FLYKE

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

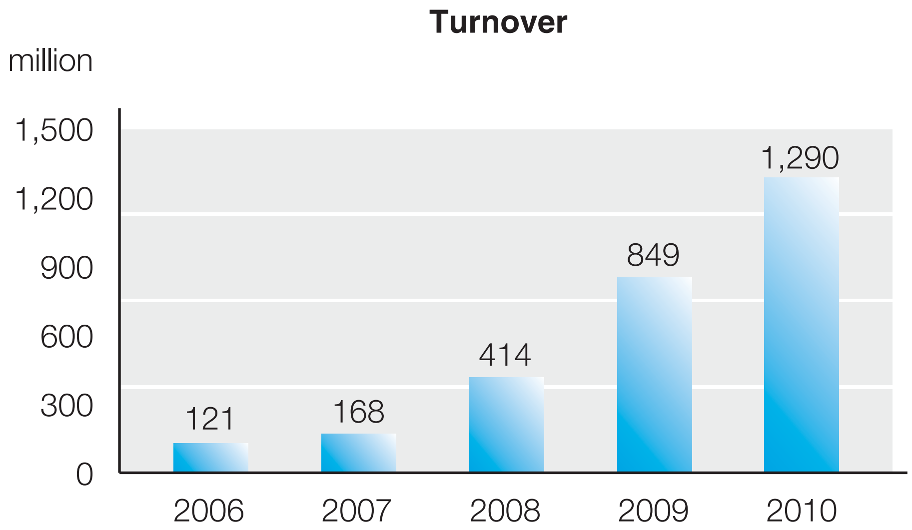
(incorporated in the Cayman Islands with limited liability)

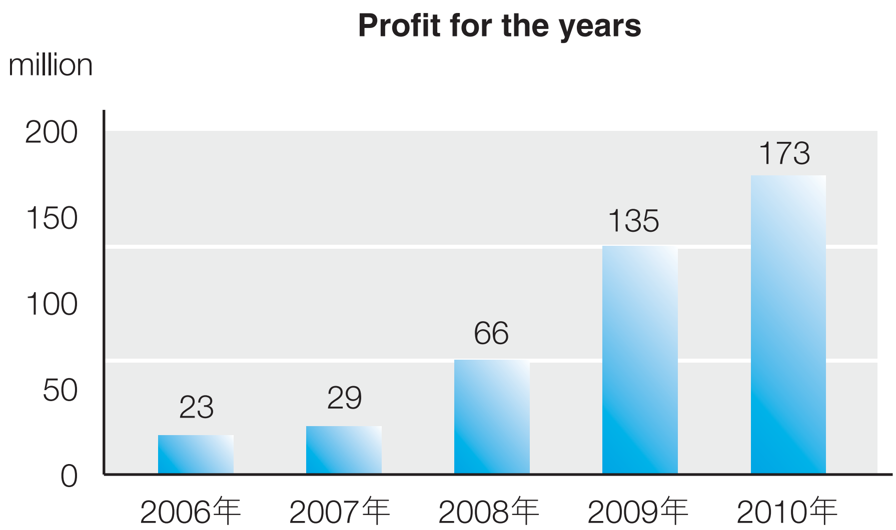
Stock Code: 1998

Annual Report 2010

Contents

Financial Highlights





	For the year ended 31 December		
	2010 RMB'000	2009 RMB'000	Change %
Turnover	**1,289,935**	849,292	51.9%
Gross profit	**368,914**	209,556	76.0%
Profit for the year	**172,649**	134,780	28.1%
Total assets less current liabilities	**601,431**	204,220	194.5%
Return on equity holders' equity	**29.1%**	66.2%	-56.0%
Basic earnings per share (RMB)	**0.260**	0.168	54.8%
Final dividend (HK$)	**0.0475**	Nil	N/A

Financial Summary

PROFITABILITY DATA

	2010 (RMB'000)	2009 (RMB'000)	2008 (RMB'000)	2007 (RMB'000)	2006 (RMB'000)
Turnover	**1,289,935**	849,292	413,594	167,875	121,190
Gross profit	**368,914**	209,556	124,795	49,858	36,316
Profit for the year	**172,649**	134,780	66,458	29,405	23,153
Basic and diluted earnings per share (RMB) (Note 1)	**0.26**	0.168	0.083	0.037	0.029

PROFITABILITY RATIOS

	2010 (%)	2009 (%)	2008 (%)	2007 (%)	2006 (%)
Gross profit margin	**28.6%**	24.7%	30.2%	29.7%	30.0%
Net profit margin	**13.4%**	15.9%	16.1%	17.5%	19.1%
Return on equity holders' equity	**29.1%**	66.2%	48.0%	40.4%	38.5%

FINANCIAL POSITION DATA

	2010 (RMB'000)	2009 (RMB'000)	2008 (RMB'000)	2007 (RMB'000)	2006 (RMB'000)
Non-current assets	**137,185**	120,358	99,751	52,700	40,048
Current assets	**732,281**	348,472	209,760	159,429	139,843
Current liabilities	**268,035**	264,610	171,197	139,310	119,718
Net current assets	**464,246**	83,862	38,563	20,119	20,125
Total assets less current liabilities	**601,431**	204,220	138,314	72,819	60,173
Net assets	**592,806**	203,452	138,314	72,819	60,173
Bank balances and cash	**359,436**	98,747	26,849	2,518	2,946
Current ratio (times)	**2.7**	1.3	1.2	1.1	1.2

Note 1: The weighted average number of shares in issue during the year ended 2010 and 2009 was 665,205,000 and 800,000,000 respectively, please refer to note 14 in the Notes to the Consolidated Financial Statements.

Company Information

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-executive Directors

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

COMPANY SECRETARY

Ms. CHOW Choi Han, *ACIS, ACS*

BOARD COMMITTEES

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

AUTHORISED REPRESENTATIVES

Mr. LIN Wenjian
Ms. CHOW Choi Han, *ACIS, ACS*

LEGAL ADVISERS

As to Hong Kong law:

Squire, Sanders & Dempsey

As to Cayman Islands law:

Conyers Dill & Pearman

COMPLIANCE ADVISER

China Everbright Capital Limited

AUDITOR

SHINEWING (HK) CPA Limited

INTERNAL CONTROL REVIEW ADVISER

SHINEWING Risk Services Limited

REGISTERED OFFICE IN THE CAYMAN ISLANDS

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

HEAD OFFICE IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suites 06-12, 33/F
Shui On Centre
Nos. 6-8 Harbour Road
Wanchai
Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANKERS

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

STOCK CODE

01998

COMPANY WEBSITE

www.chinaflyke.com

Chairman's Statement

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Flyke International Holdings Ltd. (the "**Company**"), I am pleased to present the annual results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2010 ("**Review Period**").

The Group is principally engaged in three principal business segments, including 1) the design, production and sales of sports shoes, sportswear and sports accessories with the *Flyke* brand, 2) Export ODM Business and 3) the design, production and sales of soles.

The *Flyke* brand targets at the fashion-minded and leisure style-minded youth market with age group ranging from 14 to 25 years old in the third-tier and fourth-tier cities (partly in second-tier cities) in China. Our strategy is to attract young consumers with our quality products, fashionable design and reasonable pricing. During the past year, competition in the sports industry in China was still keen. However the Group's aggregate turnover has achieved remarkable results by leveraging on the effective promotion, marketing and correct positioning, as well as the expansion of authorised retail stores. The number of authorised retail stores with the *Flyke* brand operated by 19 authorized distributors grew rapidly by 667 to 1,813 during the Review Period including 4 image stores with *Flyke* brand which were newly established, with two in Foshan, one in Chengdu and one in Jinjiang respectively. Apart from the 19 authorised distributors, the Group also worked in cooperation with a partner at campus – Saier. Saier assists the Group in the marketing and sales of *Flyke* products at the university and tertiary institutions in China. There were 93 campus retail stores with the *Flyke* brand at the selected universities and tertiary institutions in China as of 31 December 2010. Due to the above reasons, the aggregate turnover of the Group has increased by 51.9% or RMB440.6 million to approximately RMB1,289.9 million, of which the sales of the *Flyke* products accounted for approximately 70.2% of the aggregate turnover of the Group or approximately RMB905.0 million.

During the Review Period, the sales derived from the Export ODM Business increased by 7.1% to approximately RMB338.8 million and accounted for 26.3% of the aggregate turnover of the Group due to the recovery of the overseas markets and the active participations by the Group in national exhibitions in China and international trade fairs. Although there has been a steady growth in the Export ODM Business, it is believed that the percentage of turnover shared by the Export ODM Business to the aggregate turnover of the Group will further decrease upon the rapid development of the *Flyke* brand.

The successful listing of the shares of the Company on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 29 March 2010 has proved to be a milestone to the Group, which is significant in raising additional funds for the future development plans of the Company as well as enhancing the Group's corporate image, especially the *Flyke* brand. The Group will emphasis in continuing development and marketing of the *Flyke* brand in future so as to increase our market share and enhance brand image by establishing flag-ship stores and image stores in the first- and second-tier cities.

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

LIN Wenjian
Chairman

Jinjiang, 25 March 2011

Management Discussion and Analysis

BUSINESS REVIEW

Flyke brand

Business

The *Flyke* brand is principally engaged in the design, production and sales of sports shoes, sportswear and sports accessories with the *Flyke* brand in China. The sportswear and sports accessories with the *Flyke* brand are currently produced by the Group's independent contract manufacturers. The *Flyke* brand targets at the youth market with age group ranging from 14 to 25 years old in the third-tier and fourth-tier cities (partly in second-tier cities) in China and is focusing on fashionable and leisure sports shoes, sportswear and sports accessories. The implementation of exclusive distribution arrangement, since the beginning of 2009 has enhanced the rapid growth of the Group during the year ended 31 December 2010 (the "Review Period"). As at 31 December 2010, the products with the *Flyke* brand were sold by 19 authorised distributors at 1,813 authorised retail stores in third-tier and fourth-tier cities (partly in second-tier cities) and by campus partner – Saier at 93 campus retail stores at the selected universities and tertiary institutions in China. The sales of sports shoes, sportswear and sports accessories with the *Flyke* brand significantly increased by 81.1% to RMB905.0 million, representing 70.2% of the aggregate turnover of the Group.

Production

In order to meet the increase in demand for the *Flyke* sports shoes, the Group added two production lines with annual production capacity of two million pairs of sports shoes to a total of 12 production lines, with an annual production capacity of approximately 12 million pairs of sports shoes during the Review Period. The two additional production lines have commenced production during the Review Period. The Directors are planning to increase the annual production capacity to 13 million pairs of sports shoes by adding one more production line for sports shoes in the future. The Group is also planning to establish new production facilities with an annual production capacity of 5 million pieces/sets of sportswear. As of 31 December 2010, all sportswear with *Flyke* brand currently is produced by the Group's independent contract manufacturers.

Product design and development

The Directors believe that the product design and development capability of the Group is key to our growth in the competitive market. The Group has entered into contracts with selected international design firms during the Review Period to strengthen both of our product mix and product design, which is expected to facilitate the future growth of the Group. During the year ended 31 December 2010, the total expenses for the product design and development increased by 184.0% to RMB33.2 million from RMB11.7 million for the same period in 2009.

Marketing and promotion

The *Flyke* products are positioning with high-quality and fashionable design, diversified product range and appropriate pricing. To further strengthen the Group's brand image, the Group launched a series of promotion activities on various media e.g. CCTV 1, CCTV 2, CCTV 3 and CCTV 5 etc.

Distribution network

The Group has enjoyed a rapid expansion since the implementation of new exclusive distribution arrangements from the beginning of 2009 and the cooperation with the campus partner, Saier, which assists the Group in the marketing and sales of *Flyke* products at the universities and tertiary institutions in China. As of 31 December 2010, the total number of authorised retail stores operated by the 19 authorised distributors increased by 667 to 1,813 in 238 cities in China, of which 4 image stores were newly established, with two in Foshan, one in Chengdu and one in Jinjiang respectively. Apart from 19 authorised distributors, the authorised campus retail stores at selected universities and tertiary institutions in China operated by Saier, increased by 58 to 93. The expansion of the number of the retail stores and image stores as well as the authorised campus retail stores strengthened the recognition and awareness of the *Flyke* brand among the Group's target customers. The Group will continue to expand the distribution network by working closely with the authorised distributors and by providing additional value-added and supporting services to enhance their network management capability in the course of expansion. For administrative purposes, the Group divides the China market into four sales regions, namely Northern China, Eastern China, Central/Southwestern China and Southern China.

The map below illustrates the number and the geographical locations of the 1,813 authorised retail stores including 4 image stores, operated by the 19 authorised distributors as of 31 December 2010:–

Notes:

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

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

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

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

(5) 1, 2 and 1 image stores were established in Chengdu, Foshan and Jinjiang respectively.

Number of authorised retail stores

	As of 31 December 2010	As of 31 December 2009	Change	
				%
Northern China	**518**	321	197	61%
Eastern China	**408**	261	147	56%
Southern China	**357**	223	134	60%
Central/Southwestern China	**530**	341	189	55%
Total	**1,813**	1,146	667	58%

Export ODM Business

Prior to the launch of *Flyke* brand, the Group has established vertically integrated business model for the Export ODM Business with the design, production and sales of sports shoes. All Export ODM Business sports shoes were sold to overseas markets. The Export ODM Business provides a stable source of income and cash flow for the Group, and allows the Group to receive the latest information such as customer preferences from the overseas markets. These multi-faceted and most updated information from the overseas markets allow us to keep on improving the design of *Flyke* products. During the Review Period, sales from the Export ODM Business amounted to RMB338.8 million, representing an increase of approximately 7.1% from RMB316.2 million as compared with the same in 2009. This business accounted for approximately 26.3% of the Group's turnover. The Directors believe that the proportion of the Export ODM Business turnover to the Group's aggregate turnover is in a diminishing trend due to the rapid growth of *Flyke* brand but the sales from Export ODM Business will grow steadily due to recovery of overseas markets.

Soles

The business is primarily engaged in the design, production and sales of soles. The sales from the business reached approximately RMB46.2 million, representing an increase of approximately 38.1% from RMB33.4 million in the same period of 2009. This business accounted for approximately 3.5% of the Group's turnover. As of 31 December 2010, the Group had 21 production lines with an annual capacity of approximately 13 million pairs of soles.

FINANCIAL REVIEW

Turnover

During the year ended 31 December 2010, the aggregate turnover increased by RMB440.6 million or 51.9% to RMB1,289.9 million. The increase in turnover was primarily attributable to the increase in sales of *Flyke* products.

The following table sets forth a summary of the turnover of the Group by the Group's three principal activities during the year ended 31 December 2010 (with comparative figures for the year ended 31 December 2009):–

	For the year ended 31 December			
	2010		2009	
	RMB'000	%	RMB'000	%
Sales of sports shoes, sportswear and sports accessories with the *Flyke* brand	905,000	70.2%	499,684	58.8%
Sales under the Export ODM Business	338,775	26.3%	316,174	37.2%
Sales of soles	46,160	3.5%	33,434	4.0%
Total	1,289,935	100.0%	849,292	100.0%

Sales of the Flyke products

The *Flyke* brand products include sports shoes, sportswear and sports accessories. The sports shoes with the *Flyke* brand were produced by the Group while the sportswear and sports accessories with the *Flyke* brand were produced by the Group's independent contract manufacturers. With the implementation of the new distribution system from 1 January 2009, the Group sold all the *Flyke* products directly to the authorised distributors which operate the authorised retail stores. As of 31 December 2010, *Flyke* products were sold at 1,813 authorised retail stores including 4 image stores with 2 in Foshan, 1 in Chengdu and 1 in Jinjiang respectively, operated by 19 independent authorised distributors and at 93 authorised campus retail stores operated by the campus partner – Saier.

The following table illustrates an analysis of the sales of the *Flyke* products by product categories during the year ended 31 December 2010 (with comparative figures for the year ended 31 December 2009):–

	For the year ended 31 December			
	2010		2009	
	RMB'000	**%**	RMB'000	%
Sales of sports shoes	**436,452**	**48.2%**	261,408	52.3%
Sales of sportswear and sports accessories	**468,548**	**51.8%**	238,276	47.7%
Total	**905,000**	**100.0%**	499,684	100.0%

Notes:

The *Flyke* brand turnover included the sales from an self-operated store in Shuitou of approximately RMB4.2 million for the Review Period (2009: RMB2.2 million) and the sales from authorised campus retail stores operated by Saier of approximately RMB29.1 million for the Review Period (2009: RMB3.0 million). During the Review Period, 4 image stores were newly established and operated by our authorised distributors in November 2010, with 2 in Foshan, 1 in Chengdu and 1 in Jinjiang respectively which contributed aggregate turnover of RMB2.7 million.

The increase in turnover of *Flyke* products was primarily attributed to the increase in sales volume and the increase in ex-factory price as a series of marketing campaign launched during the Review Period which enhanced the recognition and awareness of *Flyke* brand among our target customers in third-tier and fourth-tier cities (partly in second-tier cities) in China.

The following table sets forth the number of pairs/pieces/sets sold and the average ex-factory prices of the Group's *Flyke* products during the year ended 31 December 2010 (with comparative figures for the year ended 31 December 2009):–

	For the year ended 31 December				
	2010		2009		
	Total pairs pieces sold '000	**Average ex-factory price RMB**	Total pairs pieces sold '000	Average ex-factory price RMB	Change of average ex-factory price %
Sports shoes (pairs)	**6,606**	**66.1**	4,172	62.7	5.4%
Sportswear and accessories (pieces/sets)	**7,723**	**60.7**	4,340	54.9	10.5%

Sales of sports shoes under the Export ODM Business

The Export ODM Business enjoyed a steady growth during the year ended 31 December 2010, albeit that the percentage contributing to the aggregate turnover of the Group during the year decreased. This was principally due to the significant increase in sales of the *Flyke* products. During the year ended 31 December 2010, the Export ODM Business recorded a steady growth of approximately 7.1% to RMB 338.8 million. The growth in the Export ODM Business was principally due to the increase in average ex-factory price as the improvement of design and quality and the recovery of overseas markets.

The following table illustrates an analysis of the sales of the Export ODM Business by production sources during the year ended 31 December 2010 (with comparative figures for the year ended 31 December 2009):–

	For the year ended 31 December			
	2010		2009	
	RMB'000	%	RMB'000	%
Sales of own produced sports shoes	203,287	60%	210,933	66.7%
Sales of outsourced shoes	135,488	40%	105,241	33.3%
Total	338,775	100%	316,174	100%

The following table sets forth the number of pairs sold and the average selling price of sports shoes for the Export ODM Business for the year ended 31 December 2010 (with comparable figures for the year ended 31 December 2009):–

	For the year ended 31 December				
	2010		2009		
	Total pieces sold '000	Average ex-factory price RMB	Total pair sold '000	Average ex-factory price RMB	Change of average ex-factory price %
Sports shoes	6,282	53.9	6,698	47.2	14.3%

Sales of soles

During the year ended 31 December 2010, the sales of soles increased by 38.1% to RMB46.2 million principally due to the increased number of and improvement in the design of the soles.

Cost of sales

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

For the year ended 31 December 2010, total cost of sales increased by 44.0% to RMB921.0 million from RMB639.7 million for the year ended 31 December 2009 of which the outsourcing fee to contract manufacturers increased by 61.2% to RMB446.7 million for the year ended 31 December 2010 from RMB277.1 million for the year ended 31 December 2009.

The increase in cost of sales commensurated with the increase in aggregate turnover of the Group while the increase in outsourcing fee was principally due to the increase in sales of sportswear and sports accessories with *Flyke* brand.

Gross profit and gross profit margin

The gross profit of the Group increased by approximately 76.0% to approximately RMB368.9 million (2009: RMB209.6 million) with the gross profit margin increased to approximately 28.6% (2009: 24.7%). The increase in gross profit was mainly attributable to the rapid growth of *Flyke* brand. The increase in profit margin was primarily due to the increase in ex-factory price in light of the improvement of product design and technology and brand name marketing and promotion launched during the Review Period.

The following table illustrates the gross profit and the gross profit margins of the Group by its principal activities, namely sports shoes, sportswear and sports accessories with the *Flyke* brand, the Export ODM Business and soles during the year ended 31 December 2010 (with comparative figures for the year ended 31 December 2009):–

	For the year ended 31 December			
	2010		2009	
	RMB'000	%	RMB'000	%
Sales of sports shoes, sportswear and sports accessories with the *Flyke* brand	277,378	30.6%	135,337	27.1%
Sales under Export ODM Business	81,085	23.9%	66,876	21.2%
Sales of soles	10,451	22.6%	7,343	22.0%
Total	368,914	28.6%	209,556	24.7%

Flyke products

The gross profit for the sales of the *Flyke* products during the Review Period increased by approximately 105.0% to RMB277.4 million with the gross profit margin increasing by 3.5% to 30.6% as compared with the same period in 2009. The increase in gross profit margin was a result of the increase in ex-factory price in light of the improvement of product design and technology and marketing campaign launched whilst the increase in gross profit was primarily attributable to the retail network expansion and brand promotion activities launched, which increased the awareness and the product demand of *Flyke* products.

The following table illustrates an analysis of the gross profit and profit margin of the *Flyke* products by product categories during the year ended 31 December 2010 (with comparative figures for the year ended 31 December 2009):–

	For the year ended 31 December			
	2010		2009	
	RMB'000	Gross profit margin %	RMB'000	Gross profit margin %
Sales of sports shoes	143,823	33.0%	84,552	32.3%
Sales of sportswear and sports accessories	133,555	28.5%	50,785	21.3%
Total	277,378	30.6%	135,337	27.1%

Export ODM Business

The gross profit for the Export ODM Business for the Review Period increased by approximately 21.2% to RMB81.1 million while the gross profit margin increased by 2.7% to 23.9% as compared with the same period in 2009. The increase in gross profit was a result of increase in ex-factory price as well as the improvement of product design and quality. During the Review Period, the gross profit margin of own produced sports shoes and outsourced sports shoes increased by 3.9% and 2.6% respectively due to product innovation and increase in pricing as the recovery of overseas markets.

The following table illustrates an analysis of the gross profit and gross profit margin of the Export ODM Business by production sources during the year ended 31 December 2010 (with comparative figures for the year ended 31 December 2009):–

	For the year ended 31 December			
	2010		2009	
	RMB'000	Gross profit margin %	RMB'000	Gross profit margin %
Sales of own produced sports shoes	57,309	28.2%	51,227	24.3%
Sales of outsourced sports shoes	23,776	17.5%	15,649	14.9%
Total	81,085	23.9%	66,876	21.2%

Sales of soles

The gross profit for the sales of soles increased by 42.3% to RMB10.5 million with the gross profit margin increased by 0.6% as compared with same period in 2009 due to improvement of design and technology and increase demand for sports shoes in the market.

Other income

The other income of the Group for the year ended 31 December 2010 increased to approximately RMB4.6 million (2009: RMB0.9 million) due to an one-off subsidy granted by local government of RMB3.3 million for successful listing.

Selling and distribution expenses

During the year ended 31 December 2010, the selling and distribution expenses amounted to approximately RMB56.6 million (2009: RMB30.6 million). The selling and distribution expenses represented approximately 4.4% to the aggregate sales of the Group (2009: 3.6%). The increase in percentage to the aggregate turnover of the Group was primarily due to a series of marketing company launched to promote the *Flyke* brand in CCTVs for the Review Peiord and increase in salary of staff due to the expansion of *Flyke* business.

Administrative expenses

During the year ended 31 December 2010, the administrative expenses amounted to approximately RMB55.0 million (2009: RMB14.1 million) representing an increase of approximately 291.3%. The increase was primarily due to the strengthening in the office supports and administrative functions for the business expansion and increase in salary. The increase also represented the payment of the professional fees incurred for the purpose of the listing plan.

Other operating expenses

Other operating expenses consisted of expenses incurred in product design and development. Because of the increased spending on product research and development activities as a result of cooperation with overseas design firms, the Group incurred approximately RMB33.2 million (2009: RMB11.7 million) representing 2.6% of aggregate turnover (2009: 1.4%).

Finance costs

The finance costs consisted of interest expense on bank borrowings. During the year ended 31 December 2010, the finance costs incurred by the Group amounted to approximately RMB7.3 million (2009: RMB4.7 million) due to the increase in total bank borrowings of the Group during the Review Period. The balance of bank borrowings were RMB104 million as of 31 December 2010 (2009: RMB116.4 million).

Income tax expense

The income tax represented amounts of corporate income tax and deferred tax in China. No provision for Hong Kong profits tax has been made as no member of the Group did generate any assessable profit in Hong Kong during the year ended 31 December 2010. The Group was not subject to any tax in the Cayman Islands and the British Virgin Islands during the year ended 31 December 2010.

The Group's income tax expense during the year ended 31 December 2010 amounted to approximately RMB48.7 million (2009: RMB14.6 million), representing an increase of approximately 232.5%, which was mainly due to the profit derived from *Flyke* (China) being the first year subject to Law of People's Republic of China on Enterprise Income Tax ("**EIT**"). The EIT of *Flyke* (China) was 12.5% from 1 January 2010 to 31 December 2010. The Group's effective income tax rate was approximately 22.0% for the year ended 31 December 2010 (2009: 9.8%).

Profit for the year

Profit for the year increased by approximately 28.1% from approximately RMB134.8 million for the year ended 31 December 2009 to RMB172.6 million for the year ended 31 December 2010. The increase in the profitability of the Group was principally driven by the increase in profits in *Flyke* brand.

BUSINESS OUTLOOK

Flyke brand

In light of the rapid growth in China's economy and continuous urbanization, the household income amongst the families in the third-tier and fourth-tier cities (partly in second-tier cities) in China and their consumption power is expected to increase continuously. In anticipation of the increasing demand for sports shoes, sportswear and accessories, the Group will collaborate with authorised distributors to open with a total 7 flagship stores and 23 image stores in the first- and second-tier cities and expand the authorised retail stores to capture this business opportunity. Apart from these, the Group will increase the media promotion such as event sponsor, television and printed media etc to promote the brand awareness and image so as to further penetrate into cities and counties of considerably high growth potential through rapid growth of authorised retail stores. Other than the above mentioned strategies, the Group will consider other alternatives to increase the market shares.

The success of the *Flyke* brand is primarily attributable to the Group's appropriate market position targeting the youth market segment of consumers ranging from 14 to 25 years old in third-tier and fourth-tier cities (partly in second-tier cities) in China. Another factor critical to the success of the Group is the reasonable pricing and innovative and fashional design of the *Flyke* products which is increasingly popular among the Group's targeted consumers including the university and tertiary institution students in China. In order to fully grasp this business opportunity, the Group has entered into an agreement with Saier to distribute sports shoes, sportswear and sports accessories with the *Flyke* brand at the university campus in China and has leverage on this powerful driving force to expand the Group's market share. As of 31 December 2010, our authorised campus retail stores had achieved 93 in the various tertiary institutions.

The Directors believe that the sustainable development of the *Flyke* brand has to be driven from the continuous pursuance for innovation and attractive product designs. Therefore, the Group will continue to cooperate with local and overseas professional design firms as well as research and development centres or reputable designers for the development of new products and the enhancement of the capabilities in design, research and development of products with the *Flyke* brand.

In order to support the expansion plan, the Group will increase the annual production capacity to 13 million pairs of sports shoes by adding one production line with an annual production capacity of 1 million pairs of sports shoes and will establish our own production facilities for sportswear with an annual production capacity of 5 million pieces/sets which can satisfy the sudden/supplementary orders for *Flyke* sportswear and increase our profit margin of sportswear with *Flyke* brand.

Export ODM Business

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

USE OF PROCEEDS

The Company was successfully listed on the Stock Exchange on 29 March 2010. The net proceeds from the global offering were approximately HK$363.3 million (after deducting related expenses). The following table sets forth the use of the net proceeds during the year ended 31 December 2010:–

	(HK$ million)		
Use of net proceeds from the global offering	**Available to utilise**	**Utilised as of 31 December 2010**	**Unutilised as of 31 December 2010**
Improvement in information technology systems	22.5	–	22.5
Expansion of product research and development teams	63.9	33.8	30.1
Establishment of 7 flagship stores and 23 image stores	63.9	12.7	51.2
Increase three sports shoes production lines	23.0	19.0	4.0
Establish new production facilities for sportswear with the *Flyke* brand	80.0	–	80.0
Advertising and marketing activities	110.0	45.0	65.0
Total	363.3	110.5	252.8

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As of 31 December 2010, the bank balances and cash of the Group were approximately RMB359.4 million (2009: RMB98.7 million). The Group's working capital requirement was essentially financed by its internal resources. The Directors believe that the fund generated from operations, the available banking facilities and the net proceeds received from the Listing will enable the Group to meet its future working capital requirements.

For the year ended 31 December 2010, the net increase in cash and cash equivalents was RMB263.4 million (2009: RMB71.9 million).

As of 31 December 2010, the balance of bank borrowings were of total RMB104 million (2009: RMB116.4 million), all denominated in Renminbi, including RMB84 million (2009: RMB83.3 million) subject to floating rates and RMB20 million (2009: RMB33.1 million) subject to fixed rate.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The Group mainly operates in the PRC and most of the transactions settled in Renminbi. However, part of the Group's bank deposits is denominated in Hong Kong dollars. During the year ended 31 December 2010, the Group did not hedge any exposure in foreign currency risk. Any substantial exchange rate fluctuation of foreign currencies against Renminbi may cause financial impacts on the Group.

PLEDGE OF ASSETS OF THE GROUP AND GUARANTEE

The Group had not pledged any of its property, plant and equipment, prepaid lease payments and bank deposits to secure bank borrowings and banking facilities granted to the Group as of 31 December 2010 (2009: 50.8 million).

CONTINGENT LIABILITIES

As of 31 December 2010, we had no material contingent liabilities.

Report of the Directors

The Board is pleased to present the Report of the Directors and the audited financial statements for the year ended 31 December 2010.

CORPORATE REORGANIZATION

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

PRINCIPAL OPERATIONS

The Group's principal business activities during the financial year ended 31 December 2010 were production and sales of the *Flyke* branded products and exporting shoes to overseas buyers produced by the Group.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2010 are set out in the consolidated statement of comprehensive income on page 31.

Pursuant to the resolutions of the Board passed on 11 March 2010, the Company declared a special dividend of 2009 approximately RMB100,000,000. Such dividends were fully paid on 29 March 2010 (the "**Listing Date**").

A final dividend of HK$0.0475 per share (equivalent to approximately RMB0.04 per share at exchange rate 1:0.8414) has been recommended by the Board and is subject to approval by the shareholders in the forthcoming annual general meeting. It is expected that the final dividend will be paid on or before 30 June 2011.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 23 May 2011 to Friday, 27 May 2011, both days inclusive, during which period no transfer of shares shall be effected. In order to qualify for entitlement to the proposed final dividend for the year ended 31 December 2010 and to attend and vote at the forthcoming annual general meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Union Registrars Limited at 18/F, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Friday, 20 May 2011.

FINANCIAL SUMMARY

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

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment during the year ended 31 December 2010 are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

Details of share capital of the Company during the financial year ended 31 December 2010 are set out in note 25 to the consolidated financial statements.

RESERVES

Details of the movements in reserves of the Group are set out in page 71 of this report.

PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2010, the aggregate sales to the Group's five largest customers accounted for approximately 26.7% of the Group's turnover and sales to the Group's largest customer was approximately 6.7% of the Group's total turnover.

During the year, the aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 92.5% of the Group's total purchases, and the purchases attributable to the Group's largest supplier was approximately 23.6% of the Group's total purchases.

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

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

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

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended 31 December 2010 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS

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

Executive Directors

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

Independent non-executive Directors

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

Pursuant to article 84 of the Company's articles of association, Mr. LI Yong, Mr. HUANG Shanhe and Mr. ZHU Guohe will retire by rotation and being eligible, would offer themselves for re-election at the forthcoming annual general meeting.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of the Directors and senior management are set out on pages 26 to 28 of this report.

DIRECTORS' SERVICE CONTRACTS

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

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

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

REMUNERATION OF THE DIRECTORS

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

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

EMOLUMENTS POLICY

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

RETIREMENT BENEFIT SCHEMES

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

SHARE OPTIONS

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

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

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

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

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

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

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

On 31 December 2010, an aggregate of 16,160,000 share options (the "**Options**") to subscribe for ordinary shares of HK$0.10 each have been granted to the employees under the Share Option Scheme, of which 2,800,000 Options or 17.33% of the total granted share options were granted to the executive Director, Mr. LI Yong.

CONTRACTS OF SIGNIFICANCE

No contracts of significance in relation to the business of the Group, to which the Company, its holding companies, its subsidiaries or fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2010.

No contracts of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder of the Company or any of its subsidiaries subsisted at the end of year or at any time during the year ended 31 December 2010.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

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

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

As at the date of this report, the following Directors or the chief executives of the Company had or were deemed to have interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "**SFO**")) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "**Model Code**") contained in the Listing Rules:

(i) Long positions in shares of the Company

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

Notes:

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

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

(ii) Long positions in associated corporations of the Company

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

(iii) Long positions in underlying shares of the Company

Name of the Director	Number of ordinary shares attached to the share options At the beginning of the year	Granted during the year	Exercised During the year	At the end of the year	Exercise price	Exercise period
Mr. LI Yong	–	2,800,000 *(note)*	–	2,800,000	HK$1.726	1.7.2012 to 1.1.2016

Note:

On 31 December 2010, an aggregate of 16,160,000 Options to subscribe for ordinary shares of HK$0.10 each have been granted to employees under the Share Option Scheme, of which 2,800,000 Options or 17.33% of the total granted share options was granted to an executive Director, Mr. LI Yong.

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

So far as is known to the Directors and chief executives of the Company, as the date of this report, the following persons (not being a Director or chief executive of the Company) had, or were deemed to have, interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, which were recorded in the register required to be kept by the Company under section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange:

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

Note:

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

CORPORATE GOVERNANCE

Principal corporate governance practices as adopted by the Company are set out in the Corporate Governance Report section set out on pages 22 to 25 of this report.

PUBLIC FLOAT

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

AUDITOR

The financial statements have been audited by SHINEWING (HK) CPA Limited who will retire and, being eligible, offer itself for re-appointment at the forthcoming annual general meeting of the Company.

On behalf of the Board
Flyke International Holdings Ltd.
LIN Wenjian
Chairman

Jinjiang, 25 March 2011

Corporate Governance Report

The Directors believe that strong corporate governance is important to ensure the Company's business activities are monitored and regulated in order to protect the interests of the Company and the shareholders of the Company. A high standard of corporate governance measures also contributes to the Group's success and therefore, the Directors have adopted the Code on Corporate Governance Practices (the "**Code**") as set out in Listing Rules upon its Listing on 29 March 2010. Since the Listing, the Company has complied with applicable code provisions under the Code except the Code provision A.2.1 which required the chairman and chief executive officer to be undertaken by two individuals.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. LIN Wenjian, executive Director, is the Chairman of the Group, responsible for the leadership and effective running of the Board, ensuring that all material issues are decided by the Board in a conducive manner as well as the chief executive officer of the Group. Mr. LIN Wenjian is also responsible for running the Group's business and effective implementation of the strategies of the Group.

Currently, the roles of the chairman and chief executive officer of the Company are performed by the same individual, Mr. LIN Wenjian. The Company is aware of the requirement under paragraph A.2 of the Code that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. Nevertheless, the Board considers that the combination of the roles of chairman and chief executive officer will not impair the balance of power and authority between the Board and the management of the Company is of the view that this structure provides the Group with strong and consistent leadership, which can facilitate the formulation and implementation of its strategies and decisions and enable it to grasp business opportunities and react to changes efficiently and therefore it is in the interests of the Company as a whole and beneficial to the business prospects of the Group for Mr. LIN Wenjian to undertake the roles of the chairman and the chief executive officer.

THE BOARD OF DIRECTORS

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

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

Executive Directors

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

Independent non-executive Directors

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

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

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

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

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as the standard for securities transactions by the Directors. The Company has made specific enquiries of all the Directors and all the Directors have confirmed that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2010.

BOARD COMMITTEES

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

Audit Committee

The Company established an audit committee (the "**Audit Committee**") to review and monitor the financial reporting process and internal control of the Group, to review the financial information of the Group and to consider issues relating to the external auditor. The Audit Committee consists of all three independent non- executive Directors and Mr. CHU Kin Wang, Peleus is the chairman of the Audit Committee. The Audit Committee has reviewed the Company's financial statements and the Group's combined financial statements for the year ended 31 December 2010, including the accounting principles and practices adopted by the Group. Since the Listing and up to the date of this report, the Audit Committee held one meeting which was attended by all the independent non-executive Directors.

Remuneration Committee

The Company established a remuneration committee (the "**Remuneration Committee**") pursuant to a resolution of the Directors passed on 24 February 2010 in compliance with Appendix 14 of the Listing Rules. The primary duties of the Remuneration Committee are to make recommendations to the Board on the Company's policy for remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration and for fixing the remuneration packages for all Directors. The Remuneration Committee consists of three members, namely Mr. LI Yong, an executive Director and two independent non-executive Directors, Mr. HUANG Shanhe and Mr. Zhu Guohe. Mr. HUANG is the chairman of the Remuneration Committee.

Nomination Committee

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

BOARD MEETINGS

The Board recognizes the importance of the independent reporting of the corporate governance function. The compliance officer attends all the Board and committee meetings to advise on corporate governance matters covering accounting and financial reporting and other relevant compliance issues relating to Listing Rules.

During the year ended 31 December 2010, the Directors have made contribution to the affairs of the Group and three Board meetings were held to review and approve the interim results and annual results of the Group. According to the articles of association of the Company, a Director shall not be entitled to attend any Board meeting for approving any transaction in which he or his associates is materially interested. Any Board meeting which a Director is not entitled to attend shall not be taken into account in determining that Director's attendance record.

The the Company was listed on 29 March 2010, regular Board meetings were held since 29 March 2010 to 31 December 2010. Details of Directors' attendance record throughout the period is as follows:

Directors	Board meeting	Audit Committee	Remuneration committee	Nomination committee
Executive Directors				
Mr. LIN Wenjian	3/3	2/2	2/2	N/A
Mr. LIN Mingxu	3/3	2/2	2/2	N/A
Mr. LIN Wenzu	3/3	2/2	2/2	N/A
Mr. LI Yong	3/3	2/2	2/2	N/A
Independent non-executive Directors				
Mr. CHU Kin Wang, Peleus	3/3	2/2	2/2	N/A
Mr. ZHU Guohe	3/3	2/2	2/2	N/A
Mr. HUANG Shanhe	3/3	2/2	2/2	N/A

DEED OF NON-COMPETITION

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

INTERNAL CONTROL

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

During the year ended 31 December 2010, the Board has conducted reviews of the internal control system of the Group and considered that the internal control system of the Group is adequate and has implemented effectively as a whole. External consultants were hired to assist the Board to perform high-level review of internal control systems for selected business operations and processes.

AUDITOR'S REMUNERATION

During the year ended 31 December 2010, the fee paid/payable to the auditor of the Company in respect of audit services amounted to approximately HK$1.1 million.

DIRECTORS' RESPONSIBILITY ON THE FINANCIAL STATEMENTS

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

INVESTORS AND SHAREHOLDERS RELATIONS

The Board recognizes the importance of maintaining clear, timely and effective communication with investors and shareholders of the Company. The Board also recognizes that effective communication with investors is the key to establish investor confidence and to attract new investors. Therefore, the Group is committed to maintaining a high degree of transparency to ensure that the investors and the shareholders of the Company receive accurate, clear, comprehensive and timely information of the Group by the publication of annual reports, interim reports, announcements and circulars. The Company also publishes all documents on the Company's website at http://www.chinaflyke.com. The Board continues to maintain regular dialogues with institutional investors and analysts to keep them informed of the Group's strategy, operations, management and plans. The Directors and the Board committee members are available to answer questions at annual general meetings of the Company. Separate resolutions would be proposed at general meetings of the Company on each substantially separate issue.

Shareholders' Right

The Company shall adhere to the amendments to the Listing Rules effective from 1 January 2009 such that all votes of the shareholders at general meetings of the Company will be taken by poll. The results of voting by poll will be declared at the meeting and published on the websites of the Stock Exchange and the Company respectively.

Shareholders may put forward their proposals or inquiries to the Board by sending their written request to the Company's correspondence address in Hong Kong.

Biographical Details of Directors and Senior Management

BOARD OF DIRECTORS

Executive Directors

Mr. LIN Wenjian, aged 41, is the Chairman, Chief Executive Officer and an executive Director of the Company. Mr. LIN Wenjian was appointed on 21 April 2008 as a Director. Mr. LIN Wenjian became a director and general manager of 鑫威(福建)輕工有限公司 (Xinwei (Fujian) Light Industry Co., Ltd.*) ("**Xinwei (China)**") in 1998 responsible for its daily operation. In 2000, Mr. LIN Wenjian acquired Xinwei (China) from an independent third party and since then he is responsible for the overall business operations of Xinwei (China). Hence, with more than 20 years' experience, Mr. LIN Wenjian has in-depth knowledge on the shoe/sportswear industry in China. In particular, Mr. LIN Wenjian is experienced in the shoe production process, research and development of shoe products and the management of shoe manufacturing facilities. Prior to joining Xinwei (China) in 1998, Mr. LIN Wenjian was a senior management of 泉州恒達製鞋有限公司 (Quanzhou Hengda Shoes Manufacturing Company Limited*) during 1988 to 1998 from which he gained working experience in the production process, design, trading and development and sales of shoes. Mr. LIN Wenjian was awarded the "*Outstanding Entrepreneurship in Brand-building in China*" (中國品牌建設優秀企業家) in July 2007 by 中國國際名牌發展協會 (The China International Nameplate Development Association*) and has been a standing council member of 福建省鞋業行業協會 (Fujian Shoe Industry Association*) since 2004. Mr. LIN Wenjian is now the Vice Chairman of 陳埭商業協會 (Chendai Business Association*) and Vice Chairman of 晉江市慈善協會 (Jinjiang City Charity Association*). Mr. LIN Wenjian graduated from a three-year course on enterprise management held by the Adult Education College of Huaqiao University in 2002. Mr. LIN Wenjian is the elder brother of Mr. LIN Mingxu and Mr. LIN Wenzu.

Mr. LIN Mingxu, aged 39, is an executive Director, the deputy general manager and the head of the procurement department responsible for the management and the procurement of raw materials for the production requirements. Mr. LIN Mingxu received his secondary school education in Jinjiang City, China during the period between 1986 and 1989. Mr. LIN Mingxu joined the Company in 1998 as a director and deputy general manager of Xinwei (China) and was appointed as the Director on 21 April 2008. With over 18 years' experience in the shoe manufacturing industry, Mr. LIN Mingxu has extensive knowledge on each stage of the shoe production process including, procurement of raw materials, development, design and production. Prior to joining the Company, Mr. LIN Mingxu worked as the head of the design and development department and the purchase manager of 泉州恒達製鞋有限公司 (Quanzhou Hengda Shoes Manufacturing Company Limited*) for over 10 years responsible for product design and development, sourcing and selecting raw materials for production of shoes. Mr. LIN Mingxu is a younger brother of Mr. LIN Wenjian and the elder brother of Mr. LIN Wenzu.

Mr. LIN Wenzu, aged 36, is an executive Director, the deputy general manager and the head of the Export ODM Business. Mr. LIN Wenzu received his secondary school education in Jinjiang City, China during the period between 1987 and 1990. Mr. LIN Wenzu became a deputy general manger of Xinwei (China) in 1998 and was appointed as the Director on 21 April 2008. Mr. LIN Wenzu is responsible for overseeing all matters in relation to the Export ODM Business. Mr. LIN Wenzu has over 16 years of experience in design, development and sales of shoes, and has over 10 years of experience in the export business. During 1990 to 1992, Mr. LIN Wenzu worked as an export trading officer of 鑫達盛鞋服貿易公司 (Xin Da Fu Shoes and Apparel Trading Company*) responsible for the export business of sports shoes and apparel items to countries in South America. From 1992 to 1998, Mr. LIN Wenzu worked as an export manager of 泉州恒達製鞋有限公司 (Quanzhou Hengda Shoes Manufacturing Company Limited*) responsible for export of sports shoes to countries in America and Europe. Mr. LIN Wenzu is the Vice Chairman of 晉江市青年商業協會 (Jinjiang City Youth Business Association*). Mr. LIN Wenzu is the younger brother of Mr. LIN Wenjian and Mr. LIN Mingxu.

Mr. LI Yong, aged 37, is an executive Director. Mr. LI has been with the Company since 2000 and was appointed as the Director on 28 October 2009. Mr. LI is responsible for positioning and formulating plan for *Flyke* brand and overseeing the sales and marketing department. Mr. LI has over 17 years of experience in marketing and sales. Prior to joining the Company, Mr. LI had worked in other shoe companies including 溫州時代集團有限公司 (Wenzhou Times Group Company Limited*) and 浙江紅蜻蜓鞋業股份有限公司 (Zhejiang Red Dragonfly Shoes Stock Company Limited*) responsible for marketing and sales. Mr. LI graduated from a two-year course on history from Hangzhou University in 1992.

Independent non-executive Directors

Mr. CHU Kin Wang, Peleus, aged 46, is an independent non-executive Director, appointed on 24 February 2010. Mr. CHU is also the chairman of the audit committee of the Company. Mr. CHU has over 20 years of experience in corporate finance, audit, accounting and taxation. Mr. CHU is an executive director of Chinese People Holdings Company Limited (中民控股有限公司) (stock code: 681). Mr. CHU is also an independent non-executive director of Huayu Expressway Group Ltd. (華昱高速集團有限公司) (stock code: 1823), and Eyang Holdings (Group) Co., Limited (宇陽控股(集團)有限公司) (stock code: 117).

During the period from September 2005 to March 2007, Mr. CHU was the executive director of Mastermind Capital Limited (慧德投資有限公司) (stock code: 905), during the relevant period known as Haywood Investments Limited (希域投資有限公司*). During the period from January 2008 to August 2010, Mr. Chu was an independent non-executive director of Sustainable Forest Holdings Limited (永保林業控股有限公司) (stock code: 723), during the relevant period known as Bright Prosperous Holdings Limited (晉盈控股有限公司). During the period from January 2007 to September 2010, Mr. Chu was the company secretary of Hong Long Holdings Limited (鴻隆控股有限公司) (stock code: 1383). All of the aforementioned companies are companies listed on the Main Board of the Stock Exchange.

Mr. CHU graduated from The University of Hong Kong with a master degree in business administration in 1998. Mr. CHU is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Mr. CHU is also an associate member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.

Mr. HUANG Shanhe, aged 61, is an independent non-executive Director, appointed on 24 February 2010. Mr. HUANG is also the chairman of the remuneration committee and nomination committee of our Board and a member of the audit committee of the Board. Mr. HUANG obtained a bachelor degree in economics from Xiamen University in 1982 and a master degree in world economics from Xiamen University in 1984. In 2000, Mr. HUANG completed a diploma course in computer information systems from Langara College of Canada. Mr. HUANG was a visiting scholar (訪問學者) at the Institute of East Asian Studies of University of California at Berkeley of the United States from 1991 to 1993. Mr. HUANG has been the editor of a magazine "*Economic Issues in China*" (中國經濟問題), the Chief Technology Officer of Domino Computer, a U.S. company, and a consultant of Ding Sheng (Xiamen) Computer Systems Co. Ltd. (鼎盛(廈門)電腦系統有限公司). From 2004, Mr. HUANG has been an information technology consultant of Xiamen Huaxia College (廈門華夏學院). Mr. HUANG became a professor of electronic commerce at Jiageng College (嘉庚學院) of Xiamen University in 2006 and became the department head of electronic commerce in 2009.

Mr. ZHU Guohe, aged 41, is an independent non-executive Director, appointed on 24 February 2010. Mr. ZHU is also a member of the audit committee, remuneration committee and nomination committee of the Board. Mr. ZHU graduated from the Huaqiao University (國立華僑大學) in 1994 with a bachelor degree in electrical technology. Mr. ZHU has over 14 years of experience in advertising, and is experienced in managing brands of certain industries including sports equipment. Mr. ZHU is now the owner and general manager of several advertising companies in Fujian Province. Mr. ZHU was accredited as "China's Sports Brands Strategy Experts" (中國體育策劃專家) in 2005 and "China's Outstanding Sports Brand Strategic Expert" (中國傑出運動品牌策劃專家) in 2008. Mr. ZHU is now the special lecturer of the Humanities College of Quanzhou Normal University (泉州師範學院). Since August 2009, Mr. ZHU has been an independent non-executive director of Xi De Lang Holdings Ltd., a company listed on Bursa Malaysia.

SENIOR MANAGEMENT

Chief financial officer

Mr. CHIM Kam Pang, aged 33, is the chief financial officer. Mr. CHIM has over six years of experience in auditing that include auditing and internal control reviews for various companies listed on the Stock Exchange. Mr. CHIM graduated from Lingnan University and obtained a bachelor degree in business administration in 2003. Prior to joining the Company, Mr. CHIM worked for various accounting firms in Hong Kong. Mr. CHIM is a member of both the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

Mr. CHEN Wenshan, aged 49, is the finance manager and joined the Group in 2008. Mr. CHEN is responsible for overseeing the financial management. Mr. CHEN graduated from a three-year course on finance accounting held by the Wuhan University in 1996. Mr. CHEN has over 20 years of experience in finance and accounting. Prior to joining us, Mr. CHEN has worked in various companies in Fujian Province, China as finance manager and financial controller.

Mr. FANG Qing, aged 30, is the head of sales and marketing for the *Flyke* products and joined the Group in 2005. Mr. FANG is responsible for conducting research and analyzing market data on industry trends, as well as implementing the Group's marketing campaigns and promotions. Mr. FANG graduated from a four-year course on computer science and technology from South West Jiaotong University, China in 2002. Prior to joining the Company, Mr. FANG worked in an information technology company as manager and the department head of network security, responsible for the development, sales and management of a network and information security project. Mr. FANG has also been a lecturer of 福建省信息產業廳 (Fujian Province Information Technology Bureau*).

Mr. HU Deming, aged 34, is the head of the production department and joined the Group in 2009. Mr. HU is responsible for overseeing and managing the production processes including quality control, product inspection and formulating and scheduling the production plans to meet customers' demands. Mr. HU is also involved in various cost control analyses for the production processes and training of the Company's employees in various areas of the production process. Mr. HU has over 10 years of experience in shoe production and was a member of the senior management team of a shoe manufacturing company prior to joining the Group. Mr. HU graduated from ShangRao Normal University in 1999 majoring in administrative management.

Mr. LIN Dehuo, aged 42, is the head of the product design and development department. Mr. LIN Dehuo joined the Company in 1998. Mr. LIN Dehuo is responsible for overseeing the design and development of new products and has extensive experience in the production process, material utilization and research and development. Mr. LIN Dehuo received his secondary school education in Jinjiang City during the period between 1983 and 1986. Prior to joining the Group, Mr. LIN Dehuo worked in various shoe companies as senior management and has over 20 years of industry experience.

Mr. LIN Zhiming, aged 46, is the assistant to the Chairman. Mr. LIN Zhiming joined the Group in 2000. Mr. LIN Zhiming is responsible for assisting the Chairman in his daily work and liaising with government agencies. Mr. LIN Zhiming received his secondary school education in Jinjiang City during the period between 1977 and 1980. Mr. LIN Zhiming has over 20 years of experience in the shoe industry. From 1980 to 2000, Mr. LIN Zhiming operated his own shoe company.

Mr. XIE Wubin, aged 36, is the head of the administration department and assistant to the Chairman. Mr. XIE joined the Company in 2007, and is responsible for assisting the Chairman in his daily work, formulating work plans for the Group, and general administrative and human resources matters of the Group. Mr. XIE obtained a bachelor degree in physics from Xiamen University in 1999 and a master degree in industrial economics from Xiamen University in 2007. During 1999 to 2001, Mr. XIE worked in the research and development department of a company in Xiamen focusing on the development of digital microscopes. During 2001 to 2007, Mr. XIE worked for a company in Ningbo, Zhejiang Province, initially as project manager leading the research and development of digital microscopes, and later as assistant to the general manager.

* *For identification purpose only*

Independent Auditor's Report

信永中和
ShineWing

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

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

We have audited the consolidated financial statements of Flyke International Holdings Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 31 to 72, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2010 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

Hong Kong
25 March 2011

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Turnover	7	**1,289,935**	849,292
Cost of sales		**(921,021)**	(639,736)
Gross profit		**368,914**	209,556
Other income	9	**4,572**	876
Selling and distribution expenses		**(56,607)**	(30,578)
Administrative expenses		**(55,035)**	(14,065)
Other operating expenses		**(33,219)**	(11,697)
Finance costs	10	**(7,326)**	(4,679)
Profit before tax	11	**221,299**	149,413
Income tax expense	12	**(48,650)**	(14,633)
Profit for the year		**172,649**	134,780
Exchange differences arising on translation of foreign operations and other comprehensive (expense) income for the year		**(2,859)**	25
Total comprehensive income for the year		**169,790**	134,805
Earnings per share (RMB)			
Basic and diluted	14	**0.260**	0.168

Consolidated Statement of Financial Position

As at 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Non-current assets			
Property, plant and equipment	16	**113,177**	96,579
Prepaid lease payments	17	**24,008**	23,779
		137,185	120,358
Current assets			
Inventories	18	**40,258**	25,824
Trade and other receivables	19	**332,074**	221,181
Prepaid lease payments	17	**513**	500
Pledged bank deposits	20	**–**	2,220
Bank balances and cash	20	**359,436**	98,747
		732,281	348,472
Current liabilities			
Trade and other payables	21	**149,511**	135,783
Amount due to the controlling shareholder	22	**6**	3,768
Amount due to a director	22	**72**	–
Income tax payable		**14,446**	8,689
Bank borrowings	24	**104,000**	116,370
		268,035	264,610
Net current assets		**464,246**	83,862
		601,431	204,220
Capital and reserves			
Share capital	25	**70,483**	–
Reserves		**522,323**	203,452
Total equity		**592,806**	203,452
Non-current liability			
Deferred tax liabilities	26	**8,625**	768
		601,431	204,220

The consolidated financial statements on pages 31 to 72 were approved and authorised for issue by the board of directors on 25 March 2011 and are signed on its behalf by:

LIN Wenjian
Director

LIN Wenzu
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Share capital RMB'000 (Note 25)	Share premium RMB'000 (Note c)	Special reserve RMB'000 (Note a)	Statutory reserve RMB'000 (Note b)	Translation reserve RMB'000	Retained earnings RMB'000	Proposed final dividend RMB'000	Total equity RMB'000
At 1 January 2009	28,256	–	–	12,786	–	97,272	–	138,314
Reserve arising from reorganisation	(28,256)	–	28,256	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	25	134,780	–	134,805
Transfer from retained earnings	–	–	–	14,324	–	(14,324)	–	–
Dividend paid during the year (Note 15)	–	–	–	–	–	(69,667)	–	(69,667)
At 31 December 2009	–	–	28,256	27,110	25	148,061	–	203,452
Total comprehensive (expense) income for the year	–	–	–	–	(2,859)	172,649	–	169,790
Issue of shares during the year	88	–	–	–	–	–	–	88
Shares issued under placing and public offering, net of issuing expenses	17,619	301,857	–	–	–	–	–	319,476
Capitalisation of share premium	52,776	(52,776)	–	–	–	–	–	–
Transfer from retained earnings	–	–	–	20,952	–	(20,952)	–	–
Dividend paid during the year (Note 15)	–	–	–	–	–	(100,000)	–	(100,000)
Proposed final dividend (Note 15)	–	–	–	–	–	(32,000)	32,000	–
At 31 December 2010	70,483	249,081	28,256	48,062	(2,834)	167,758	32,000	592,806

Notes:

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

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

c. Under the Companies Law, Cap. 22 (Law 6 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account of the Company is distributable to its shareholders, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**221,299**	149,413
Adjustments for :		
Amortisation of prepaid lease payments	**418**	126
Amortisation of financial guarantee liabilities	**–**	(60)
Bank interest income	**(922)**	(306)
Depreciation of property, plant and equipment	**8,409**	6,845
Finance costs	**7,326**	4,679
Operating cash flows before movements in working capital	**236,530**	160,697
(Increase) decrease in inventories	**(14,434)**	3,571
Increase in trade and other receivables	**(110,823)**	(97,888)
Increase in trade and other payables	**13,725**	21,765
Cash generated from operations	**124,998**	88,145
Income tax refunded	**–**	35
Income tax paid	**(35,036)**	(11,565)
NET CASH FROM OPERATING ACTIVITIES	**89,962**	76,615
INVESTING ACTIVITIES		
Purchase of property, plant and equipment and prepaid lease payments	**(25,667)**	(30,217)
Interest received	**922**	306
Decrease in pledged bank deposits	**2,220**	17,076
Repayment from the controlling shareholder	**–**	10,801
NET CASH USED IN INVESTING ACTIVITIES	**(22,525)**	(2,034)

	2010 RMB'000	2009 RMB'000
FINANCING ACTIVITIES		
New bank borrowings raised	**337,050**	129,870
Shares issued under placing and public offering, net of issuing expenses	**319,476**	–
Issue of shares	**88**	–
Advance from a director	**72**	–
(Repayment to) advance from the controlling shareholder	**(3,956)**	3,768
Interest paid	**(7,326)**	(4,679)
Dividend paid	**(100,000)**	(69,667)
Repayment of bank borrowings	**(349,420)**	(62,000)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**195,984**	(2,708)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**263,421**	71,873
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**98,747**	26,849
Effect of foreign exchange rate changes	**(2,732)**	25
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**359,436**	98,747

1. GENERAL

Flyke International Holdings Ltd. (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability on 21 April 2008. The shares of the Company have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 29 March 2010. Its parent company is Super Creation International Limited ("Super Creation"), a company incorporated in the British Virgin Islands (the "BVI"). Its ultimate controlling party is Mr. LIN Wenjian ("Mr. LIN"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

Pursuant to a reorganisation (the "Reorganisation"), the Company acquired the equity interests of entities under common control and became the holding company of the subsidiaries now comprising the Group in preparation for the listing of the Company's shares on the Main Board of the Stock Exchange. Details of the Reorganisation were set out in the prospectus of the Company dated 16 March 2010.

The Group resulting from the Reorganisation is regarded as a continuing entity. Accordingly, these consolidated financial statements have been prepared using the principles of merger accounting as prescribed in Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), assuming that the current structure of the Group had been in existence throughout the two years ended 31 December 2010 and 2009.

The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in design, production and sales of sports shoes, sportswear and sports accessories. The Company acts as an investment holding company. Details of the principal activities of its subsidiaries are set out in Note 35.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

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

In the current year, the Group has applied the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA.

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Revised)	First-time Adoption of HKFRSs
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK – Interpretation ("INT") 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause
HK(IFRIC) – INT 17	Distributions of Non-cash Assets to Owners

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

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

As there was no transaction during the current year in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the consolidated financial statements of the Group for the current or prior accounting periods.

Result of the Group in future periods, may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

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

HKFRSs (Amendments)	Improvements to HKFRSs 2010 except for the amendments to HKFRS 3 (Revised in 2008), HKFRS 7, HKAS 1 and HKAS 28[1]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[3]
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[5]
HKFRS 7(Amendments)	Disclosures–Transfers of Financial Assets[5]
HKFRS 9	Financial Instruments[7]
HKAS 12 (Amendments)	Deferred Taxes: Recovery of Underlying Assets[6]
HKAS 24 (Revised)	Related Party Disclosures[4]
HKAS 32 (Amendment)	Classification of Rights Issues[2]
HK(IFRIC)–INT 14 (Amendment)	Prepayments of a Minimum Funding Requirement[4]
HK(IFRIC)–INT 19	Extinguishing Financial Liabilities with Equity Instruments[3]

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.
2 Effective for annual periods beginning on or after 1 February 2010.
3 Effective for annual periods beginning on or after 1 July 2010.
4 Effective for annual periods beginning on or after 1 January 2011.
5 Effective for annual periods beginning on or after 1 July 2011.
6 Effective for annual periods beginning on or after 1 January 2012.
7 Effective for annual periods beginning on or after 1 January 2013.

HKFRS 9 Financial Instruments issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

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

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors of the Company anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard may have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

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 result and financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

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

Revenue from sale of goods is recognised when the goods are delivered and title has passed.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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, if any.

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. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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.

Leasehold land for own use

When a lease includes both land and building elements, the Group assess the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

Leasing

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

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of the translation reserve.

Borrowing costs

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

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

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

Retirement benefit costs

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

Share-based payment transactions

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimates, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained earnings.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

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

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

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Research and development expenditure

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

Inventories

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

Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated 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.

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 paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, 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 loss at the end of the 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
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment loss on financial assets (Continued)

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 debtors, 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 debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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

Financial liabilities and equity instruments

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 an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

The Group's financial liabilities are generally classified as other financial liabilities.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including trade and other payables, amounts due to the controlling shareholder and a director and bank borrowings 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.

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 in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derecognition (Continued)

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Group retains control), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

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.

Impairment loss on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) 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 (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately in profit or loss.

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgements in applying the entity's accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Legal title of buildings and land use rights

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

Classification of land use rights

As a result of an amendment to HKAS 17 "Leases", arising from the "Improvements to HKFRSs (2009)" omnibus standard, the Group has re-evaluated the classification of its interests in leasehold land as to whether, in the Group's judgement, the lease transfers substantially all the risks and rewards of ownership of the land such that the Group is in a position economically similar to that of a purchaser. The Group has concluded that the classification of such leases as operating leases continues to be appropriate.

Key sources of estimation uncertainty

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

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 values and the useful lives 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 loss on property, plant and equipment

The management of the Group determines whether the property, plant and equipment is impaired, if there is any indication that the carrying value of these assets may not be recoverable and the assets are subject to an impairment loss. The impairment loss on property, plant and equipment are recognised for the amounts by which the carrying amounts exceed their recoverable amounts, in accordance with the Group's accounting policy. The recoverable amounts of property, plant and equipment have been determined based on value-in-use calculations. These calculations require the use of estimates such as the future revenue and discount rates. No impairment was provided during the year (2009: Nil).

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

Key sources of estimation uncertainty (Continued)

Write down of inventories

The management of the Group reviews an aging analysis at the end of the 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 inventories 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 the reporting period and makes allowance for obsolete items. As at 31 December 2010, the carrying amounts of inventories was approximately RMB40,258,000 (2009: RMB25,824,000). No impairment loss was recognised during the year (2009: Nil).

Estimated impairment loss on trade receivables

The Group performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience. Credit losses have historically been within the Group's expectations and the Group will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses. No impairment loss was recognised during the year (2009: Nil).

Share-based payment expenses

The fair value of the share options granted to the directors and employees determined at the date of grant of the respective share options is expensed over the vesting period, with a corresponding adjustment to the Group's share options reserve. In assessing the fair value of the share options, the generally accepted option pricing models were used to calculate the fair value of the share options. The option pricing models require the input of subjective assumptions, including the volatility of its own ordinary shares and the expected life of options. Any changes in these assumptions can significantly affect the estimate of the fair value of the share options.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debts, which includes the bank borrowings disclosed in Note 24, cash and cash equivalents and equity attributable to the owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure regularly. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new shares issues as well as the issue of new debts or redemption of existing debts.

6. FINANCIAL INSTRUMENTS

6(a) Categories of financial instruments

	2010 RMB'000	2009 RMB'000
Loans and receivables (including cash and cash equivalents)	663,897	297,932
Financial liabilities at amortised cost	227,585	230,498

6(b) Financial risk management objectives and policies

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

There was no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

(i) Market risk

Currency risk

The Group has bank balances, other receivables and other payables are denominated in currencies other than the functional currency of the Group, which is Hong Kong Dollars ("HK$").

The Group manages its foreign currency risk by closely monitoring the movements of foreign currency exchange rates. The Group currently does not have any foreign currency forward contracts to hedge against foreign currency risk. Management will consider hedging foreign currency exposure should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		Liabilities	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
HK$	45,111	1,425	1,293	35

Sensitivity analysis

The following table details the Group's sensitivity to a 5% (2009: 5%) increase and decrease in RMB against HK$. 5% (2009: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for 5% (2009: 5%) change in foreign currency rates. A positive number below indicates an increase in post-tax profit for the year when RMB strengthens 5% (2009: 5%) against HK$. For a 5% (2009: 5%) weakening of RMB against HK$, there would be an equal but opposite impact on the profit for the year.

6. FINANCIAL INSTRUMENTS (Continued)

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

(i) Market risk (Continued)

Sensitivity analysis (Continued)

	2010 RMB'000	2009 RMB'000
Profit for the year	**2,191**	69

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 24 for details of these borrowings). The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary action when significant interest rate exposure is anticipated.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see Note 24 for details of these borrowings) and bank balances carried at prevailing market rate. 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's exposure on the variable-rate bank balances is minimal 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 reporting period. For variable-rate bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis points (2009: 50 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2009: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2010 would decrease/increase by approximately RMB420,000 (2009: RMB417,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

6. FINANCIAL INSTRUMENTS (Continued)

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

(ii) Credit risk

As at 31 December 2010, 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 is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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 the 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 banks with high credit ratings.

The Group has concentration of credit risk as 28% (31 December 2009: 48%) and 51% (31 December 2009: 61%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively. In the opinion of directors of the Company, the risk is gradually reduced as the Group's customer base has been diversified and became less concentrated during the year.

The Group has concentration of credit risk by geographical location, as all the trade receivables are located in the People's Republic of China (the "PRC") as at 31 December 2010 and 2009.

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

(iii) Liquidity risk

In the 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.

The Group relies principally on its internally generated capital and bank borrowings as a significant source of liquidity. As at 31 December 2009, the Group has available unutilised short-term bank loan facilities of approximately RMB4,630,000. The Group had fully utilised its short term loan facilities as at 31 December 2010. Details of which are set out in Note 24.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

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

6. FINANCIAL INSTRUMENTS (Continued)

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

(iii) Liquidity risk (Continued)

Liquidity tables

	Carrying amounts RMB'000	Total undiscounted cash flows and due within one year RMB'000
As at 31 December 2010		
Non-derivative financial liabilities		
Trade and other payables	123,626	123,626
Amount due to the controlling shareholder	6	6
Amount due to a director	72	72
Bank borrowings	104,000	106,340
	227,704	230,044
As at 31 December 2009		
Non-derivative financial liabilities		
Trade and other payables	110,360	110,360
Amount due to the controlling shareholder	3,768	3,768
Bank borrowings	116,370	119,246
	230,498	233,374

6(c) Fair value

The fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

7. TURNOVER

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

	2010 RMB'000	2009 RMB'000
Sports shoes	**775,227**	577,582
Sportswear and sports accessories	**468,548**	238,276
Soles	**46,160**	33,434
	1,289,935	849,292

8. SEGMENT INFORMATION

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

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

The Group is principally engaged in the manufacture and sales of sports shoes, sportswear and sports accessories. All of the Group's products are of a similar nature and subject to similar risk and returns. Accordingly, the Group's operating activities are attributable to a single reportable segment and no segment information is presented.

No geographical information is presented as the Group's business is principally carried out in the PRC and the Group's revenue from external customers and non-current assets are in the PRC. No geographical information for other country is of a significant size to be reported separately.

For the year ended 31 December 2010, the Group has only one (2009: one) customer with whom transactions have exceeded 10% of the Group's aggregate turnover. The amounts of sales from this customer amounted to approximately RMB325,806,000 (2009: RMB305,205,000) for the year.

9. OTHER INCOME

	2010 **RMB'000**	2009 RMB'000
Bank interest income	**922**	306
Government grants (Note)	**3,300**	50
Amortisation of financial guarantee liabilities (Note 23)	**–**	60
Gain on sales of materials	**–**	307
Others	**350**	153
	4,572	876

Note:

For the year ended 31 December 2010, the government grants represented one-off payment received from the local government authority for the successful listing of the Company's shares on the Main Board of the Stock Exchange.

For the year ended 31 December 2009, government grants were received from several local government authorities for the Group's contribution to local economies, of which there were no unfulfilled conditions or contingencies relating to those subsidies.

10. FINANCE COSTS

	2010 **RMB'000**	2009 RMB'000
Interest on bank borrowings wholly repayable within five years	**7,326**	4,679

11. PROFIT BEFORE TAX

	2010 **RMB'000**	2009 RMB'000
Profit before tax has been arrived at after charging:		
Directors' emoluments (Note 13)	**1,618**	640
Salaries and other allowances	**102,083**	78,611
Retirement benefits scheme contributions (excluding Directors)	**6,463**	1,026
Total staff costs	**110,164**	80,277
Amortisation of prepaid lease payments	**418**	126
Auditors' remuneration	**953**	441
Cost of inventories recognised as an expense	**921,021**	639,736
Depreciation of property, plant and equipment	**8,409**	6,845
Operating lease rental paid in respect of rented premises	**165**	157
Research and development costs (included in other operating expenses)*	**33,219**	11,690
Exchange difference	**233**	–

* Research and development costs included staff costs of approximately RMB8,297,000 (2009: RMB3,905,000) and depreciation of property, plant and equipment of approximately RMB394,000 (2009: RMB403,000) in research and development activities.

12. INCOME TAX EXPENSE

	2010 **RMB'000**	2009 RMB'000
The charge comprises:		
PRC Enterprise Income Tax ("EIT")		
– Current year	**37,582**	11,600
– Underprovision in prior years	**3,211**	–
	40,793	11,600
Deferred tax (Note 26)	**7,857**	3,033
	48,650	14,633

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profits subject to Hong Kong Profits Tax during the two years ended 31 December 2010 and 2009.

12. INCOME TAX EXPENSE (Continued)

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

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2009 onwards except for Feike Sports Products Co., Ltd. Fujian* (福建省飛克體育用品有限公司) ("Flyke (China)") that is entitled to different concessionary tax rates as disclosed below.

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

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

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

	2010 RMB'000	2009 RMB'000
Profit before tax	**221,299**	149,413
Tax at domestic income tax rates (Note)	**55,782**	37,444
Tax effect of income not taxable for tax purpose	**(67)**	–
Tax effect of expenses not deductible for tax purpose	**7,136**	893
Effect of Tax Exemption granted to a PRC subsidiary	**(25,212)**	(27,099)
Underprovision in prior years	**3,211**	–
Withholding tax on undistributed profits of subsidiaries	**7,800**	3,395
Income tax expense for the year	**48,650**	14,633

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

* English name is for identification purpose only.

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors

Details of emoluments paid and payable to each of the seven (2009: seven) directors of the Company for the two years ended 31 December 2010 and 2009 are as follows:

	Fees RMB'000	Salaries and other allowances RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
For the year ended 31 December 2010				
Executive directors:				
Mr. LIN	–	548	5	553
Mr. Lin Wenzu	–	275	5	280
Mr. Lin Mingxu	–	275	5	280
Mr. Li Yong	–	275	2	277
Independent non-executive directors:				
Mr. Chu Kin Wang, Peleus	78	–	–	78
Mr. Huang Shanhe	75	–	–	75
Mr. Zhu Guohe	75	–	–	75
Total	228	1,373	17	1,618
For the year ended 31 December 2009				
Executive directors:				
Mr. LIN	–	292	1	293
Mr. Lin Wenzu	–	170	5	175
Mr. Lin Mingxu	–	167	5	172
Mr. Li Yong	–	–	–	–
Independent non-executive directors:				
Mr. Chu Kin Wang, Peleus	–	–	–	–
Mr. Huang Shanhe	–	–	–	–
Mr. Zhu Guohe	–	–	–	–
Total	–	629	11	640

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(b) Employees

Of the five individuals with the highest emoluments in the Group, four (2009: three) were directors of the Company whose emoluments are included in the disclosures Note 13(a) above. The emoluments of the remaining one (2009: two) highest paid individuals were as follows:

	2010 RMB'000	2009 RMB'000
Salaries and other allowances and benefits-in-kind	338	268
Retirement benefits scheme contributions	10	4
	348	272

Note:

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

During the two years ended 31 December 2010 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 or agreed to waive any emoluments paid by the Group during the two years ended 31 December 2010 and 2009.

14. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2010 RMB'000	2009 RMB'000
Earnings		
Profit for the year attributable to owners of the Company for the purposes of basic and diluted earnings per share	172,649	134,780

	2010 '000	2009 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	665,205	800,000

14. EARNINGS PER SHARE (Continued)

	2010	2009
Basic earnings per share (in RMB)	**0.260**	0.168
Diluted earnings per share (in RMB)	**0.260**	0.168

The weighted average number of shares in issue during the year ended 31 December 2009 is based on the assumption that 800,000,000 shares of the Company were in issue and issuable pursuant to the capitalisation and global offering as if the shares had been in issue throughout the entire year.

Diluted earnings per share for the year ended 31 December 2010 is the same as the basic earnings per share. The computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price for shares for the year ended 31 December 2010.

Diluted earnings per share for the year ended 31 December 2009 is the same as the basic earnings per share as there were no dilutive potential ordinary shares outstanding during the year.

15. DIVIDENDS

	2010 RMB'000	2009 RMB'000
Proposed final dividend – RMB0.04 (2009: Nil) per share	**32,000**	–
Special dividend paid during the year	**100,000**	–
Final dividend paid during the year	**–**	69,667
	132,000	69,667

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

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

The Board recommended the payment of a final dividend of HK$0.0475 (equivalent to approximately RMB0.04) per share amounting to HK$38,000,000 (equivalent to approximately RMB32,000,000) in respect of the year, subject to the approval of the shareholders at the forthcoming annual general meeting.

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

* English name is for identification purpose only.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 1 January 2009	27,559	59,913	1,367	–	23,030	111,869
Additions	1,320	84	–	1,620	27,193	30,217
Transfer	3,080	–	–	–	(21,804)	(18,724)
At 31 December 2009	31,959	59,997	1,367	1,620	28,419	123,362
Additions	–	2,929	–	2,205	19,873	25,007
Transfer	41,292	4,000	–	–	(45,292)	–
At 31 December 2010	73,251	66,926	1,367	3,825	3,000	148,369
DEPRECIATION						
At 1 January 2009	6,334	13,184	420	–	–	19,938
Provided for the year	1,332	5,306	201	6	–	6,845
At 31 December 2009	7,666	18,490	621	6	–	26,783
Provided for the year	2,446	5,445	157	361	–	8,409
At 31 December 2010	10,112	23,935	778	367	–	35,192
CARRYING VALUES						
At 31 December 2010	63,139	42,991	589	3,458	3,000	113,177
At 31 December 2009	24,293	41,507	746	1,614	28,419	96,579

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

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

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

As at 31 December 2010, the Group has not yet obtained the legal title of the buildings with an aggregate carrying values of approximately RMB45,027,000 (2009: RMB9,133,000).

17. PREPAID LEASE PAYMENTS

	2010 RMB'000	2009 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	513	500
Non-current asset	24,008	23,779
	24,521	24,279

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

As at 31 December 2010, the Group has not yet obtained the legal title of land use rights with an aggregate carrying amount of approximately RMB17,230,000 (2009: RMB18,724,000).

18. INVENTORIES

	2010 RMB'000	2009 RMB'000
Raw materials	1,982	3,027
Work-in-progress	5,712	6,173
Finished goods	32,564	16,624
	40,258	25,824

19. TRADE AND OTHER RECEIVABLES

	2010 RMB'000	2009 RMB'000
Trade receivables	304,442	196,959
Prepayments	27,614	24,216
Other receivables	18	6
	332,074	221,181

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

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

	2010 RMB'000	2009 RMB'000
Within 60 days	263,624	196,545
61 to 180 days	40,818	414
Total	304,442	196,959

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

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

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

	Total RMB'000	Neither past due nor impaired RMB'000	Past due but not impaired < 60 days RMB'000
31 December 2010	304,442	263,624	40,818
31 December 2009	196,959	196,545	414

The Group does not hold any collateral over these balances.

As at 31 December 2009, approximately RMB1,356,000 (2010: Nil) of other receivables of the Group were denominated in HK$ while the remaining were denominated in RMB.

20. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Pledged bank deposits represent deposits pledged to a bank to secure certain bank borrowings and short-term banking facilities granted to the Group and are therefore classified as current assets. The deposits carry fixed bank interest rate of 1.98% per annum for the two years ended 31 December 2010 and 2009. The pledged bank deposits had been released upon full repayment of the relevant bank borrowings during the year ended 31 December 2010.

The bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The bank deposits carry interest at the average prevailing market rate of 0.36% (2009: 0.36%) per annum.

As at 31 December 2010, approximately RMB45,111,000 (2009: RMB69,000) of pledged bank deposits, bank balances and cash of the Group were denominated in HK$ while the remaining were denominated in RMB. RMB is not freely convertible into other currencies, however, under PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks authorised to conduct foreign exchange business.

21. TRADE AND OTHER PAYABLES

	2010 RMB'000	2009 RMB'000
Trade payables	**112,028**	88,853
Bills payables	**–**	7,400
Trade and bills payables	**112,028**	96,253
Other payables and accruals	**11,598**	22,078
Valued added tax payables	**25,885**	17,452
	149,511	135,783

The aged analysis of the Group's trade and bills payables based on invoice date at the end of the reporting period is as follows:

	2010 RMB'000	2009 RMB'000
Within 90 days	**111,683**	95,906
91 to 180 days	**345**	347
Trade and bills payables	**112,028**	96,253

The average credit period on purchases of goods is 30 to 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

As at 31 December 2010, approximately RMB1,293,000 (2009: RMB35,000) of other payables of the Group were denominated in HK$ while the remaining were denominated in RMB.

22. AMOUNTS DUE TO THE CONTROLLING SHAREHOLDER/A DIRECTOR

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

23. FINANCIAL GUARANTEE LIABILITIES

	2010 RMB'000	2009 RMB'000
At beginning of the year	–	60
Amortisation of financial guarantee liabilities	–	(60)
At end of the year	–	–

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

24. BANK BORROWINGS

	2010 RMB'000	2009 RMB'000
Secured	–	33,970
Guaranteed	84,000	82,400
Unsecured	20,000	–
	104,000	116,370

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

	2010 RMB'000	2009 RMB'000
Fixed-rate borrowings	20,000	33,070
Variable-rate borrowings (Note)	84,000	83,300
	104,000	116,370

Note:

The Group's variable-rate borrowings carry interests at 100% to 130% of The People's Bank of China Base Lending Rate during two years ended 31 December 2010 and 2009.

24. BANK BORROWINGS (Continued)

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

	2010 RMB'000	2009 RMB'000
Effective interest rate:		
Fixed-rate borrowings	**1.941% – 6.903%**	3.219% – 6.372%
Variable-rate borrowings	**4.860% – 7.550%**	5.310% – 6.903%

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

During the year, the Group obtained new bank borrowings in the amount of approximately RMB337,050,000 (2009: RMB129,870,000). The borrowings bear interest at market rates and will be repayable within one year from the end of the reporting period. The proceeds were used to provide general working capital for the Group.

As at 31 December 2010 and 2009, the bank borrowings are secured or guaranteed by:

– certain assets of the Group as set out in Note 31;

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

– personal guarantee from Mr. LIN.

During the year ended 31 December 2010, 福建鑫豪體育發展有限公司 which was wholly-owned by Ms. Lin Ezhi, who is the spouse of Mr. LIN, granted a guarantee to the Company in respect of a bank borrowing of RMB7,500,000 granted to the Group. The guarantee was released on 11 August 2010 upon the full repayment.

As at 31 December 2009, bank borrowings of approximately RMB11,970,000 were jointly guaranteed by the directors of the Company, namely, Mr. LIN, Mr. Lin Wenzu and Mr. Lin Mingxu. The guarantee was released in the current year upon the full repayment of the respective bank borrowings.

25. SHARE CAPITAL

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

	Number of shares	Amount US$	Amount HK$	Amount as presented RMB'000
Authorised:				
At 1 January 2009 and 31 December 2009	50,000	50,000	N/A	
Increase in authorised share capital (Note b (i))	2,000,000,000	N/A	200,000,000	
Cancellation of authorised share capital (Note b (iii))	(50,000)	(50,000)	N/A	
At 31 December 2010	2,000,000,000	–	200,000,000	
Issued and fully paid:				
At 1 January 2009 and 31 December 2009	1	1	N/A	–
Issue of shares during the year (Note b (i))	1,000,000	N/A	100,000	88
Repurchased during the period (Note b (ii))	(1)	(1)	N/A	–
Shares issued under placing and public offering (Note d)	200,000,000	N/A	20,000,000	17,619
Capitalisation of share premium (Note c)	599,000,000	N/A	59,900,000	52,776
At 31 December 2010	800,000,000	–	80,000,000	70,483

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

Notes:

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

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

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

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

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

25. SHARE CAPITAL (Continued)

Notes: (Continued)

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

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

The new shares rank pari passu with the existing shares in all respects.

26. DEFERRED TAXATION

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

	Accrued expenses and others RMB'000	**Undistributed profits of subsidiaries** RMB'000	**Total** RMB'000
At 1 January 2009	2,265	–	2,265
Credited (charged) to consolidated statement of comprehensive income for the year	362	(3,395)	(3,033)
At 31 December 2009	2,627	(3,395)	(768)
Charged to consolidated statement of comprehensive income for the year	(57)	(7,800)	(7,857)
At 31 December 2010	2,570	(11,195)	(8,625)

According to a joint circular of Ministry of Finance and State Administration of Taxation, Cai Shui 2008 No.1, dividend distributed out of the profits generated since 1 January 2008 held by the PRC entity shall be subject to PRC EIT.

27. SHARE-BASED PAYMENT TRANSACTIONS

The Company's share option scheme (the Scheme), was adopted pursuant to a resolution passed on 24 February 2010 for the primary purpose of recognising and acknowledge the contributions that the eligible participants (the "Eligible Participants") have made or may make to the business development of the Group.

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

27. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

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

At 31 December 2010, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 16,160,000 (at the date of grant: 16,160,000), representing 2% (at the date of grant: 2%) of the shares of the Company in issue at that date. The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company must not, in aggregate, exceed 30% of the total number of Shares in issue from time to time. Options may not be granted under any schemes of the Company (including the Scheme) if this will result in the said 30% limit being exceeded.

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

An option may be exercised in accordance with the terms of the Scheme at any time during the period to be notified by the Board to the grantee that such period shall not be more than 10 years from the business day on which the option is deemed to have been granted in accordance with the terms of the Scheme.

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

A consideration of HK$1 will be payable upon acceptance of each grant.

On 31 December 2010, the Company granted 16,160,000 shares options to the director of the Company and staff of the Group. The share options were granted at an exercise price of HK$1.726 with exercise period as: (i) Not more than 30% of the share options can be exercised after 1 July 2012; (ii) Not more than 60% of the share options can be exercised after 1 January 2014 and (iii) Not more than 100% of the share options can be exercised after 1 January 2016.

On 31 December 2010, 16,160,000 share options were granted by the Company to the directors of the Company and to certain employees of the Group, in respect of their services to the Group in the forthcoming years. These share options granted on 31 December 2010 and each has an exercise price of HK$1.726 and an exercise period ranging from 31 December 2010 to 31 December 2015. The price of the Company's share at the date of grant was HK$1.726 per share.

27. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Details of the options are as follows:

	Date of grant	Vesting period	Exercise period	Exercise price
Option 2010	31 December 2010	Not more than 30% of the share options will be vested on 30 June 2012	Not more than 30% of the share options can be exercised after 1 July 2012	HK$1.726
		Not more than 60% of the share options will be vested on 31 December 2013	Not more than 60% of the share options can be exercised after 1 January 2014	HK$1.726
		Not more than 100% of the share options will be vested on 31 December 2015	Not more than 100% of the share options can be exercised after 1 January 2016	HK$1.726

The following table discloses movements of the Company's share options granted during the year ended 31 December 2010:

				Number of share options				
Name of participant	Date of grant	Exercisable period	Exercisable price HK$	Outstanding at 1/1/2010	Granted during the year	Exercised during the year	Cancelled during the year	Outstanding at 31/12/2010
Directors								
Li Yong	31.12.2010	31.12.2010 to 31.12.2015	1.726	–	2,800,000	–	–	2,800,000
Employees	31.12.2010	31.12.2010 to 31.12.2015	1.726	–	13,360,000	–	–	13,360,000
				–	16,160,000	–	–	16,160,000
Weighted average exercise price				N/A	1.726	N/A	N/A	1.726

No share options are exercisable at the end of the reporting period (2009: Nil).

The fair value of the options granted on 31 December 2010 determined at the date of grant using the Binomial option pricing model was HK$0.8667.

27. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The inputs into the model were as follows:

	31 December 2010
Grant date share price	**HK$1.69**
Exercise price	**HK$1.726**
Expected volatility	**45.31%**
Expected life	**10 years**
Risk-free rate	**2.86%**
Expected dividend yield	**–**

Expected volatility was determined by using the historical volatility of the Company's share price over the previous years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

28. CAPITAL COMMITMENTS

	2010 RMB'000	2009 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of construction in progress	**6,600**	12,873

29. OPERATING LEASE COMMITMENT

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

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

	2010 RMB'000	2009 RMB'000
Within one year	**32**	122
In the second to fifth year, inclusive	**–**	18
	32	140

30. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Scheme Ordinance. The assets of the scheme are held separately from those of the Group in funds under the control of an independent trustee. The Group's and the employees' contributions to the MPF Scheme are based on 5% of the relevant income of the relevant employees in accordance with the requirements of the Mandatory Provident Fund Scheme Ordinance and related regulations.

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

The total expenses charged to the consolidated statement of comprehensive income of approximately RMB6,480,000 (2009: RMB1,037,000) represents contributions payable to these schemes by the Group at rates or amount specified in the rules of the scheme.

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

31. PLEDGED OF ASSETS

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

	2010 RMB'000	2009 RMB'000
Property, plant and equipment	**–**	43,048
Prepaid lease payments	**–**	5,555
Bank deposits	**–**	2,220
	–	50,823

32. RELATED PARTY TRANSACTIONS

In addition to those disclosed in Notes 22 and 24 respectively, the Group has entered into the following significant transactions with related parties during the two years ended 31 December 2010 and 2009.

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

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

* *English name is for identification purpose only*

32. RELATED PARTY TRANSACTIONS (Continued)

(c) Compensation of key management personnel

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

	2010 RMB'000	2009 RMB'000
Short-term benefits	**2,771**	1,310
Retirement benefits scheme contributions	**47**	22
	2,818	1,332

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

(d) During the year ended 31 December 2010, 福建鑫豪體育發展有限公司 which was wholly-owned by Ms. Lin Ezhi, who is the spouse of Mr. LIN, granted a guarantee to the Company in respect of a bank borrowing of RMB7,500,000 granted to the Group. The guarantee was released on 11 August 2010 upon the full settlement of the bank borrowings.

33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2010 RMB'000	2009 RMB'000
Non-current asset			
Investment in a subsidiary	35	–	–
Current assets			
Other receivables		–	1,356
Amount due from the controlling shareholder	(a)	12	–
Amounts due from subsidiaries	(a)	271,680	–
Bank balances		31,065	42
		302,757	1,398
Current liabilities			
Other payables		1,332	35
Amounts due to subsidiaries	(b)	–	1,761
Amount due to the controlling shareholder	(b)	–	1,968
		1,332	3,764
Net current assets (liabilities)		301,425	(2,366)
		301,425	(2,366)
Capital and reserve			
Share capital	25	70,483	–
Reserves	34	230,942	(2,366)
		301,425	(2,366)

Notes:

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

(b) The amount is unsecured, non-interest bearing and was fully settled during the year.

34. RESERVES OF THE COMPANY

	Share premium RMB'000	Accumulated losses RMB'000	Proposed final dividend RMB'000	Total RMB'000
At 1 January 2009	–	(1,343)	–	(1,343)
Total comprehensive income (expense) for the year	–	(1,023)	–	(1,023)
At 31 December 2009	–	(2,366)	–	(2,366)
Total comprehensive (expense) income for the year	–	84,227	–	84,227
Shares issued under placing and public offering, net of issuing expenses	301,857	–	–	301,857
Capitalisation of share premium	(52,776)	–	–	(52,776)
Dividend paid during the year	–	(100,000)	–	(100,000)
Proposed final dividend	–	(32,000)	32,000	–
	249,081	(50,139)	32,000	230,942

Under the Companies Law, Cap. 22 (Law 6 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account of the Company is distributable to its shareholders, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

35. PARTICULARS OF SUBSIDIARIES

Name of company	Place of incorporation/ establishment/ operations	Class of shares held	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group Directly 2010	Directly 2009	Indirectly 2010	Indirectly 2009	Principal activities
Win Eagle International Holdings Limited	BVI	Ordinary	US$1	**100%**	100%	**–**	–	Investment holding
Xin Wei (Fujian) Light Industry Co., Ltd.* (鑫威(福建)輕工有限公司)# (Note (i))	The PRC	Contributed Capital	RMB102,039,950	**–**	–	**100%**	100%	Design, production and sales of shoes soles, sport shoes and sportswear
Feike Sports Products Co., Ltd. Fujian* (福建省飛克體育用品有限公司)# (Note (ii))	The PRC	Contributed Capital	RMB101,390,860	**–**	–	**100%**	100%	Design, production and sales of shoes soles, sport shoes and sportswear
Xinwei Hong Kong Investment Limited	Hong Kong	Ordinary	HK$10,000	**–**	–	**100%**	100%	Investment holding
Flyke Hong Kong Holdings Limited	Hong Kong	Ordinary	HK$10,000	**–**	–	**100%**	100%	Investment holding

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

* *English name is for identification purpose only.*

Notes:

(i) During the year, the amount of the registered capital of Xin Wei (Fujian) Light Industry Co., Ltd was increased from RMB14,464,000 to RMB102,039,950.

(ii) On 29 June 2010, the amount of the registered capital of Feike Sports Products Co., Ltd. Fujian was increased from RMB13,792,000 to RMB101,390,860.

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

* *For identification purpose only*