信永中和
ShineWing

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

16 March 2010

The Directors
Flyke International Holdings Ltd.
China Everbright Capital Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Flyke International Holdings Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31 December 2006, 2007 and 2008 and the nine months ended 30 September 2009 (the "Track Record Period") for inclusion in the prospectus of the Company dated 16 March 2010 (the "Prospectus") in connection with the initial listing of shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was incorporated in the Cayman Islands on 21 April 2008 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation (the "Reorganisation") as detailed in the section headed "Reorganisation" in Appendix VI to the Prospectus, which was completed on 22 December 2009, the Company became the holding company of the subsidiaries now comprising the Group, details of which are set out in Section A below. The Company has not carried on any business since the date of its incorporation saves for the aforementioned Reorganisation.

At the date of this report, the Company had direct or indirect interests in the following subsidiaries, all of which are private companies, particulars of which are set out below:

Name of company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group		Principal activities
			Direct	Indirect	
Win Eagle International Holdings Limited ("Win Eagle")	The British Virgin Islands (the "BVI") 14 March 2008	United State dollar ("US$")1	100%	—	Investment holding
Xin Wei (Fujian) Light Industry Co., Ltd.* (鑫威(福建)輕工有限公司) ("Xinwei (China)")#	The People's Republic of China (the "PRC") 17 December 1998	Renminbi ("RMB") 14,464,000	—	100%	Design, production and sales of shoes soles, sport shoes and sportswear
Feike Sports Products Co., Ltd. Fujian* (福建省飛克體育用品有限公司) ("Flyke (China)")#	The PRC 6 July 2004	RMB11,051,000	—	100%	Design, production and sales of shoes soles, sport shoes and sportswear
Xinwei Hong Kong Investment Limited (鑫威香港投資有限公司) ("Xinwei (Hong Kong)")	Hong Kong 16 April 2008	Hong Kong dollar ("HK$")1	—	100%	Investment holding
Flyke Hong Kong Holdings Limited (飛克香港控股有限公司) ("Flyke (Hong Kong)")	Hong Kong 16 April 2008	HK$1	—	100%	Investment holding

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

* *English name is for identification purpose only.*

All companies now comprising the Group have adopted 31 December as the financial year end date. As at the date of this report, no audited financial statements have been prepared for the Company and Win Eagle as they have either not carried on any business since their respective dates of incorporation or are investment holding companies and not subject to statutory audit requirements under the relevant rules and regulations in their jurisdictions of incorporation. We have, however, reviewed all significant transactions of these companies from their respective dates of incorporation to 30 September 2009 for the purpose of this report.

The statutory financial statements of Flyke (China), Xinwei (China), Flyke (Hong Kong) and Xinwei (Hong Kong) which were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") or the relevant accounting rules and regulations applicable to enterprises in the PRC, were audited during the three years ended 31 December 2006, 2007 and 2008 by the respective statutory auditors as indicated below:

Name of subsidiary	Periods covered	Certified Public Accountants
Flyke (China)	Year ended 31 December 2006	Xiamen Huafeng Associated Certified Public Accountants** 廈門華峰聯合會計師事務所
	Year ended 31 December 2007	Xiamen Huafeng Associated Certified Public Accountants** 廈門華峰聯合會計師事務所
	Year ended 31 December 2008	Fujian Baihong Associated Certified Public Accountants** 福建百鴻聯合會計師事務所
Xinwei (China)	Year ended 31 December 2006	Xiamen Huafeng Associated Certified Public Accountants** 廈門華峰聯合會計師事務所
	Year ended 31 December 2007	Xiamen Huafeng Associated Certified Public Accountants** 廈門華峰聯合會計師事務所
	Year ended 31 December 2008	Fujian Baihong Associated Certified Public Accountants** 福建百鴻聯合會計師事務所
Flyke (Hong Kong)	Period ended 31 December 2008	SHINEWING (HK) CPA Limited
Xinwei (Hong Kong)	Period ended 31 December 2008	SHINEWING (HK) CPA Limited

** *The Certified Public Accountants are registered in the PRC and the English name is for identification only.*

BASIS OF PREPARATION

The Financial Information has been prepared by the directors of the Company based on the audited financial statements or, where appropriate, unaudited management accounts of the companies now comprising the Group on the basis set out in Note 1 of Section A below, after making such adjustments as are appropriate. Adjustments have been made, for the purpose of this report, to restate these financial statements to conform with the accounting policies as stated in Note 3 of Section A to conform with HKFRSs issued by the HKICPA and the disclosure requirements of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange. HKFRSs include Hong Kong Accounting Standards and interpretations.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The directors of the Company are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with HKFRSs issued by the HKICPA. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to form an opinion on the Financial Information based on our audit.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have carried out appropriate audit procedures in respect of the Financial Information for the Track Record Period in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Information is free from material misstatement.

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

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

We have not audited any financial statements of the companies now comprising the Group in respect of any period subsequent to 30 September 2009.

OPINION

In our opinion, for the purpose of this report and on the basis of presentation set out in Note 1 of Section A below, all adjustments considered necessary have been made to the Financial Information which gives a true and fair view of the Group's combined results, combined changes in equity and combined cash flows for the Track Record Period, and of the Group's combined state of affairs as at 31 December 2006, 2007 and 2008 and 30 September 2009 and of the Company as at 31 December 2008 and 30 September 2009.

CORRESPONDING FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited financial information of the Group comprising the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for the nine months ended 30 September 2008, together with notes thereto (the "September 2008 Financial Information"), for which the directors of the Company are responsible, in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our responsibility is to express a conclusion on the September 2008 Financial Information based on our review.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the September 2008 Financial Information.

Base on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the September 2008 Financial Information is not prepared, in all material aspects, in accordance with the same basis adopted in respect of the Financial Information.

A. Financial Information

Combined Statements of Comprehensive Income

		Year ended 31 December			Nine months ended 30 September	
		2006	2007	2008	2008	2009
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Turnover	*7*	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	*9*	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	*10*	(1,015)	(2,396)	(4,994)	(4,068)	(3,212)
Profit before tax	*11*	25,396	34,588	71,889	44,075	95,558
Income tax expense	*12*	(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	*14*	0.029	0.037	0.083	0.052	0.111
Dividends paid during the year/period	*15*	10,454	16,759	3,704	3,704	69,667

Combined Statements of Financial Position

		As at 31 December			As at 30 September
		2006	**2007**	**2008**	**2009**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets					
Property, plant and equipment	*17*	26,364	47,019	91,931	112,529
Prepaid lease payments	*18*	5,204	5,681	5,555	5,461
Deposit paid for acquisition of property, plant and equipment		8,480	—	—	—
Deferred tax assets	*19*	—	—	2,265	3,622
		40,048	52,700	99,751	121,612
Current assets					
Inventories	*20*	28,222	16,540	29,395	21,912
Trade and other receivables	*21*	51,388	58,154	123,293	185,692
Prepaid lease payments	*18*	112	126	126	126
Amount due from the controlling shareholder	*22*	45,555	46,471	10,801	—
Pledged bank deposits	*23*	11,620	35,620	19,296	2,220
Bank balances and cash	*23*	2,946	2,518	26,849	53,039
		139,843	159,429	209,760	262,989
Current liabilities					
Trade and other payables	*24*	91,627	90,712	114,018	115,246
Financial guarantee liabilities	*25*	—	195	60	—
Income tax payable		2,591	4,903	8,619	6,988
Bank borrowings	*26*	25,500	43,500	48,500	102,870
Amount due to the controlling shareholder	*28*	—	—	—	1,832
		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
Capital and reserves					
Share capital	*29*	25,515	25,515	28,256	28,256
Reserves		34,658	47,304	110,058	129,409
Total equity		60,173	72,819	138,314	157,665

Statements of Financial Position of the Company

	Notes	**As at 31 December 2008** *RMB'000*	**As at 30 September 2009** *RMB'000*
Non-current asset			
Investment in a subsidiary	*16*	—	—
Current asset			
Other receivables		424	435
Current liabilities			
Amounts due to subsidiaries	*27*	1,740	1,726
Amount due to the controlling shareholder	*28*	26	50
		1,766	1,776
Net current liabilities		(1,342)	(1,341)
Net liabilities		(1,342)	(1,341)
Capital and reserve			
Share capital	*29*	—	—
Accumulated losses		(1,342)	(1,341)
Total equity		(1,342)	(1,341)

Combined Statements of Changes in Equity

	Share capital	Statutory reserve	Retained earnings	Translation reserve	Total equity
	RMB'000	*RMB'000* *(Note)*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2006	14,464	1,162	20,797	—	36,423
Capital injection	11,051	—	—	—	11,051
Total comprehensive income for the year	—	—	23,153	—	23,153
Transfer from retained earnings	—	1,862	(1,862)	—	—
Dividend paid during the year	—	—	(10,454)	—	(10,454)
At 31 December 2006	25,515	3,024	31,634	—	60,173
Total comprehensive income for the year	—	—	29,405	—	29,405
Transfer from retained earnings	—	2,651	(2,651)	—	—
Dividend paid during the year	—	—	(16,759)	—	(16,759)
At 31 December 2007	25,515	5,675	41,629	—	72,819
Capital injection	2,741	—	—	—	2,741
Total comprehensive income for the year	—	—	66,458	—	66,458
Transfer from retained earnings	—	7,111	(7,111)	—	—
Dividend paid during the year	—	—	(3,704)	—	(3,704)
At 31 December 2008	28,256	12,786	97,272	—	138,314
Total comprehensive income for the period	—	—	89,001	17	89,018
Dividend paid during the period	—	—	(69,667)	—	(69,667)
At 30 September 2009	28,256	12,786	116,606	17	157,665

	Share capital	Statutory reserve	Retained earnings	Translation reserve	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
(unaudited)					
At 1 January 2008	25,515	5,675	41,629	—	72,819
Capital injection	2,741	—	—	—	2,741
Total comprehensive income for the period	—	—	41,958	—	41,958
Dividend paid during the period	—	—	(3,704)	—	(3,704)
At 30 September 2008	28,256	5,675	79,883	—	113,814

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

Combined Statements of Cash Flow

	Year ended 31 December			Nine months ended 30 September	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
OPERATING ACTIVITIES					
Profit before tax	25,396	34,588	71,889	44,075	95,558
Adjustments for:					
Amortisation of prepaid lease payments	86	121	126	94	94
Depreciation of property, plant and equipment	2,829	3,291	5,522	3,781	5,130
Finance costs	1,015	2,396	4,994	4,068	3,212
Bank interest income	(122)	(320)	(786)	(462)	(233)
Loss on disposal of property, plant and equipment	—	—	50	50	—
Write down of inventories	—	—	824	—	—
Amortisation of financial guarantee liabilities	—	(84)	(251)	(214)	(60)
Fair value of the financial guarantee liabilities at date of grant	—	194	58	58	—
Additional provision for financial guarantee	—	85	58	139	—
Operating cashflows before movements in working capital	29,204	40,271	82,484	51,589	103,701
(Increase) decrease in inventories	(5,962)	11,682	(13,679)	(16,460)	7,483
Decrease (increase) in trade and other receivables	5,357	(6,766)	(65,139)	(37,607)	(62,382)
Increase (decrease) in trade and other payables	8,287	(915)	23,306	872	1,228
Cash generated from (used in) operations	36,886	44,272	26,972	(1,606)	50,030
Income tax refund	365	375	480	145	34
Income tax paid	(2,986)	(3,246)	(4,460)	(4,459)	(9,579)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	34,265	41,401	22,992	(5,920)	40,485

	Year ended 31 December			Nine months ended 30 September	
	2006	2007	2008	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
INVESTING ACTIVITIES					
(Advance to) repayment from the controlling shareholder	(26,898)	(916)	35,670	36,273	10,801
(Increase) decrease in pledged bank deposits	(8,570)	(24,000)	16,324	18,517	17,076
Deposits paid for acquisition of property, plant and equipment	(8,480)	—	—	—	—
Purchase of prepaid lease payments	(2,067)	(612)	—	—	—
Purchase of property, plant and equipment	(834)	(15,466)	(52,675)	(34,264)	(25,728)
Interest received	122	320	786	462	233
Proceeds from disposal of property, plant and equipment	—	—	2,191	2,191	—
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(46,727)	(40,674)	2,296	23,179	2,382
FINANCING ACTIVITIES					
Capital injection	11,051	—	2,741	2,741	—
New bank borrowings raised	25,500	43,500	82,000	42,000	73,870
Repayment of bank borrowings	(15,000)	(25,500)	(77,000)	(49,000)	(19,500)
Dividend paid	(10,454)	(16,759)	(3,704)	(3,704)	(69,667)
Interest paid	(1,015)	(2,396)	(4,994)	(4,068)	(3,212)
Advance from the controlling shareholder	—	—	—	—	1,832
NET CASH FROM (USED IN) FINANCING ACTIVITIES	10,082	(1,155)	(957)	(12,031)	(16,677)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,380)	(428)	24,331	5,228	26,190
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD	5,326	2,946	2,518	2,518	26,849
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD, represented by bank balances and cash	2,946	2,518	26,849	7,746	53,039

Notes to the Financial Information

1. BASIS OF PRESENTATION OF THE FINANCIAL INFORMATION

As the companies that took part in the Reorganisation were controlled by Mr. Lin Wenjian (林文建) ("Mr. LIN") (referred to as "the Controlling Shareholder") before and after the Reorganisation and, consequently there was a continuation of the risks and benefits to the Controlling Shareholder, the Financial Information has been prepared as a business combination under common control in a manner similar to pooling of interests.

The combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of the Group for the Track Record Period include the results of operations of the companies now comprising the Group and are prepared by applying the principles of merger accounting as stated in Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA as if the current group structure had been in existence and remained unchanged throughout the entire periods referred to in this report, or since the dates of their incorporation where this is a shorter period. The combined statements of financial position of the Group as at 31 December 2006, 2007 and 2008 and 30 September 2009 have been prepared to present the state of affairs of the companies now comprising the Group as at the respective dates as if the current group structure had been in existence as at the respective dates. All material intra-group transactions and balances have been eliminated on combination.

The Financial Information is presented in RMB, which is the functional currency of the Group.

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

For the purpose of preparing and presenting the Financial Information of the Track Record Period, the Group has consistently adopted all the revised HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations ("INT(s)") (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA which are effective for the Group's financial year beginning on 1 January 2009.

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

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

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

The adoption of HKFRS 3 (Revised) may affect the Group's accounting for business combinations for which the acquisition dates are or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a Group's ownership interest in a subsidiary.

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

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below. These accounting policies have been consistently applied throughout the Track Record Period.

In addition, the Financial Information includes applicable disclosures required by the Listing Rules on the Stock Exchange and by the Hong Kong Companies Ordinance.

Business combination under common control

Business combinations under common control are accounted for using merger accounting. In applying merger accounting, the combined financial statements incorporate the financial information of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

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

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

The comparative amounts in the Financial Information are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods 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.

Investments in subsidiaries

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

Property, plant and equipment

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

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

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the combined statements of comprehensive income in the year/period in which the item is derecognised.

Prepaid lease payments

Prepaid lease payments are up-front payments to acquire leasehold land interests. The prepaid lease payments are stated at cost less accumulated amortisation and accumulated impairment losses, amortisation is charged to the 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, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If 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

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

Effective interest method

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

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 the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 60 days, observable changes in national or local economic conditions that correlate with default on receivables.

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

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

For financial assets measured at amortised cost, if, in a subsequent period, the amount of 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. The Group's financial liabilities are generally classified as other financial liabilities.

Effective interest method

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

Interest 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 the Company are recorded at the proceeds received, net of direct issue costs.

Financial guarantee contracts

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

Derecognition

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

Leasing

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

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the terms of the relevant leases.

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 of 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 is included in profit or loss for the period.

For the purposes of presenting the Financial Information , the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the rate of exchange prevailing at the end of reporting period, and their income and expenses are translated at the average exchange rates for the year/period, unless exchange rates fluctuate significantly during the during, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

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 the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same 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. The Group's 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 in the Financial Information 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 the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax 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.

4. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

The following is the critical judgment, apart from those involving estimations, that the directors of the Company have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the Financial Information.

Legal title of buildings and land use rights

Despite the Group has paid the full purchase consideration as detailed in Notes 17 and 18 respectively, certain of the Group's legal titles to certain buildings and land use rights have not been granted by the relevant government authorities. Despite the fact the Group has not obtained the relevant legal title, the directors of the Company determine to recognise these buildings and land use rights on the ground that they expect the legal titles being obtained in future should have no major difficulties and the Group is in substance controlling these buildings and land use rights.

Depreciation of property, plant and equipment

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

Estimated impairment of property, plant and equipment

The management of the Group determines whether the property, plant and equipment is impaired, at least on an annual basis. The impairment loss for property, plant and equipment are recognised for the amounts by which the carrying amounts exceed their recoverable amounts, in accordance with the Group's accounting policy. The recoverable amounts of property, plant and equipment have been determined based on value-in-use calculations. These calculations require the use of estimates such as the future revenue and discount rates. No impairment was provided during the Track Record Period.

Write down of inventories

The management of the Group reviews an aging analysis at the end of each reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sale. The management estimates the net realisable value for finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period and makes allowance for obsolete items. As at 31 December 2006, 2007 and 2008 and 30 September 2009, the carrying amounts of inventories was approximately RMB28,222,000, RMB16,540,000, RMB29,395,000 and RMB21,912,000 (net of impairment loss of RMB824,000 as at 31 December 2008, as at 31 December 2006 and 2007 and 30 September 2009 are nil, respectively).

Estimated impairment loss recognised in respect of trade receivables

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

Provision for guarantees

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

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

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

The directors of the Company review the capital structure regularly. As part of the review, the directors of the Company consider the cost of capital and risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through the raising of new debts, payment of dividend and issuance of new shares. The Group's overall strategy remains unchanged over the Track Record Period.

6. FINANCIAL INSTRUMENTS

6a. Categories of financial instruments

The Group

	As at 31 December			As at 30 September
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Loans and receivables (including cash and cash equivalents)	102,580	138,275	178,168	239,782
Financial liabilities at amortised cost	101,588	115,642	143,714	201,565
Financial guarantee liabilities at fair value	—	195	60	—

The Company

	As at 31 December 2008	As at 30 September 2009
	RMB'000	*RMB'000*
Financial liabilities at amortised cost	1,766	1,776

6b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amount due from (to) the controlling shareholder, amount due to subsidiaries, pledged bank deposits, bank balances and cash, trade and other payables, financial guarantee liabilities and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management of the Company manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) ***Currency risk***

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

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

(ii) ***Interest rate risk***

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

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

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

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

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For variable-rate bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used for the Track Record Period when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower for the Track Record Period and all other variables were held constant, the Group's profit for the two years ended 31 December 2007 and 2008 and nine months ended 30 September 2009 would decrease/increase by RMB25,000, RMB73,000 and RMB342,000 (as at 31 December 2006: nil) respectively. This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

(iii) ***Credit risk***

At the end of each reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties provided by the Group or debtors which the Group has provided financial guarantees, is arising from the carrying amount of the respective recognised financial assets as stated in the combined statements of financial position and the amount of contingent liabilities as disclosed in Note 32.

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

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

The Group has concentration of credit risk as 80%, 70%, 55% and 40% of the total trade receivables as at 31 December 2006, 2007 and 2008 and 30 September 2009 was due from the Group's largest trade receivable and 87%, 79%, 66% and 65% of the total trade receivables as at 31 December 2006, 2007 and 2008 and 30 September 2009 was due from the five largest trade receivables, respectively. In the opinion of directors of the Company, the risk is gradually reduced as the Group's customer base has been diversified and became less concentrated during the Track Record Period.

The Group has concentration of credit risk by geographical location, as all the trade receivables are located in the PRC as at 31 December 2006, 2007 and 2008 and 30 September 2009, respectively.

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

(iv) ***Liquidity risk***

In management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and other source of funding and considers the risk is minimal.

The following table details the Group's and the Company's remaining contractual maturity for its financial liabilities. For non-derivative financial instruments, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group will be required to pay. The table includes both interest and principal cash flows.

Liquidity and interest risk tables

The Group

	Carrying amounts	**Total undiscounted cash flows and due within one year**
	RMB'000	*RMB'000*
As at 31 December 2006		
Non-derivative financial liabilities		
Trade and other payables	76,088	76,088
Bank borrowings	25,500	26,567
	101,588	102,655
As at 31 December 2007		
Non-derivative financial liabilities		
Trade and other payables	72,142	72,142
Bank borrowings	43,500	45,347
	115,642	117,489
As at 31 December 2008		
Non-derivative financial liabilities		
Trade and other payables	95,214	95,214
Bank borrowings	48,500	50,945
	143,714	146,159
As at 30 September 2009		
Non-derivative financial liabilities		
Trade and other payables	96,863	96,863
Bank borrowings	102,870	105,308
Amount due to the controlling shareholder	1,832	1,832
	201,565	204,003

The Company

	Carrying amounts	Total undiscounted cash flows and due within one year
	RMB'000	*RMB'000*
As at 31 December 2008		
Non-derivative financial liabilities		
Trade and other payables	1,766	1,766
As at 30 September 2009		
Non-derivative financial liabilities		
Trade and other payables	1,776	1,776

6c. Fair value

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

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

7. TURNOVER

Turnover represents the net amounts received and receivable for goods sold in the normal course of business, net of discounts and sales related taxes, for the three years ended 31 December 2008 and the nine months ended 30 September 2008 and 2009 which may be analysed as follows:

	Year ended 31 December			Nine months ended 30 September	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Footwear	105,161	140,593	327,537	219,551	380,783
Apparel and accessories	—	10,288	60,879	49,319	157,559
Shoes soles	16,029	16,994	25,178	16,961	20,502
	121,190	167,875	413,594	285,831	558,844

8. SEGMENT INFORMATION

Operating segments, and the amounts of each segment item reported in the Financial Information, are identified from the Financial Information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations. No segment information is presented in respect of the Group's business segment as the Group is principally engaged in one segment in the design, production and sales of shoes and sportswear in the PRC.

The Group has only one customer with whom transactions have exceed 10% of the Group's aggregate revenue during the three years ended 31 December 2008 and the nine months ended 30 September 2008 and 2009. The amounts of sales from this customer amounted to approximately RMB67,145,000, RMB103,996,000, RMB145,896,000, RMB84,688,000 and RMB193,662,000 for the three years ended 31 December 2008, and the nine months ended 30 September 2008 and 2009 respectively.

9. OTHER OPERATING INCOME

	Year ended 31 December			Nine months ended 30 September	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Bank interest income	122	320	786	462	233
Government grants *(Note)*	307	630	300	250	50
Amortisation of financial guarantee contracts	—	84	251	214	60
Others	120	48	69	31	427
	549	1,082	1,406	957	770

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

10. FINANCE COSTS

	Year ended 31 December			Nine months ended 30 September	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Interest on bank borrowings wholly repayable within one year	1,015	2,396	4,994	4,068	3,212

11. PROFIT BEFORE TAX

	Year ended 31 December			Nine months ended 30 September	
	2006	2007	2008	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Profit before tax has been arrived at after charging:					
Directors' emoluments *(Note 13)*	153	174	202	155	397
Salaries and other allowance	19,308	20,436	53,187	34,688	53,954
Retirement benefits scheme contributions (excluding directors)	28	28	478	285	174
Total staff costs	19,489	20,638	53,867	35,128	54,525
Amortisation of prepaid lease payments	86	121	126	94	94
Auditors' remuneration	—	5	37	17	20
Cost of inventories recognised	84,874	118,017	288,799	200,969	421,683
Depreciation of property, plant and equipment	2,829	3,291	5,522	3,781	5,130
Fair value of the financial guarantee liabilities at date of grant	—	194	58	58	—
Additional provision for financial guarantee	—	85	58	139	—
Loss on disposal of property, plant and equipment	—	—	50	50	—
Write down of inventories (included in cost of sales)	—	—	824	—	—
Operating lease rental paid in respect of rented premises	136	207	297	199	118
Research and development costs (included in other operating expenses)*	1,055	1,245	9,991	7,531	7,567

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

12. INCOME TAX EXPENSE

	Year ended 31 December			Nine months ended 30 September	
	2006	2007	2008	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
The charge comprises:					
PRC Enterprise Income Tax					
— Current	3,044	5,183	7,696	3,077	7,914
— Overprovision in prior years	(801)	—	—	—	—
	2,243	5,183	7,696	3,077	7,914
Deferred tax *(Note 19)*	—	—	(2,265)	(960)	(1,357)
	2,243	5,183	5,431	2,117	6,557

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profits subject to Hong Kong Profits Tax during the three years ended 31 December 2008 and the nine months ended 30 September 2008 and 2009.

Pursuant to the income tax rules and regulations of the PRC, the companies comprising the Group are liable to PRC Enterprise Income Tax 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 the PRC and the profit for each of the subsequent three years is taxed at 50% of the prevailing tax rate set by the PRC government (the "Tax Exemption"). The first profit-making year of Flyke (China) is 2007. As year 2007 is not a full year operation, accordingly, year 2008 is regarded the beginning year of Tax Exemption as the first profit-making year and 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 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.

— 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.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations changed the tax rate from 33% to 25% for subsidiaries in the PRC from 1 January 2008.

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

The income tax expense 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 tax per the combined statements of comprehensive income as follows:

	Year ended 31 December			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 Law of PRC, withholding tax is imposed on dividends in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards (the "Post-2008 Earnings"). As at 31 December 2008, deferred taxation has not been provided for in the Financial Information in respect of temporary difference attributable to the "Post-2008 Earnings" as the Group is 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.

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors

Details of emoluments paid and payable to the directors of the Company for the three years ended 31 December 2008 and the nine months ended 30 September 2008 and 2009 are as follows:

	Fees	Salaries and other allowance	Retirement benefits scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
For the year ended 31 December 2006				
Executive directors:				
Mr. LIN	—	48	3	51
Mr. Lin Wenzu (林文足)	—	48	3	51
Mr. Lin Mingxu (林明旭)	—	48	3	51
Mr. Li Yong (李勇)	—	—	—	—
Independent non-executive directors				
Mr. Chu Kin Wang, Peleus (朱健宏)	—	—	—	—
Mr. Huang Shanhe (黃山河)	—	—	—	—
Mr. Zhu Guohe (朱國和)	—	—	—	—
Total	—	144	9	153
For the year ended 31 December 2007				
Executive directors:				
Mr. LIN	—	55	3	58
Mr. Lin Wenzu (林文足)	—	55	3	58
Mr. Lin Mingxu (林明旭)	—	55	3	58
Mr. Li Yong (李勇)	—	—	—	—
Independent non-executive directors				
Mr. Chu Kin Wang, Peleus (朱健宏)	—	—	—	—
Mr. Huang Shanhe (黃山河)	—	—	—	—
Mr. Zhu Guohe (朱國和)	—	—	—	—
Total	—	165	9	174
For the year ended 31 December 2008				
Executive directors:				
Mr. LIN	—	65	1	66
Mr. Lin Wenzu (林文足)	—	65	3	68
Mr. Lin Mingxu (林明旭)	—	65	3	68
Mr. Li Yong (李勇)	—	—	—	—
Independent non-executive directors				
Mr. Chu Kin Wang, Peleus (朱健宏)	—	—	—	—
Mr. Huang Shanhe (黃山河)	—	—	—	—
Mr. Zhu Guohe (朱國和)	—	—	—	—
Total	—	195	7	202

	Fees	Salaries and other allowance	Retirement benefits scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
For the nine months ended 30 September 2008 (unaudited)				
Executive directors:				
Mr. LIN	—	50	1	51
Mr. Lin Wenzu (林文足)	—	50	2	52
Mr. Lin Mingxu (林明旭)	—	50	2	52
Mr. Li Yong (李勇)	—	—	—	—
Independent non-executive directors				
Mr. Chu Kin Wang, Peleus (朱健宏)	—	—	—	—
Mr. Huang Shanhe (黃山河)	—	—	—	—
Mr. Zhu Guohe (朱國和)	—	—	—	—
Total	—	150	5	155
For the nine months ended 30 September 2009				
Executive directors:				
Mr. LIN	—	172	—	172
Mr. Lin Wenzu (林文足)	—	110	4	114
Mr. Lin Mingxu (林明旭)	—	107	4	111
Mr. Li Yong (李勇)	—	—	—	—
Independent non-executive directors				
Mr. Chu Kin Wang, Peleus (朱健宏)	—	—	—	—
Mr. Huang Shanhe (黃山河)	—	—	—	—
Mr. Zhu Guohe (朱國和)	—	—	—	—
Total	—	389	8	397

(b) Employees

Details of emoluments of the five highest paid individuals of the Group for the three years ended 31 December 2008 and the nine months ended 30 September 2008 and 2009 are as follows:

	Year ended 31 December			Nine months ended 30 September	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Salaries, allowances and benefits-in-kind	240	278	317	247	556
Retirement benefits scheme contributions	16	16	13	10	11
	256	294	330	257	567
Number of directors	1	2	2	3	3
Number of other employees	4	3	3	2	2
	5	5	5	5	5

Note: The emolument of each of the above employees is below RMB880,000 (approximately HK$1,000,000).

During the three years ended 31 December 2008 and the nine months ended 30 September 2008 and 2009, no emoluments was paid by the Group to any of the directors, or the five highest paid individuals (including director and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the director waived any emoluments during the three years ended 31 December 2008 and the nine months ended 30 September 2008 and 2009.

14. EARNINGS PER SHARE

The calculations of basic earnings per share for the three years ended 31 December 2008 and the nine months ended 30 September 2008 and 2009 are based on the profit attributable to owners of the parent for each of the three years ended 31 December 2008 and nine months ended 30 September 2008 and on the basis of 800,000,000 shares of the Company in issue and issuable at the date of Prospectus.

There were no dilutive earnings presented as there were no dilutive potential ordinary shares during the three years ended 31 December 2008 and the nine months ended 30 September 2008 and 2009.

15. DIVIDENDS

	Year ended 31 December			Nine months ended 30 September	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Final dividend paid during the year/period	10,454	16,759	3,704	3,704	69,667

During the year ended 31 December 2006, a final dividend of approximately RMB10,454,000 in respect of the year ended 31 December 2005 was paid by Xinwei (China) to the then shareholder.

During the year ended 31 December 2007, a final dividend of approximately RMB16,759,000 in respect of the year ended 31 December 2006 was paid by Xinwei (China) to the then shareholder.

During the nine months ended 30 September 2008 and the year ended 31 December 2008, a final dividend of approximately RMB3,704,000 in respect of the year ended 31 December 2007 was paid by Flyke (China) to the then shareholder.

During the nine months ended 30 September 2009, final dividends of approximately RMB20,158,000 and RMB13,567,000 in respect of the year ended 31 December 2007 and 2008, respectively were paid by Xinwei (China) and a final dividend of approximately RMB35,942,000 in respect of the year ended 31 December 2008 was paid by Flyke (China) to the then shareholder.

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

16. INVESTMENT IN A SUBSIDIARY

The Company

	RMB'000
Unlisted shares, cost	—

The details of the subsidiary are set out as follows:

Name of company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group Direct	Equity interest attributable to the Group Indirect	Principal activities
Win Eagle	The BVI 14 March 2008	US$1	100%	—	Investment holding

The subsidiary had not issued any debt securities during the Track Record Period and the nine months ended 30 September 2008 and at the end of the Track Record Period.

17. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings	Plant and machinery	Furniture, fixtures and office equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST					
At 1 January 2006	17,626	20,886	370	—	38,882
Additions	—	759	75	—	834
At 31 December 2006	17,626	21,645	445	—	39,716
Additions	—	15,024	932	7,990	23,946
At 31 December 2007	17,626	36,669	1,377	7,990	63,662
Additions	1,603	27,682	20	23,370	52,675
Disposals	—	(4,438)	(30)	—	(4,468)
Transfer	8,330	—	—	(8,330)	—
At 31 December 2008	27,559	59,913	1,367	23,030	111,869
Additions	1,320	84	—	24,324	25,728
Transfer	3,080	—	—	(3,080)	—
At 30 September 2009	31,959	59,997	1,367	44,274	137,597
DEPRECIATION					
At 1 January 2006	3,548	6,927	48	—	10,523
Provided for the year	811	1,957	61	—	2,829
At 31 December 2006	4,359	8,884	109	—	13,352
Provided for the year	811	2,374	106	—	3,291
At 31 December 2007	5,170	11,258	215	—	16,643
Provided for the year	1,164	4,145	213	—	5,522
Eliminated on disposals	—	(2,219)	(8)	—	(2,227)
At 31 December 2008	6,334	13,184	420	—	19,938
Provided for the period	978	4,002	150	—	5,130
At 30 September 2009	7,312	17,186	570	—	25,068
CARRYING VALUES					
At 31 December 2006	13,267	12,761	336	—	26,364
At 31 December 2007	12,456	25,411	1,162	7,990	47,019
At 31 December 2008	21,225	46,729	947	23,030	91,931
At 30 September 2009	24,647	42,811	797	44,274	112,529

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

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

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

As at 31 December 2008 and 30 September 2009, the Group has not yet obtained the legal title of the buildings with an aggregate carrying amount of approximately RMB9,580,000 and RMB9,245,000, respectively.

18. PREPAID LEASE PAYMENTS

The Group

	As at 31 December			As at 30 September
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
The carrying amounts of the Group's prepaid lease payments in the PRC under medium-term lease are analysed as follows for reporting purposes:				
Current asset	112	126	126	126
Non-current asset	5,204	5,681	5,555	5,461
	5,316	5,807	5,681	5,587

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

As at 31 December 2006, the Group has not yet obtained the legal title of land use rights with an aggregate carrying amount of approximately RMB5,316,000. In April 2007, the legal title had been granted by the relevant government authority.

19. DEFERRED TAX ASSETS

The Group

The following are the major deferred tax assets recognised and movements thereon during the Tract Record Period:

	Accrued expenses and others
	RMB'000
At 1 January 2006, 31 December 2006 and 2007	—
Credited to combined statements of comprehensive income for the year	2,265
At 31 December 2008	2,265
Credited to combined statements of comprehensive income for the period	1,357
At 30 September 2009	3,622

20. INVENTORIES

The Group

	As at 31 December			**As at 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 goods	24,544	11,194	26,816	15,224
	28,222	16,540	29,395	21,912

As at 31 December 2008, included in the above were finished goods of approximately RMB1,504,000 carried at net realisable value.

21. TRADE AND OTHER RECEIVABLES

The Group

	As at 31 December			**As at 30 September**
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	34,716	47,378	121,216	183,314
Prepayments	8,929	4,488	2,071	2,372
Other receivables	7,743	6,288	6	6
	51,388	58,154	123,293	185,692

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

The aged analysis of the Group's trade receivables net of allowance for doubtful debts is as follows:

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

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

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

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

			Past due but not impaired			
	Total	**Neither past due nor impaired**	**< 60 days**	**61 to 180 days**	**181 to 365 days**	**Over 365 days**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2006	34,716	30,546	860	767	1,027	1,516
2007	47,378	45,217	94	294	536	1,237
2008	121,216	111,455	9,761	—	—	—
2009	183,314	163,682	19,632	—	—	—

The Group does not hold any collateral over these balances.

22. AMOUNT DUE FROM THE CONTROLLING SHAREHOLDER

The Group

	As at 31 December			As at 30 September
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amount due from Mr. LIN	45,555	46,471	10,801	—
Maximum amount outstanding during the year/period	59,294	76,932	85,114	103,957

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

23. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

The Group

Pledged bank deposits represent deposits pledged to bank to secure certain bank borrowings and short-term banking facilities granted to the Group and therefore classified as current assets. For the three years ended 31 December 2006, 2007 and 2008 and the nine months ended 30 September 2009, the deposits carry fixed bank interest rate range from 2.07% to 2.25%, range from 2.25% to 3.78%, range from 1.98% to 3.78% and at 1.98% respectively.

The bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The bank deposits for the three years ended 31 December 2006, 2007 and 2008 and the nine months ended 30 September 2009 carry interest at the prevailing market rate of 0.72%, range from 0.72% to 0.81%, range from 0.36% to 0.72% and 0.36% respectively.

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

24. TRADE AND OTHER PAYABLES

The Group

	As at 31 December			As at 30 September
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	40,205	21,495	43,764	75,124
Bills payables	33,600	48,400	39,970	7,400
Trade and bills payables	73,805	69,895	83,734	82,524
Other payables and accrual	8,657	2,410	11,542	15,658
Valued added tax payables	9,165	18,407	18,742	17,064
	91,627	90,712	114,018	115,246

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

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

25. FINANCIAL GUARANTEE LIABILITIES

The Group

	As at 31 December			As at 30 September
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 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 end of year/period	—	195	60	—

The Company had provided financial guarantees to an independent third party during the two years ended 31 December 2007 and 2008 and nine months ended 30 September 2009. The above balances represented the fair value of the financial guarantees. The financial guarantee were released during the nine months ended 30 September 2009.

26. BANK BORROWINGS

The Group

	As at 31 December			As at 30 September
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Secured	—	5,000	—	11,970
Unsecured	25,500	38,500	48,500	90,900
	25,500	43,500	48,500	102,870

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

	As at 31 December			As at 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 *(Note)*	—	5,000	14,500	68,300
	25,500	43,500	48,500	102,870

Note: The Group's variable-rate borrowings carry interests at 100% to 130% of The People's Bank of China Base Lending Rate during the Track Record Period.

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

	As at 31 December			As at 30 September
	2006	2007	2008	2009
Effective interest rate:				
Fixed-rate borrowings	6.696%– 7.020%	6.57%– 8.019%	6.138%– 8.964%	5.753%– 8.964%
Variable-rate borrowings	—	8.019%– 8.217%	5.310%– 6.372%	5.310%– 6.903%

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

As at 31 December 2006, 2007 and 2008 and 30 September 2009, the bank borrowings are secured or guaranteed by:

— certain assets of the Group as set out in Note 34;

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

— personal guarantee from Mr. LIN.

In addition, at 31 December 2007, bank borrowings of approximately RMB15,000,000 were also guaranteed by Ms. Lin Ezhi (林額治), who is the spouse of Mr. LIN ("Mrs. Lin").

Furthermore, as at 31 December 2008, bank borrowings of approximately RMB11,000,000 were also guaranteed by land and buildings and construction in progress owned by an independent third party (the "Guaranteed Land and Buildings") and as at 30 September 2009, bank borrowings of approximately RMB11,970,000 were jointly guaranteed by the directors of the Company, namely, Mr. LIN, Mr. Lin Wenzu (林文足) and Mr. Lin Mingxu (林明旭).

In the opinion of the directors of the Company, the guarantees provided by Mr. LIN, Mr. Lin Wenzu (林文足), Mr. Lin Mingxu (林明旭), Ms. Lin Ezhi (林額治) and the independent third party and the Guaranteed Land and Buildings are expected to be released upon the listing of the Company's shares in the Stock Exchange.

27. AMOUNTS DUE TO SUBSIDIARIES

The Company

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

28. AMOUNT DUE TO THE CONTROLLING SHAREHOLDER

The Group and the Company

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

It is the intention of the Company to settle the amount due to the controlling shareholder on or prior to the listing of the shares of the Company on the Stock Exchange.

29. SHARE CAPITAL

The Group

The share capital in the combined statements of financial position as at 31 December 2006, 2007 and 2008 and 30 September 2009 represented the combined capital of the companies now comprising the Group in which the owners of the parent held direct interests.

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

The Company

	Number of shares	Amount	Amount as presented
		US$	*RMB'000*
Authorised:			
50,000 ordinary shares of US$1 each on 21 April 2008 (date of incorporation), at 31 December 2008 and 30 September 2009	50,000	50,000	—
Issued and fully paid:			
1 ordinary share of US$1 each on 21 April 2008, at 31 December 2008 and 30 September 2009	1	1	—

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

30. CAPITAL COMMITMENTS

The Group

	As at 31 December			As at 30 September
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Capital expenditure contracted for but not provided in the Financial Information in respect of the acquisition of property, plant and equipment	2,677	20,667	36,605	10,961

31. OPERATING LEASE COMMITMENT

The Group

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

As at each of the reporting date, the Group had future minimum lease payments under non-cancellable operating lease which fall due as follows:

	As at 31 December			As at 30 September
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	—	—	110	110
In the second to fifth year, inclusive	—	—	131	46
	—	—	241	156

32. CONTINGENT LIABILITIES

The Group

	As at 31 December			As at 30 September
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Guarantees given to banks for:				
— bank loans granted to independent third parties	—	10,000	15,000	—
— banking facilities granted to independent third parties	—	40,000	—	—
	—	50,000	15,000	—

33. RETIREMENT BENEFIT SCHEME

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

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

34. PLEDGED OF ASSETS

The Group

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

	As at 31 December			As at 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
	11,620	35,620	36,623	18,860

35. RELATED PARTY TRANSACTIONS

In addition to those disclosed in notes 22, 26 and 28 respectively, the Group has entered into the following significant transactions with related parties during the three years ended 31 December 2008 and the nine months ended 30 September 2008 and 2009.

(a) As at 30 September 2009, a related party of the Company, Quanzhou Xinwei Shoes Company Limited* 泉州興威鞋業有限公司, in which Mr. LIN has beneficial interest, was in the process of filing and application to the relevant PRC Government for the acquisition of a piece of land in the PRC on behalf of the Company at nil consideration.

(b) A tax indemnity dated 15 March 2010 were entered into by among others, Super Creation International Limited, Mr. LIN, Mr. Lin Wenzu (林文足) and Mr. Lin Mingxu (林明旭), pursuant to which each of them provides indemnities in respect of, among other matters, taxation which might be payable by any member of the Group in respect of any income, profits or gains earned, accrued or received during the Track Record Period.

(c) **Compensation of key management personnel**

The remuneration of directors and other members of key management during the three years ended 31 December 2008 and the nine months ended 30 September 2008 and 2009 were as follows:

	Year ended 31 December			Nine months ended 30 September	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Short-term benefits	336	388	487	369	830
Post-employment benefits	19	19	16	16	17
	355	407	503	385	847

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

* *English name is for identification purpose only*

The directors of the Company have confirmed that the above transactions in (a) and (b) will not be continued after the Company's shares listed on the Stock Exchange.

B. SUBSEQUENT EVENTS

The following significant transaction took place subsequent to 30 September 2009:

(a) Reorganisation

The Company was incorporated on 21 April 2008 and the companies comprising the Group underwent a reorganisation to rationalise the Group's structure in preparation for the listing of the Company's shares on the Stock Exchange. Details of the Reorganisation are set out in the section headed "Reorganisation" in the Prospectus. As a result of the Reorganisation, the Company became the holding company of the Group on 22 December 2009.

(b) Valuation of properties and prepaid lease payments

For the purpose of the listing of the Company's shares on the Stock Exchange, the properties and prepaid lease payments of the Group were revalued as at 31 December 2009 by BMI Appraisals Limited, an independent property valuer.

The valuation gave rise to a revaluation surplus of approximately RMB3,292,000 from the carrying amount of the relevant assets at that date. According to the Group's accounting policy, the revaluation surplus will not be recorded in the Group's Financial Information. If the revaluation surplus were to be included in the Group's Financial Information, additional depreciation and amortisation charge would be approximately RMB102,000 per annum. Details of the valuation are set out in the independent property valuers' certificate in Appendix IV to the Prospectus.

(c) Changes in the share capital

Pursuant to the shareholders' written resolutions passed on 24 February 2010, (i) the Company's authorized share capital of US$50,000 was increased by HK$200,000,000 divided into 2,000,000,000 shares, of which 1,000,000 shares were issued and allotted to Super Creation International Limited for cash at par, (ii) the Company repurchased the one existing share of US$1.0 held by Super Creation International Limited for a cash consideration of US$1.0 and the said existing share was cancelled following the repurchase, and (iii) the amount of the authorized share capital of the Company was diminished to HK$200,000,000 by the cancelling all the unissued shares of US$1.0 each.

(d) Share option scheme

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

(e) Dividends

Pursuant to board resolutions passed on 11 March 2010, the Company declared dividends of approximately RMB100,000,000. Such dividends were fully paid on or before listing.

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or any of its subsidiaries have been prepared in respect of any period subsequent to 30 September 2009.

Yours faithfully,
SHINEWING (HK) CPA Limited
Certified Public Accountants
Ip Yu Chak
Practising Certificate Number: P04798
Hong Kong