our recorded amount of turnover derived from the sales of sports shoes, sportswear and sports accessories with the *Flyke* brand and sports shoes under our Export ODM Business.

Selling and distribution expenses

Our selling and distribution expenses slightly increased by approximately 12.0% from approximately RMB7.0 million to RMB7.8 million. The increase was consistent with the increase in our turnover. Most of the increase was incurred on advertising and promotion of the *Flyke* products.

Administrative expenses

Our administrative expenses increased from approximately RMB2.4 million to RMB4.6 million. The increase was principally due to an increase in the staff members of our Group handling the increased sales of the *Flyke* products. Our Directors consider the increase was consistent with the increase in our turnover.

Other operating expenses

Our other operating expenses increased slightly from approximately RMB1.1 million to RMB1.5 million, principally due to the increase in the salaries of designers and technicians.

Finance costs

Our finance costs increased by approximately 136.1% as a result of increased in our bank borrowings during the year. As of 31 December 2007, our bank borrowings amounted to approximately RMB43.5 million, and the average effective interest rate was in the range between 6.6% and 8.2%. We used the bank borrowings for the establishment of one footwear production line for the *Flyke* brand and our Export ODM Business and our working capital purpose, as a result of the increase in our sales.

Profit before tax

Our profit before tax increased by approximately 36.2% from approximately RMB25.4 million to RMB34.6 million for the factors described above.

Income tax expense

Our income tax expense increased by approximately 131.1% from approximately RMB2.2 million to RMB5.2 million, principally due to increase in our net profit during the year. The effective rate was 15.0%. During this year, Flyke (China) was subject to increase tax rate of 27.0% because the tax exemption applicable to it only started in the year of 2008.

Net profit for the year

Our net profit for the year increased by approximately 27.5% from approximately RMB23.1 million to RMB29.4 million, principally due to the factors described above. Our net profit margin decreased slightly from approximately 19.1% to 17.5% due to the reasons stated above.

LIQUIDITY AND CAPITAL RESOURCES

Prior to the Listing, we funded our business operations principally from the proceeds from sales of our products and through capital injection by Mr. LIN. Our cash is principally used for payment of purchase from our suppliers and contract manufacturers, our various operating expenses and our capital expenditure. There were no material changes in our underlying derives of the sources and the uses of cash during the Track Record Period.

Following completion of the Listing, our Directors believe that our liquidity requirements will be satisfied by a combination of net proceeds from the Global Offering, cash generated from our operating activities and banking facilities in Hong Kong and China. We will use part of the net proceeds from the Global Offering to fulfill our capital commitments for future expansion and, based on our current and anticipated levels of operations and conditions in the markets and industry, we believe that we have the ability to generate sufficient cash from our operations to fund our ongoing operating cash needs and the continuing expansion of our business.

We may use short-term bank borrowings to finance operations and repay other bank borrowings if our funding position is in surplus. It is our policy to monitor regularly our liquidity requirements and compliance with debt covenants (if any) to ensure that sufficient resources of cash and adequate debt or equity financing are maintained. We have not experienced and do not expect to experience any difficulty in satisfying our obligations as they become due. However, our ability to fund our working capital needs, repay our indebtedness and finance other obligations depends on our future operating performance and cash flow, which are in turn subject to the global economic conditions, the level of spending by our customers and other factors, many of which are beyond our control. Any future significant acquisition or expansion may require additional capital, and we cannot assure you that such capital will be available to us on acceptable terms, if at all. Further information on the relevant risk is set forth in the paragraphs under "Risk Factors — Risks relating to our Group — Our ability to obtain additional funding may be limited which could delay or prevent completion of one or more of our growth strategies".

We had net cash generated from operating activities for the three years ended 31 December 2008, principally due to the growth in our sales. The following table is a condensed summary of our combined statements of cash flow for the three years ended 31 December 2008 and the nine months ended 30 September 2009:—

	For the year ended 31 December			For the nine months ended 30 September	
	2006	2007	2008	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Net cash from/(used in) our operating activities	34,265	41,401	22,992	(5,920)	40,485
Net cash used in/(from) our investing activities	(46,727)	(40,674)	2,296	23,179	2,382
Net cash from/(used in) our financing activities	10,082	(1,155)	(957)	(12,031)	(16,677)
Net increase/(decrease) in cash or cash equivalent	(2,380)	(428)	24,331	5,228	26,190
Cash and cash equivalents at the end of the year/period	2,946	2,518	26,849	7,746	53,039

Cash flow from operating activities

We derive our cash inflow principally from the receipt from payments from the sales of our sports shoes, sportswear, sports accessories and soles. Our cash outflow is principally used for the purchase of raw materials, the payment of our production costs, direct labour and outsourcing fee to contract manufacturers.

During the nine months ended 30 September 2009, we had net cash generated from operating activities of approximately RMB40.5 million, which was principally due to the operating cash inflow before movement in working capital of approximately RMB103.7 million. These cash inflow was partially set against a increase in our trade and other receivable of approximately RMB62.4 million, which was principally due to the increase in sales of both *Flyke* products and our Export ODM Business for the nine months ended 30 September 2009.

During the nine months ended 30 September 2008, we had net cash used in operating activities of approximately RMB5.9 million which was principally due to an increase in our trade and other receivables of approximately RMB37.6 million and increase in the inventories of approximately RMB16.5 million. The increase in our trade and other receivables was principally due to the corresponding increase in the sale of the *Flyke* products. The increase in the inventories was primarily due to the increase in production of *Flyke* products for the purpose of meeting the increasing demand. The cash outflow was partially set against the operating cash inflow before movement in working capital of approximately RMB51.6 million.

During the year ended 31 December 2008, we had net cash generated from operating activities of approximately RMB23.0 million which was principally due to operating cash inflow before movement in working capital of approximately RMB82.5 million and an increase in our trade and other payables of approximately RMB23.3 million. The increase in our trade and other payables was due to the increased purchase for raw materials as a result of increase in the sales of our sports shoes and Soles. The cash inflow was partially set against by an increase in our trade and other receivables of approximately RMB65.1 million and an increase in our inventory of approximately RMB13.7 million. The increase in our trade and other receivables was principally due to the increase in our sales. The increase in our inventory was principally due to the increase in the production of the *Flyke* products in order to meet the anticipated increasing demand.

During the year ended 31 December 2007, we had net cash generated from operating activities of approximately RMB41.4 million which was principally due to the operating cash inflow before movement in working capital of approximately RMB40.3 million and a decrease in our inventory of approximately RMB11.7 million. The decrease in inventory was due to the improvement in the production process and the logistics supports of our sports shoes produced under our Export ODM Business. The cash inflow was partially set against the increase in our trade and other receivables of approximately RMB6.8 million and the decrease in our trade and other payables of approximately RMB0.9 million. The increase in our trade and other receivables was principally due to the increase in our sales and the decrease in trade and other payables was principally due to our prompt settlement of our trade payables in order to maintain a good relationship with our principal suppliers.

During the year ended 31 December 2006, we had net cash generated from operating activities of approximately RMB34.3 million which was principally due to an increase in the operating profit before movement in working capital of approximately RMB29.2 million, a decrease in our trade and other receivables of approximately RMB5.4 million and an increase in our trade and other payables of approximately RMB8.3 million. The cash inflow was partially set against by an increase in our inventory of approximately RMB6.0 million. The increase in our trade and other payables was principally due to the increased purchase of raw materials and increase in our production costs following the continuous growth in our production volume. The increase in our inventory was principally due to the increased purchase of raw materials for our production requirements.

Cash flow from investing activities

Our cash outflow for investing activities was principally used in the purchase of property, plant and equipment and advancement made to Mr. LIN. The cash inflow was principally derived from the repayments from Mr. LIN.

During the nine months ended 30 September 2009, we had net cash generated from investing activities of approximately RMB2.4 million which was principally due to the repayment from Mr. LIN of approximately RMB10.8 million and the decrease in our pledged deposits of RMB17.1 million. The cash inflow was partially offset by an amount of approximately RMB25.7 million used in the acquisition of property, plant and equipment principally relating to construction in progress.

During the nine months ended 30 September 2008, we had net cash generated from investing activities of approximately RMB23.2 million which was principally due to a decrease in our pledged deposits in the amount of approximately RMB18.5 million and repayment from Mr. LIN of approximately RMB36.3 million. The cash inflow was partially set against by our purchase of property, plant and equipment in the aggregate amount of approximately RMB34.3 million during the period.

During the year ended 31 December 2008, we had net cash generated from investing activities of approximately RMB2.3 million which was principally due to a repayment by Mr. LIN of approximately RMB35.7 million and a decrease in our pledged bank deposits of approximately RMB16.3 million. The cash inflow was partially set against by the purchase of property, plant and equipment in the amount of approximately RMB52.7 million principally relating to our payment for construction in progress in the aggregate amount of approximately RMB23.4 million.

During the year ended 31 December 2007, we had net cash used in investing activities of approximately RMB40.7 million which was principally due to the increase in pledged bank deposits of approximately RMB24.0 million and the purchase of property, plant and equipment in the aggregate amount of approximately RMB15.5 million which including our payment on the construction in progress in the aggregate amount of approximately RMB8.0 million.

During the year ended 31 December 2006, we had net cash used in investing activities of approximately RMB46.7 million which was principally due to the increase in our pledged deposits of approximately RMB8.6 million, the increase in the amount of deposit paid for acquisition of property, plant and equipment in the amount of approximately RMB8.5 million and the advancement made to Mr. LIN of approximately RMB26.9 million.

Cash flow from financing activities

We derive our cash inflow from financing activities principally from bank borrowings and proceeds from capital injection. Our cash outflow from financing activities relates principally to our repayment of the principal and interest on our bank borrowing and various dividend payments.

During the nine months ended 30 September 2009, we had net cash used in financing activities of approximately RMB16.7 million which was principally due to by the repayment of our bank borrowing during the period in the aggregate amount of approximately RMB19.5 million, interest payment in the aggregate amount of approximately RMB3.2 million and dividend payment of approximately RMB69.7 million. The cash outflow was partially offset by the receipt from new bank borrowing in the aggregate amount of approximately RMB73.9 million to support our working capital purpose.

During the nine months ended 30 September 2008, we had net cash used in financing activities of approximately RMB12.0 million which was principally due to our repayment of the bank borrowing during the period in an aggregate amount of approximately RMB49.0 million and interest payment in the aggregate amount of approximately RMB4.1 million and dividend payment in amount of approximately RMB3.7 million. The cash outflow was partially offset by the receipt from new bank borrowing in the aggregate amount of approximately RMB42.0 million and the capital injection in the aggregate amount of approximately RMB2.7 million.

During the year ended 31 December 2008, we had net cash used in financing activities of RMB0.1 million which was principally due to our repayment of the bank borrowing in the aggregate amount of RMB77.0 million, interest payment in the aggregate amount of approximately RMB5.0 million and dividend payment in the aggregate amount of approximately RMB3.7 million. The cash outflow was principally set against by the receipt from new bank borrowing in the aggregate amount of approximately RMB82.0 million and proceed from capital injection in amount of approximately RMB2.7 million.

During the year ended 31 December 2007, we had net cash used in financing activities of approximately RMB1.2 million which was principally due to a dividend payment in an aggregate amount of approximately RMB16.8 million, our repayment of the bank borrowing during the year in the aggregate amount of approximately RMB25.5 million and interest payment in the aggregate amount of approximately RMB2.4 million. The cash outflow was mostly set against by the receipt from bank borrowing in the aggregate amount of approximately RMB43.5 million for our working capital purpose.

During the year ended 31 December 2006, we had net cash generated from financing activities of approximately RMB10.1 million which was principally due to the receipt from new bank borrowing in an aggregate amount of approximately RMB25.5 million for our working capital purpose and the proceed from capital injection in the aggregate amount of approximately RMB11.1 million. The cash inflow was partially set against by our repayment of the bank borrowing in the aggregate amount of approximately RMB15.0 million, the interest payment of approximately RMB1.0 million and dividend payment in the aggregate amount of approximately RMB10.5 million during the year.

CAPITAL EXPENDITURE

During the three years ended 31 December 2008 and the nine months ended 30 September 2009, we funded our capital expenditure from our bank loans, our proceeds from the sales of our products and the capital contribution from our equity interest holder. Our capital expenditure principally consisted of expenditure on acquiring property, plant, equipment and land use rights and construction in progress. During the year ending 31 December 2010, we expect to incur approximately RMB8.1 million on the acquisition of a parcel of land of approximately 18,138 sq. m., with particulars set forth under property no. 3 in Appendix IV to this prospectus, and RMB0.66 million on the acquisition of a parcel of land of approximately 1,528 sq. m., with particulars set forth under property no.2 in Appendix IV to this prospectus. In addition, we expect to make significant capital expenditure for the year ending 31 December 2010 as further particularly described in the section headed "Future Plans and Use of Net

Proceeds from the Global Offering" in this prospectus. The following table sets forth a breakdown of our capital expenditure during the three years ended 31 December 2008 and the nine months ended 30 September 2009:—

	For the year ended 31 December			For the nine months ended 30 September
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Property, plant and equipment	2,677	—	—	—
Construction in progress	—	3,973	26,081	10,961
Prepaid lease payment	—	16,694	10,524	—

The substantial increase in the amount of incurred on property, plant and equipment throughout the Track Record Period was principally due to completion of construction of our leasehold properties and establishment of five footwear production lines. The substantial increase in the construction in progress was principally due to construction of a factory building, a dormitory and an administrative building on the land of approximately 18,138 sq.m. with particulars set forth in property no. 3 in Appendix IV to this prospectus. The amounts of prepaid lease payment was relating to the acquisition of the land use rights of the land.

As of the Latest Practicable Date, we did not have any off-balance sheet transaction.

SELECTED COMBINED STATEMENTS OF FINANCIAL POSITION

	As of 31 December			As of 30 September
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets	40,048	52,700	99,751	121,612
Current assets	139,843	159,429	209,760	262,989
Current liabilities	119,718	139,310	171,197	226,936
Net current assets	**20,125**	**20,119**	**38,563**	**36,053**
Net assets	**60,173**	**72,819**	**138,314**	**157,665**

NET CURRENT ASSETS

The following sets forth details of our current assets and current liabilities as of 31 December 2006, 2007 and 2008 and 30 September 2009:—

	As of 31 December			As of 30 September
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current assets				
Inventories	28,222	16,540	29,395	21,912
Trade and other receivables	51,388	58,154	123,293	185,692
Prepaid lease payments	112	126	126	126
Amount due from the controlling shareholder	45,555	46,471	10,801	—
Pledged bank deposits	11,620	35,620	19,296	2,220
Bank balances and cash	2,946	2,518	26,849	53,039
	139,843	**159,429**	**209,760**	**262,989**
Current liabilities				
Trade and other payables	91,627	90,712	114,018	115,246
Financial guarantee liabilities	—	195	60	—
Income tax payable	2,591	4,903	8,619	6,988
Bank borrowings	25,500	43,500	48,500	102,870
Amount due to the controlling shareholder	—	—	—	1,832
	119,718	**139,310**	**171,197**	**226,936**
Net current assets	**20,125**	**20,119**	**38,563**	**36,053**

Based on our unaudited consolidated management accounts as of 31 January 2010, we had net current assets of RMB154.2 million. Our current assets as of 31 January 2010 consisted of inventories of approximately RMB31.4 million, trade and other receivables of RMB238.3 million, prepaid lease of approximately RMB0.1 million, pledged bank deposits of approximately RMB2.0 million and cash and bank balances of approximately RMB98.6 million. Our current liabilities as of 31 January 2010 consisted of trade and other payables of approximately RMB93.2 million, income tax payable of approximately RMB9.8 million, bank borrowings of approximately RMB108.8 million and amount due to the controlling shareholder of approximately RMB4.5 million.

The increase in the net assets value as of 31 January 2010 as compared to 30 September 2009 was principally due to (i) increase in trade and other receivables because of increase in our sales; (ii) decrease in trade and other payables because we speed up our payment schedules during the period and (iii) increase in bank balances and cash as a result of increase in our sales.

INVENTORY ANALYSIS

During the three years ended 31 December 2008 and the nine months ended 30 September 2009, inventory was one of our current assets. The value of our inventory accounted for approximately 20.2%, 10.4%, 14.0% and 8.3% of our current assets as of 31 December 2006, 2007 and 2008 and 30 September 2009, respectively. We conducted inventory counts at the end of each year and record a specific provision if the estimated net realisable value of any inventory is less than the corresponding cost of such inventory, as a result of, among other things, being obsolete or damaged.

The following table sets forth an analysis of our inventory, which was stated at cost, as of 31 December 2006, 2007 and 2008 and 30 September 2009:—

	As of 31 December			As of 30 September
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	1,177	1,940	965	2,896
Work-in-progress	2,501	3,406	1,614	3,792
Finished products	24,544	11,194	26,816	15,224
Total	**28,222**	**16,540**	**29,395**	**21,912**

Raw materials

As most of our suppliers are situated at Jinjiang City, Fujian Province, China, we are able to maintain a low level of our raw materials. Most of these suppliers are able to deliver to us the required raw materials within a couple of days. Hence, our practice is that we would only confirm our purchase orders of raw materials following the confirmation of the relevant sales order, which will be no more than a week prior to commencement of the commercial production of the relevant products.

Work-in-progress and finished products

The decrease in the overall level of work-in-progress was principally due to the improvement in the production process implemented by us during the two years ended 31 December 2008. The high level of our inventory of finished products as of 31 December 2006 was principally due to the accumulation of sports shoes under our Export ODM Business pending completion of the exporting procedures through various export services companies. Because of this inefficiency, we decided to engage the Export Services Company as our principal export services provider for the year ended 31 December 2008. As of 31 December 2008, we had various warehouses at different locations and our sales could only be recognised at the time of delivery of our finished products to the specialty stores, concession counters and distributors. From the beginning of 2009, we recognise our sales at the time of acceptance by our authorised distributors of our finished products delivered to the logistics hub in Jinjiang City. The increase in our work-in-progress during the nine months ended 30 September 2009 was principally due to the increase in the sales of our sports shoes during the last quarter of 2009.

The following table sets forth our inventory turnover days during the three years ended 31 December 2008 and the nine months ended 30 September 2009:—

	For the year ended 31 December			For the nine months ended 30 September
	2006	2007	2008	2009
Average inventory turnover days[1]	109	69	29	16

Note:—

1. The average inventory turnover days is equal to the average inventory divided by the cost of sales and multiplied by 365 days (270 days, in the case of the nine months ended 30 September 2009). The average inventory is equal to the inventory at the beginning of the year/period plus the inventory at the end of the year/period and divided by two.

The decrease in the average inventory turnover days was principally due to the improvement in our production process and logistics as well as the changes in the distribution method through direct sales to our authorised distributors. Also, the increased demand for our products also resulted in the decrease in the turnover days of our inventory.

We review an aging analysis at the end of each reporting period, and make allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sales. We estimate the net realisable value of our finished products based primarily on the latest invoice prices and the current market conditions. We carry out inventory review on a product-by-product basis at the end of each reporting period and make allowance for obsolete items.

The improvement in the turnover days during the year ended 31 December 2008 and the nine months ended 30 September 2009 was principally due to improved coordination between us and the Export Services Company. With regards to the sales of the *Flyke* products, we streamlined our distribution method effective from the beginning of 2009 and hence, we delivered all the products to the logistics centre in Jinjiang City, Fujian Province, for collection by our authorised distributors.

TRADE RECEIVABLES ANALYSIS

The following table sets forth the aging analysis of our trade receivables as of 31 December 2006, 2007 and 2008 and 30 September 2009:—

	As of 31 December			As of 30 September
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0–60 days	30,546	45,217	111,455	163,682
61–180 days	1,416	225	9,761	19,632
181–365 days	816	523	—	—
Over 365 days	1,938	1,413	—	—
Total	**34,716**	**47,378**	**121,216**	**183,314**

We provide our authorised distributors a credit period of no more than 60 days, with the specific term determined on a case-by-case basis with reference to other factors such as the previous sales performance, the credit history and the expansion plans of the relevant authorised distributors. We also required the Export Services Company to settle the amount due to us within 60 days from the date of delivery of our products to the designated port. However, there were instances in which we granted payment extension to our authorised distributors or customers of our Export ODM Business for more than 60 days, particularly during the two years ended 31 December 2007, because of the good business relationship. We have ceased such practice gradually since the year ended 31 December 2008.

In addition to the credit term, we also maintain an overall credit limit with respect to each of our authorised distributors in the amount of not more than one-sixth of the relevant annual budgeted amount. Specific credit terms and repayment schedules are determined on a case-by-case basis with each authorised distributor.

We perform ongoing credit evaluations of our customers and adjust credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. We continuously monitor collections and payments from our customers and maintain a provision for estimated credit losses based upon our experience. Credit losses have historically been within our expectations and we will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses. During the period from 1 October 2009 to 30 November 2009, approximately 99.4% of our trade receivable balance as of 30 September 2009 was fully settled.

The following table sets forth our average trade receivables turnover days during the three years ended 31 December 2008 and the nine months ended 30 September 2009:—

	For the year ended 31 December			For the nine months ended 30 September
	2006	2007	2008	2009
Average trade receivables turnover days[1]	111	89	74	74

Note:—

1. The average trade receivables turnover days is equal to the average trade receivables divided by our aggregate turnover and multiplied by 365 days (270 days, in the case of the nine months ended 30 September 2009). The average trade receivables is equal to the trade receivables at the beginning of the year/period plus the trade receivables at the end of the year/period and divided by two.

The decrease in the average trade receivables turnover days was principally due to the shorter settlement days by our authorised distributors requested by us. This settlement period was shorter than the settlement period required for specialty stores, retail stores, concession counters and distributors during the three years ended 31 December 2008.

Impairment loss relating to trade receivables

Our Directors confirm that no impairment loss is provided for our trade receivables that are neither past due nor impaired because these receivables were within credit period granted by us to our customers or that they were all collected subsequently. Our Directors consider that the default rate is low for such receivables based on the historical information and our past experience.

In determining the recoverability of a trade receivable, our Directors consider any change in the credit quality of the trade receivable from the date on which the credit was initially granted up to the reporting date. In view of the good settlement history and the substantial settlement from those receivables of us which are past due but not impaired for during the Track Record Period, our Directors consider that no allowance is required.

TRADE AND BILL PAYABLES ANALYSIS

The following table sets forth the aging analysis of our trade and bill payables as of 31 December 2006, 2007 and 2008 and 30 September 2009.

	As of 31 December			As of 30 September
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0–90 days	32,404	19,985	57,420	82,524
91–180 days	27,966	39,760	26,287	—
181–365 days	5,816	4,747	27	—
Over 365 days	7,619	5,403	—	—
Total	**73,805**	**69,895**	**83,734**	**82,524**

During the nine months ended 30 September 2009, the general credit period provided by our suppliers was between 30 and 90 days. During the period from 1 October 2009 to 30 November 2009, all of our trade and bill payable balance as of 30 September 2009 was settled.

The following table sets forth our average trade and bill payables turnover days during the three years ended 31 December 2008 and the nine months ended 30 September 2009:—

	For the year ended 31 December			For the nine months ended 30 September
	2006	**2007**	**2008**	**2009**
Average trade and bill payables turnover days[1]	307	222	97	53

Note:—

1. The average trade and bills payable turnover days is equal to the average trade and bills payable divided by our cost of sales and multiplied by 365 days (270 days, in the case of the nine months ended 30 September 2009). The average trade and bills payable is equal to the trade and bills payable at the beginning of the year/period plus the trade and bills payable at the end of the year/period and divided by two.

The decrease in the average trade and bill payables turnover days was principally due to our decision to make prompt settlement in order to maintain good relationship with the suppliers and request for early-payment discount.

FINANCIAL GUARANTEE LIABILITIES

The following table sets forth our financial guarantee liabilities as of 31 December 2006, 2007 and 2008 and 30 September 2009:—

	As of 31 December			As of 30 September
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of year/period	—	—	195	60
Fair value of the financial guarantee at date of grant	—	194	58	—
Amortisation of financial guarantee liabilities	—	(84)	(251)	(60)
Additional provision for the year/period	—	85	58	—
At the end of year/period	—	195	60	—

We provided financial guarantees to an Independent Third Party because this Independent Third Party was our strategic partner in business. We considered this Independent Third Party had good credit history and stable financial position. We did not receive any consideration for the provision of the financial guarantees. We also obtained financial guarantee from this Independent Third Party during the Track Record Period.

ADVANCES TO MR. LIN

The following table sets forth the amount due to us from Mr. LIN as of 31 December 2006, 2007 and 2008 and 30 September 2009:—

	As of 31 December			As of 30 September
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Balance due from Mr. LIN	45,555	46,471	10,801	—

The amount due was non-trade in nature and was due to the advancement made to Mr. LIN from time to time for his own personal use and other investment purposes. The amount was unsecured, non-interest bearing and repayable on demand.

As of the Latest Practicable Date, the above amount due from Mr. LIN was fully settled and there was amount due to Mr. LIN of approximately RMB1.8 million which was also fully settled.

INDEBTEDNESS

Gearing ratios

Our gearing ratio was approximately 14.2%, 20.5%, 15.7% and 26.7% as of 31 December 2006, 2007 and 2008 and 30 September 2009, respectively. Gearing ratio is derived by dividing the account of our interest-bearing debt incurred in the ordinary course of business by our total assets as of the relevant dates.

The gearing ratio was increasing during the three years ended 31 December 2008 and the nine months ended 30 September 2009 was principally due to the increase in our bank borrowings from approximately RMB25.5 million as of 31 December 2006 to RMB102.9 million as of 30 September 2009. The bank borrowings were used for our capital expenditure as well as business expansion purposes.

Borrowings

The following table sets forth our indebtedness as of 31 December 2006, 2007 and 2008 and 30 September 2009:—

	As of 31 December			As of 30 September
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank borrowings due within one year	25,500	43,500	48,500	102,870
Secured	—	5,000	—	11,970
Unsecured	25,500	38,500	48,500	90,900
Total	**25,500**	**43,500**	**48,500**	**102,870**

As of 31 January 2010, our total bank borrowings due within one year amounted to approximately RMB108.8 million, consisted of secured bank borrowings of approximately RMB34.0 million and unsecured bank borrowings of approximately RMB74.8 million.

Capital Commitment

As of the close of the business on 31 January 2010, we had capital commitment contracted but not provided for in respect of acquisition of property, plant and equipment of approximately RMB11 million.

The following table sets forth our interest-bearing bank borrowings:—

	As of 31 December			As of 30 September
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Fixed-rate borrowings	25,500	38,500	34,000	34,570
Variable-rate borrowings carrying interests at the rates between 100% and 130% of the best lending rate published by The People's Bank of China during the relevant period	—	5,000	14,500	68,300
Total	**25,500**	**43,500**	**48,500**	**102,870**

As of 31 January 2010, being the latest practicable date for the purpose of this indebtedness statement in this prospectus, our total indebtedness amounted to approximately RMB113.3 million, consisting of short-term secured bank loans of approximately RMB34.0 million, short-term unsecured bank loans of approximately RMB74.8 million and amount due to Controlling Shareholder of approximately RMB4.5 million, which will be settled on or before the Listing Date. We confirm that there has not been any material change in our indebtedness since 31 January 2010.

As of 31 January 2010, being the latest practicable date for the purpose of this indebtedness statement in this prospectus, we had banking facilities of approximately RMB24.0 million, of which approximately RMB17.0 million were utilized (which amount includes bank loans and bills payables). The above bank loans are all denominated in RMB. The average effective interest rate on our bank borrowings ranged from approximately 5.3% to 9.0% during the Track Record Period. Due to their short maturity, the carrying amounts of current bank loans are approximately equal to their fair values.

As of 31 December 2006, 2007 and 2008 and 30 September 2009, we had pledged certain of our buildings, prepaid lease payments and bank deposits to secure banking facilities granted to us at the end of each relevant period. The carrying values of the assets pledged were as follows:—

	As of 31 December			As of 30 September
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Buildings	—	—	11,646	11,053
Prepaid lease payments	—	—	5,681	5,587
Bank deposits	11,620	35,620	19,296	2,220
Total	11,620	35,620	36,623	18,860

In addition to the above assets pledge, the bank borrowings used by us were also secured or guaranteed by certain connected persons of our Company with particulars set forth below:—

(1) personal guarantee by Mr. LIN;

(2) as of 31 December 2007, bank borrowings of approximately RMB15.0 million were also secured by Ms. LIN Ezhi (林額治), the spouse of Mr. LIN; and

(3) as of 30 September 2009, bank borrowings of approximately RMB12.0 million were jointly guaranteed by Mr. LIN, Mr. LIN Wenzu (林文足) and Mr. LIN Mingxu (林明旭), all are our executive Directors.

We obtained guarantee from the Independent Third Party because of our strategic partnership relationship and our good credit history and stable financial position. We did not pay any consideration for obtaining the guarantee. We also provided guarantee to this Independent Third Party during the Track Record Period. Our PRC Legal Advisers confirm that the guarantee arrangements between us and this Independent Third Party are in compliance with the relevant PRC laws and regulations.

Our Directors confirm that the guarantees provided by our executive Directors, Ms. LIN Ezhi (林額治) and the Independent Third Party and the guaranteed land and buildings provided by the Independent Third Party will be released unconditionally upon the Listing.

Save as disclosed above, our Directors confirm that we currently have no material external debt financing in place and are not likely to raise any material external debt financing in the near future outside our ordinary course of business.

Contingent liabilities

As of 31 January 2010, we had no material contingent liabilities. We were not involved in any current material legal proceedings, nor were we aware of any pending or potential material legal proceedings involving us. If we were involved in such material legal proceedings, we would record any loss contingencies when, based on information then available, it is likely that a loss has been incurred and the amount of the loss can be reasonably estimated.

Disclaimers

Save as disclosed in the paragraphs under "____ — Indebtedness" above, and apart from intra-group liabilities, we did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding as of 31 January 2010. There is no material covenant relating to our outstanding debt that would prevent us from raising additional bank or other external financing.

Our Directors confirm that, up to the Latest Practicable Date, there have been no material changes in our indebtedness and contingent liabilities since 30 September 2009.

PROFIT ESTIMATE

We estimate that, based on our audited results for the nine months ended 30 September 2009 and the unaudited management accounts for the three months ended 31 December 2009 and on the bases set forth in Appendix III to this prospectus and in the absence of unforeseen circumstances, our estimated consolidated profit attributable to equity holders of our Company for the year ended 31 December 2009 will not be less than RMB134.7 million (equivalent to approximately HK$153.1 million) under HKFRS.

On a pro forma fully diluted basis and on the assumption that we had been listed since 1 January 2009 and a total of 800,000,000 Shares were issued and outstanding during the entire year (taking no account of any Shares which may be issued upon exercise of the Over-allotment Option), the estimate earnings per Share for the year ended 31 December 2009 will not be less than RMB0.17 (equivalent to approximately HK$0.19) representing a price/earnings multiple of 9.5 times and 13.0 times if the Office Price is HK$1.81 per Share and HK$2.49 per Share, respectively.

The texts of letters from the reporting accountants of our Company and from the Sponsor in respect of the profit estimate are set forth in the section headed "Profit Estimate" in Appendix III to this prospectus.

DIVIDEND

Our subsidiaries, Xinwei (China) and Flyke (China), declared and paid in aggregate dividends amounting to RMB10.5 million, RMB16.8 million, RMB3.7 million and RMB69.7 million during the three years ended 31 December 2008 and the nine months ended 30 September 2009, respectively. On 11 March 2010, our Company declared a special dividend of RMB100.0 million. The amount of the special dividend will be paid from our internal financial resources on or before the Listing Date, and will not be available to our Shareholders after Listing.

Although our Company had no distributable reserve as of 30 September 2009, profits were available for distribution from our subsidiaries. Our Group's unaudited retained earnings as of 31 January 2010 were approximately RMB167.8 million.

Our previous dividend payment is not indicative of our future dividend policy. The amount of future dividends on our Shares will depend on our earnings and financial position, our results of operations, our capital needs, our plans for expansion, our distributable reserves and other factors as our Directors may deem appropriate. Subject to the Companies Law, Shareholders in general meeting may from time to time declare a dividend or other distribution but no dividend or distribution shall be declared in excess of the amount recommended by our Directors. Under our Articles, our Directors may also from time to time declare such interim dividends as appear to our Directors to be justified by our profits. As of 30 September 2009, we did not have any distributable reserves available for distribution to our Shareholders.

RELATED PARTY TRANSACTIONS

With respect to the related parties transactions set forth in our combined financial statements included in the accountants' report set forth in Appendix I to this prospectus, our Directors confirm that these transactions were conducted on normal commercial terms and/or that such terms were no less favourable to our Group than terms available to Independent Third Parties and were fair and reasonable and in the interest of our Shareholders as a whole.

RECONCILIATION OF APPRAISED PROPERTY VALUES WITH NET BOOK VALUES

Further information on our property interests is set forth in Appendix IV to this prospectus. BMI Appraisals Limited, an independent property valuer, has valued the properties owned by us as of 31 December 2009. The text of its letter, summary of valuations and valuation certificate are set forth in Appendix IV to this prospectus.

The table below shows the reconciliation of the net book value of the property interests from our audited financial statement as of 30 September 2009 to the valuation of the property interest as of 31 December 2009:—

	RMB'000
Net book value as of 30 September 2009 included in the accountants' report as set forth in Appendix I to this prospectus	74,508
Movements for the three months ended 31 December 2009	
— Amortisation on land use rights	32
— Depreciation on plant and buildings	355
Net book value as of 31 December 2009	74,121
Reference value[1]	(56,200)
Valuation surplus	3,679
Valuation as of 31 December 2009 included in valuation report as set forth in Appendix IV to this prospectus	21,600

Note:—

1. The figure represents the reference value adopted by the management in respect of those properties without relevant title documents and such reference value is arrived at with reference to the property valuation report which set forth in Appendix IV in this prospectus. Further information on those properties without relevant title is set forth in the section headed "Business — Properties and facilities — PRC legal issues" in this prospectus. In view of the absence of relevant title documents, certain properties included in the accountants' report as of 30 September 2009 did not have any commercial value in the valuation report. The reference value is based on assumptions that such properties can be freely transferred in the open market.

DISTRIBUTABLE RESERVES

As of 30 September 2009, we did not have any distributable reserves available for distribution to our Shareholders.

WORKING CAPITAL

Our Directors are of the opinion that, taking into consideration of the financial resources presently available to our Company, including banking facilities and other internal resources, and the estimated net proceeds of the Global Offering, our Company has sufficient working capital for its working capital requirements at least in the next 12 months commencing from the date of this prospectus.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that there are no circumstances which, had we been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted net tangible assets of the Group ("**Unaudited Pro Forma NTA**") prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set forth below to illustrate the effect of the Global Offering on the combined net tangible assets attributable to the equity holders of our Company as of 30 September 2009 as if the Global Offering had taken place on 30 September 2009.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the combined net tangible assets of our Group as of 30 September 2009 or at any future dates following the Global Offering. It is based on the combined net tangible assets of the Group as of 30 September 2009 as set forth in the accountants' report, the text of which is set forth in Appendix I to this prospectus, and adjusted as described below:—

	Audited combined net tangible assets attributable to the equity holders of our Company as of 30 September 2009[1]	Estimated net proceeds from the Global Offering[2]	Unaudited pro forma adjusted net tangible assets attributable to the equity holders of our Company	Unaudited pro forma adjusted net tangible assets per Share[3 and 4]	
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HK$*
Based on the Offer Price of HK$1.81 per Share	157,665	305,886	463,551	0.579	0.658
Based on the Offer Price of HK$2.49 per Share	157,665	420,202	577,867	0.722	0.820

Notes:—

1. The audited combined net tangible assets attributable to the equity holders of our Company as of 30 September 2009 are arrived based on audited combined net tangible assets of approximately RMB157,665,000 as of 30 September 2009 extracted from the accountants' report as set forth in Appendix I to this prospectus.

2. The estimated net proceeds from the Global Offering are based on the Offer Price of HK$1.81 and HK$2.49 per Share, after deduction of the underwriting fees and other related expenses payable by our Company, and do not take into account of the proceeds from any Shares that may be issued pursuant to the Over-allotment Option.

3. The unaudited pro forma adjusted net tangible assets per Share is arrived at after adjustment for the estimated net proceeds from the Global Offering payable to our Company as described in note (2) and on the basis that a total of 800,000,000 Shares were in issue as of 30 September 2009, but takes no account of any Shares which may be issued upon exercise of the Over-allotment Option.

4. The unaudited pro forma adjusted net tangible asset per Share is translated into HK$ at exchange rate of RMB0.88 to HK$1.0. No representation is made that the Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

5. Details of valuation of our properties interest as of 30 September 2009 are set forth in Appendix IV to this prospectus. We will not incorporate the revaluation surplus or deficit in its combined financial statements for the year ended 31 December 2009. It is our accounting policy to state its land use rights and property, plant and equipment at cost less accumulated depreciation/amortisation and any impairment loss in accordance with the relevant HKASs, rather than at revalued amounts. With reference to the valuation of our property interests as set forth in Appendix IV to this prospectus, there was a revaluation surplus of our properties and land use rights of approximately RMB4.1 million. If the revaluation surplus was incorporated in our combined financial statements for the year ended 31 December 2009, an additional depreciation and amortisation of approximately RMB36,000 per annum would be incurred.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in our financial or trading position or prospects since 30 September 2009 and there is no event since 30 September 2009 which would materially affect the information shown in our combined financial statements included in the accountants' report set froth in Appendix I to this prospectus, in each case except as otherwise disclosed herein.