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

Interim Report 2011

Contents

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 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

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Cayman Islands

HEAD OFFICE IN THE PRC

Yongpu Industrial Zone
Yangdai, 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

Financial Highlights

	For the six months ended 30 June		Change
	2011	2010	%
OPERATING RESULTS			
Turnover (RMB'000)	**712,333**	632,064	12.7%
Gross profit (RMB'000)	**204,062**	171,291	19.1%
Profit for the period (RMB'000)	**55,595**	73,450	-24.3%
Basic earnings per share (RMB)	**0.069**	0.092	-25.0%
Diluted earning per share (RMB)	**0.068**	0.092	-26.1%
KEY FINANCIAL RATIOS			
Gross profit margin	**28.6%**	27.1%	1.5%
Net profit margin	**7.8%**	11.6%	-3.8%
Return on owners' equity	**8.3%**	14.8%	-6.5%
	As of 30 June 2011	**As of 31 December 2010**	
FINANCIAL POSITION			
Gearing ratio[1]	**57.8%**	46.7%	
Current ratio	**2.5**	2.7	
Accounts receivable turnover days (days)[2]	**93**	71	
Accounts payable turnover days (days)[3]	**53**	42	
Inventory turnover days (days)[4]	**16**	14	

Footnotes:

(1) The calculation of gearing ratio is based on the total liabilities divided by total equity.

(2) Accounts receivable turnover days is equal to the average of the opening and closing trade receivables divided by turnover multiplied by the number of days during the period.

(3) Account payable turnover days is equal to average of the opening and closing trade payables divided by the cost of sales and multiplied by the number of days during the period.

(4) Inventory turnover days is equal to the average of opening and closing inventory divided by cost of sales and multiplied by the number of days during the period.

Management's Discussion and Analysis

BUSINESS REVIEW

Flyke brand

Business

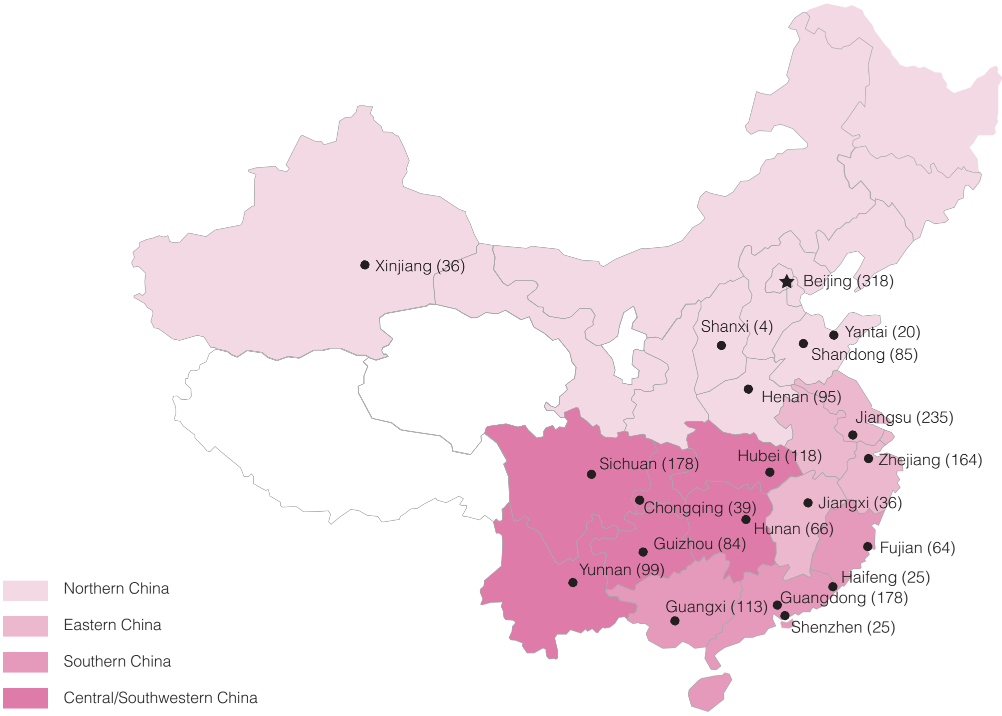
The Group is principally engaged in the design, production and sales of fashionable leisure sports shoes, sportswear and sports accessories with the *Flyke* brand. The Group targets consumers with age group ranging from 14 to 25 years old in the third-tier and fourth-tier cities in China and is selling *Flyke* products through the authorised retail stores operated by our authorised distributors. For the six months ended 30 June 2011 ("**Review Period**"), our products were sold at 1,982 authorised retail stores and 50 authorised campus retail stores at selected universities and tertiary institutions in China. The turnover contributed by sports shoes, sportswear and sports accessories with the *Flyke* brand amounted to approximately RMB509.0 million, representing an increase of approximately 19.6% as compared with the same period in 2010. As of 30 June 2011, we outsourced all sportswear and sports accessories with the *Flyke* brand to the independent contract manufacturers via Original Equipment Manufacturers ("**OEM**") arrangement while all sports shoes with *Flyke* brand were produced in-house.

Distribution network

The total number of authorised distributors increased from 19 as of 31 December 2010 to 20 as of 30 June 2011 while the total number of authorised retail stores reached 1,982 as of 30 June 2011. Other than the 20 authorised distributions, our campus partner – Saier operated 50 authorised campus retail stores at selected universities and tertiary institutions in China as of 30 June 2011. As of 30 June 2011, total authorised retail stores increased by 169 as compared with the period ended 31 December 2010. Our authorised distributors started to establish image stores since last year under our support in view of brand recognition and promotion. As of 30 June 2011, there were 7 image stores and 1 flagship store set up and operated by our distributors in the second-tier cities, of which 3 image stores and the flagship store were newly established during the Review Period. The expansion of the number of retail stores and the establishment of image stores and flagship store stepped up 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 1,982 authorised retail stores including 7 image stores and 1 flagship store, operated by the 20 authorised distributors as of 30 June 2011: –



Notes:

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

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

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

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

	Number of authorised retail stores		
	As of 30 June 2011	As of 31 December 2010	Change %
Northern China	**558**	518	7.7%
Eastern China	**435**	408	6.6%
Southern China	**405**	357	13.4%
Central/Southwestern China	**584**	530	10.2%
Total	**1,982**	1,813	9.3%

Production

As of 30 June 2011, we currently own 12 production lines for sports shoes. All *Flyke* brand sports shoes were produced by our own facilities while part of Export ODM Business is outsourced to independent contract manufacturers through "ODM" arrangement. The Directors are planning to increase 1 production line for sports shoes in the future so as to meet the increasing demand of our sports shoes.

The Group currently outsources the production of all sportswear or accessories to independent contract manufacturers via "OEM" arrangement and is planning to establish a new factory with an annual production capacity of 5 million pieces/sets of sportswear in the near future to enhance the flexibility and responsiveness to market changes and to meet the increasing demand of *Flyke* sportswear.

Product design and development

The Directors believe that the product design and development capability is crucial to success in the competitive market. To enhance the competitiveness and to support the persistent growth and expansion, we have cooperated with international designers to strengthen both of our product mix and product design.

Marketing and promotion

The *Flyke* products are positioned as high-quality and fashionable leisure sports products with reasonable pricing. The Group had also launched a series of promotion activities to further strengthen the *Flyke* brand image and awareness.

Export ODM Business

The Group has established a vertically integrated business model for the Export ODM Business with the design, production and sales of sports shoes over ten years. All Export ODM Business sports shoes are sold to overseas buyers including some international brands. The Export ODM Business not only provides a stable source of cash inflow for the Group, but also allows us to keep abreast with international trend of sports shoes design. We currently outsource part of sports shoes to independent contract manufacturers through "OEM" arrangement. During the Review Period, sales from the Export ODM Business amounted to approximately RMB178.7 million, representing a decrease of approximately 3.3% from approximately RMB184.7 million as of 30 June 2010. This business accounted for approximately 25.1% of the Group's aggregate turnover for the Review Period. The Directors are confident that turnover contributed by Export ODM Business will grow steadily due to long term relationship established with overseas buyers, the product innovation and the improvement of our products quality, but the proportion of the Export ODM Business turnover to the Group's aggregate turnover is in a diminishing trend because of the rapid growth of *Flyke* brand.

Soles

The business is primarily engaged in the design, production and sales of soles. As of 30 June 2011, the Group had 21 production lines with an annual capacity of approximately 13 million pairs of soles. The Group normally uses the soles for internal production of sports shoes and may sell some to local sports shoes companies. The turnover of the business reached approximately RMB24.7 million, representing an increase of approximately 13.3% from approximately RMB21.8 million as of 30 June 2010. This business accounted for approximately 3.4% of the Group's aggregate turnover for the Review Period.

FINANCIAL REVIEW

Turnover

The Group's aggregate turnover increased during the Review Period to approximately RMB712.3 million, representing an increase of approximately RMB80.3 million or 12.7% as compared with the same period in 2010. The increase in aggregate turnover was primarily attributable to the increase in turnover of the *Flyke* products by approximately 19.6% as compared with the same period in 2010. During the Review Period, the turnover of the *Flyke* products and the Export ODM Business contributed approximately 71.5% and 25.1% of the Group's total turnover respectively.

The following table sets forth a summary of the aggregate turnover of the Group by three principal activities for the six months ended 30 June 2011 (with comparative figures for the six months ended 30 June 2010): –

	For the six months ended 30 June				
	2011		2010		Change
	RMB'000	**% of Turnover**	RMB'000	% of Turnover	%
Sales of sports shoes, sportswear and sports accessories with the *Flyke* brand	**508,974**	**71.5%**	425,589	67.3%	19.6%
Sales under the Export ODM Business	**178,683**	**25.1%**	184,686	29.2%	(3.3%)
Sales of soles	**24,676**	**3.4%**	21,789	3.5%	13.3%
Total	**712,333**	**100%**	632,064	100.0%	12.7%

Flyke brand

The *Flyke* products include sports shoes, sportswear and sports accessories. The sports shoes with the *Flyke* brand are produced by the Group while the sportswear and sports accessories with the *Flyke* brand were outsourced to the Group's independent contract manufacturers through the "OEM" arrangement. The Group currently sells all the *Flyke* products directly to the authorised distributors which then sell to end consumers directly via the authorised retail stores. As of 30 June 2011, *Flyke* products were sold at 1,982 authorised retail stores including 7 image stores and 1 flagship store, operated by 20 independent authorised distributors and at 50 authorised campus retail stores operated by the campus partner – Saier. As of 30 June 2011, the aggregate turnover from *Flyke* brand products amounted to approximately RMB509.0 million, representing an increase of approximately 19.6% as compared with the same period in 2010, mainly attributable to the increase in ex-factory price of *Flyke* products. The turnover from *Flyke* products contributed approximately 71.5% of aggregate turnover of the Group as of 30 June 2011, of which 52.6% was derived from the sales of sportswear and sports accessories with *Flyke* brand.

The following table illustrates an analysis of the sales of the *Flyke* products by product categories during the six months ended 30 June 2011 (with comparative figures for the six months ended 30 June 2010): –

	For the six months ended 30 June				
	2011		2010		Change
	RMB'000	**% of Turnover**	RMB'000	% of Turnover	%
Sales of sports shoes	**241,189**	**47.4%**	208,706	49.0%	15.6%
Sales of sportswear and sports accessories	**267,785**	**52.6%**	216,883	51.0%	23.5%
Total	**508,974**	**100%**	425,589	100.0%	19.6%

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

	For the six months ended 30 June		
	2011	2010	Change
	RMB'000	RMB'000	%
Northern China	**134,194**	100,803	33.1%
Eastern China	**89,288**	76,810	16.2%
Southern China	**127,372**	110,553	15.2%
Central/Southwestern China	**158,120**	137,423	15.1%
Total	**508,974**	425,589	19.6%

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

	For the six months ended 30 June				
	2011		2010		
	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 %
Sales of sports shoes	**3,437**	**70.2**	3,334	62.6	12.1%
Sales of sportswear and sports accessories	**4,533**	**59.1**	4,448	48.8	21.1%

Export ODM Business

The turnover from the Export ODM Business for the Review Period amounted to approximately RMB178.7 million contributing approximately 25.1% to the aggregate turnover of the Group. The turnover from the Export ODM Business decreased principally due to the decrease in sales volume.

The following table illustrates an analysis of the sales of the Export ODM Business by nature during the six months ended 30 June 2011 (with comparative figures for the six months ended 30 June 2010): –

	For the six months ended 30 June				
	2011		2010		Change
	RMB'000	**% of Turnover**	RMB'000	% of Turnover	%
Sales of own produced sports shoes	**124,471**	**69.7%**	83,668	45.3%	48.8%
Sales of outsourced sports shoes	**54,212**	**30.3%**	101,018	54.7%	(46.3%)
Total	**178,683**	**100%**	184,686	100.0%	(3.3%)

The following table sets forth total number of pairs sold and the average selling price of sport shoes for the Export ODM Business for the six months ended 30 June 2011 (with comparable figures for the six months ended 30 June 2010): –

	For the six months ended 30 June				
	2011		2010		
	Total pairs sold '000	**Average ex-factory price RMB**	Total pairs sold '000	Average ex-factory price RMB	Change of average ex-factory price %
Sports shoes	**3,264**	**54.7**	3,389	54.5	0.4%

Soles

During the Review Period, the sales of soles increased by approximately RMB2.9 million or 13.3% principally due to the increase in demand of sports shoes in the market and improvement in the design and quality of our soles.

Cost of sales

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

During the Review Period, total cost of sales increased by approximately RMB47.5 million or 10.3% from RMB460.8 million as of 30 June 2010 to approximately RMB508.3 million, of which the outsourcing fee to contract manufacturers amounted to approximately RMB237.6 million representing a decrease of approximately RMB4.2 million or 1.8% as compared with the same period in 2010.

The increase in cost of sales was primarily a result of the increase in raw material cost and direct labour cost during the Review Period. The decrease in outsourcing fee was principally due to the significant decrease in outsourced portion of the Export ODM Business.

Gross profit and gross profit margin

During the Review Period, the overall gross profit of the Group increased to approximately RMB204.1 million, representing an increase of approximately RMB32.8 million or 19.1% as compared with the same period in 2010 and the gross profit margin increased to 28.6%, representing an increase of 1.5% as compared with the same period in 2010 .

The increase in gross profit was principally attributable to the increase in sales of *Flyke* products while the increase in gross profit margin was driven by the decrease in outsourced portion of the Export ODM business.

The following table illustrates the gross profit and the gross profit margins of the Group by its principal activities, namely sports shoes, sportswear and sports accessories with the *Flyke* brand, the Export ODM Business and soles during the six months ended 30 June 2011 (with comparative figures for the six months ended 30 June 2010): –

	For the six months ended 30 June				
	2011		2010		
	RMB'000	**Gross profit margin %**	RMB'000	Gross profit margin %	Change of gross profit margin %
Sales of sports shoes, sportswear and sports accessories with the *Flyke* brand	**152,061**	**29.9%**	127,597	30.0%	(0.1%)
Sales under our Export ODM Business	**46,570**	**26.1%**	38,753	21.0%	5.1%
Sales of soles	**5,431**	**22.0%**	4,941	22.7%	(0.7%)
Total	**204,062**	**28.6%**	171,291	27.1%	1.5%

Flyke **brand**

The gross profit of the *Flyke* products for the Review Period increased by approximately RMB24.5 million or 19.2%. During the Review Period, the increase in gross profit is principally due to the increase in ex-factory price of *Flyke* products. However, the gross profit margin remained at around 30% as the increase in ex-factory price of *Flyke* products was offset by the increase in the cost of both direct labour and raw material.

The following table illustrates an analysis of the gross profit and gross profit margin of the *Flyke* products by product categories during the six months ended 30 June 2011 (with comparative figures for the six months ended 30 June 2010): –

	For the six months ended 30 June				
	2011		2010		
	RMB'000	**Gross profit margin %**	RMB'000	Gross profit margin %	Change of gross profit margin %
Sales of sports shoes	**77,404**	**32.1%**	68,847	33.0%	(0.9%)
Sales of sportswear and sports accessories	**74,657**	**27.9%**	58,750	27.1%	0.8%
Total	**152,061**	**29.9%**	127,597	30.0%	(0.1%)

Export ODM Business

The gross profit of the Export ODM Business for the Review Period increased by approximately RMB7.8 million or 20.2% while the gross profit margin increased by 5.1% to 26.1%. The increase in gross profit and gross profit margin was a result of the reduction of the portion of outsourced production to contract manufacturers by 24.4% from 54.7% as of 30 June 2010 to 30.3% as of 30 June 2011.

The following table illustrates an analysis of the gross profit and gross profit margin of the Export ODM Business by nature during the six months ended 30 June 2011 (with comparative figures for the six months ended 30 June 2010): –

	For the six months ended 30 June				
	2011		2010		
	RMB'000	**Gross profit margin %**	RMB'000	Gross profit margin %	Change of gross profit margin %
Sales of own produced sports shoes	**36,823**	**29.6%**	21,436	25.6%	4.0%
Sales of outsourced sports shoes	**9,747**	**18.0%**	17,317	17.1%	0.9%
Total	**46,570**	**26.1%**	38,753	21.0%	5.1%

Soles

The gross profit for the sales of soles increased by approximately RMB0.5 million or 9.9% and the gross profit margin decreased slightly by 0.7% as compared with same period in 2010 due to the increased costs in direct labour and raw materials.

Other income

The other income of the Group for the Review Period decreased by approximately RMB2.7 million to approximately RMB1.2 million due to the decrease in grants from the local government.

Selling and distribution expenses

During the Review Period, the selling and distribution expenses amounted to approximately RMB37.1 million (2010: RMB18.4 million). The selling and distribution expenses represented approximately 5.2% to the aggregate sales of the Group (2010: 2.9%). The increase of selling and distribution expenses in percentage to the aggregate turnover of the Group was primarily due to a series of marketing campaigns launched to promote the *Flyke* brand via various channels, such as TV advertising and event sponsorship for the Review Period.

Administrative expenses

During the Review Period, the administrative expenses amounted to approximately RMB15.2 million (2010: RMB31.4 million) representing a decrease of approximately 51.6%. The decrease was primarily due to the absence of one-off payments in relation to legal and professional fee for the listing purpose.

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 RMB21.1 million during the Review Period (2010: RMB19.5 million) representing 3.0% of aggregate turnover (2010: 3.1%).

Change in fair value of derivative financial liabilities

It represents the recognition of RMB 28.8 million related to the change of fair value of derivative financial liabilities as a result of 96,000,000 options granted to an investor in June 2011.

Finance costs

The finance costs consisted of interest expense on bank borrowings. The finance costs incurred by the Group increased by approximately RMB1.7 million or 53.9% from approximately RMB3.2 million in the last corresponding period to approximately RMB5.0 million during the Review Period due to the increase in bank interest rate.

Equity-settled share-based payments

It represents the recognition of RMB 19.4 million related to the equity-settled share based payments arising from the share options granted to the eligible employees and directors.

Income tax expense

The income tax represented amounts of corporate income tax paid by us in China. No provision for Hong Kong profits tax has been made as no member of the Group generated any assessable profit in Hong Kong during the Review Period. The Group was not subject to any tax in the Cayman Islands and the British Virgin Islands during the Review Period.

The Group's income tax expense decreased by approximately RMB6.1 million or 21.0% from approximately RMB29.1 million in the last corresponding period to approximately RMB23.0 million during the Review Period. The Group's effective income tax rate was approximately 29.2% for the Review Period, as compared to 28.4% in the last corresponding period.

Profit for the Review Period

Profit for the Review Period decreased from RMB73.5 million for the period ended 30 June 2010 to RMB55.6 million for the Review Period. The significant reduction of profit by 24.3% for the Review Period was attributable to the accounting treatment of recognition of RMB28.8 million related to the change of fair value of derivative financial liabilities as a result of 96,000,000 options granted to an investor in June 2011 and of RMB19.4 million related to the equity-settled share based payments arising from the share options granted to the eligible employees and directors.

BUSINESS OUTLOOK

***Flyke* brand**

We are optimistic about the future growth of the fashionable leisure sports industry in both domestic and overseas markets although the worldwide economic recovery is facing the challenge. To grasp this opportunity in view of sustainable growth of our business, the Directors set out the following targets in the coming years.

Strengthening of *Flyke* brand awareness and image

The Directors believe the strengthening of our brand awareness and image is a critical way for successful development in the future. To step up the stores image, we appointed a professional firm and implemented the recommendations provided by the specialists. Also, we will continue to enhance the awareness and image of *Flyke* brand so as to further penetrate into cities and counties of considerably high growth potential through rapid growth of authorised retail stores. We will also assist our authorised distributors to open more image stores and flagship stores to promote the *Flyke* brand's awareness and image.

Sales network expansion

We will continue to expand the authorised retail stores in the third-tier and forth-tier cities in light of the rapid growth of economy, continuous urbanization and the expected increase in their consumption power in China in the coming years. The authorised retail stores increased by 169 to 1,982 during the first half of 2011 and we expect the authorised retail stores will increase sustainably. Other than the authorised retail stores, we expect the total number of flagship stores and the image stores to reach 7 and 23 respectively in the coming years in the first-tier or second-tier cities.

Product innovation

To pursue in sustainable growth of the business, the Group will continuously cooperate with overseas professional design firms as well as research and development centres or reputable designers for the development of new products. We will also consider hiring international designers for the enhancement of the capabilities in design, research and development.

Production capacity

In order to support our future expansion, the Group is planning to add one new production line of sports shoes and establishing our own factory for sportswear with an annual production capacity of 5 million pieces/sets which can satisfy the sudden/supplementary orders for *Flyke* sportswear and also increase our profit margin of sportswear with *Flyke* brand.

Export ODM Business

As our Export ODM Business has been well recognised in the overseas markets and generated a stable cash inflow and income for the Group, the Group will 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

Use of Net Proceeds from the Global Offering

The Company 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 six months ended 30 June 2011: –

Use of net proceeds from the global offering	Available to utilise	(HK$ million) Utilised as of 30 June 2011	Unutilised as of 30 June 2011
Improvement in our information technology systems	22.5	-	22.5
Expansion of our product research and development teams	63.9	58.9	5.0
Establishment of seven flagship stores and 23 image stores	63.9	19.7	44.2
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	76.2	33.8
Total	363.3	173.8	189.5

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The bank balances and cash of the Group increased by approximately RMB71.9 million from approximately RMB359.4 million at 31 December 2010 to approximately RMB431.4 million as of 30 June 2011. The Group's working capital requirement was essentially financed by its internal resources. The Directors believe that the funds generated from operations, the available banking facilities and the net proceeds received from the listing of the Shares on the Stock Exchange will enable the Group to meet its future working capital requirements.

The net assets increased to approximately RMB 666.8 million as of 30 June 2011 from approximately RMB592.8 million as of 31 December 2010.

The bank borrowings were kept at the same level of approximately RMB104.0 million as of 31 December 2011, all denominated in Renminbi.

As of 30 June 2011, the Group's gearing ratio (measured by the total liabilities divided by total equity) was 57.8% (31 December 2010: 46.7%).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

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

PLEDGE OF ASSETS

No asset of the Group was pledged to secure bank borrowings or for banking facilities.

CONTINGENT LIABILITIES

As of 30 June 2011, we had no material contingent liabilities.

SUBSCRIPTION OF NEW SHARES AND GRANT OF OPTION UNDER THE GENERAL MANDATE

On 26 May 2011, the Company had entered into a subscription agreement with Potent Growth Limited that the Company has conditionally agreed to issue and allot 24,000,000 ordinary shares of HK$0.10 each in the share capital of the Company to Potent Growth Limited at the subscription price HK$1.65 per share, and upon completion of the subscription of ordinary shares, to grant Potent Growth Limited the option to subscribe for a total of 96,000,000 option shares at the exercise price HK$1.90 per option share (subject to adjustment).

On 8 June 2011, the aforesaid subscription agreement was completed. A total of 24,000,000 ordinary shares had been issued and allotted to Potent Growth Limited and an option had been granted to Potent Growth Limited to subscriber for a total of 96,000,000 option shares.

Corporate Governance and Other Information

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.

SHARE OPTIONS

The following table discloses details of the Company's share options held by the Directors and eligible employees of the Group pursuant to the Company's Share Option Scheme and movements in such holdings during the Period:

Name or category of participant	Date of grant	Outstanding as of 1 January 2011	Granted during the Period	Exercised during the Period	Cancelled/ Lapsed during the Period	Outstanding as of 30 June 2011	Exercisable Period	Exercise price HK$	Closing price immediately before the date of grant HK$
(a) Directors									
Mr. LIN Wenjian	4 May 2011	—	500,000	—	—	500,000	4 May 2011 to 3 May 2021	1.620	1.620
Mr. LIN Mingxu	4 May 2011	—	7,500,000	—	—	7,500,000	4 May 2011 to 3 May 2021	1.620	1.620
Mr. LIN Wenzu	4 May 2011	—	7,500,000	—	—	7,500,000	4 May 2011 to 3 May 2021	1.620	1.620
Mr. LI Yong	31 December 2010	840,000	—	—	—	840,000	1 July 2012 to 30 December 2020	1.726	1.730
	31 December 2010	840,000	—	—	—	840,000	1 January 2014 to 30 December 2020	1.726	1.730
	31 December 2010	1,120,000	—	—	—	1,120,000	1 January 2016 to 30 December 2020	1.726	1.730
	4 May 2011	—	1,200,000	—	—	1,200,000	4 May 2011 to 3 May 2021	1.620	1.620
(b) Eligible employees	31 December 2010	4,008,000	—	—	—	4,008,000	1 July 2012 to 30 December 2020	1.726	1.730
	31 December 2010	4,008,000	—	—	—	4,008,000	1 January 2014 to 30 December 2020	1.726	1.730
	31 December 2010	5,344,000	—	—	—	5,344,000	1 January 2016 to 30 December 2020	1.726	1.730
	4 May 2011	—	16,300,000	—	—	16,300,000	4 May 2011 to 3 May 2021	1.620	1.620
		16,160,000	33,000,000	—	—	49,160,000			

The value of 33,000,000 share options granted during the Period is HK$20,747,000.

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

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

(i) Long positions in Shares and underlying shares of the Company

Name of Director	Capacity	Number of Shares held	Number of underlying shares held pursuant to share options	Position	Total	Approximate Percentage of issued share capital
Mr. LIN Wenjian	Interest of controlled corporation	480,000,000 (note 1)	—	Long	480,500,000	58.31%
	Beneficial owner	—	500,000	Long		
Mr. LIN Mingxu	Beneficial owner	60,000,000 (note 2)	7,500,000	Long	67,500,000	8.19%
Mr. LIN Wenzu	Beneficial owner	60,000,000 (note 2)	7,500,000	Long	67,500,000	8.19%
Mr. LI Yong	Beneficial owner	—	4,000,000	Long	4,000,000	0.50%

Notes:

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

2. Each of Mr. LIN Wenzu and Mr. LIN Mingxu is a beneficiary of a trust scheme established by Super Creation, The *Flyke* Trust. As at the date of this report, 80,400,000 Shares are held on trust by the trustee of The *Flyke* Trust for the benefit of Mr. LIN Wenzu and Mr. LIN Mingxu equally.

(ii) Long positions in associated corporations of the Company

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

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

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

Name of shareholder	Capacity	Number of Shares held	Number of underlying shares held pursuant to share options	Position	Total	Approximate Percentage of issued share capital
Super Creation	Beneficial owner	480,000,000	—	Long	480,000,000	58.25%
Potent Growth Limited	Beneficial owner	16,000,000	96,000,000	Long	112,000,000	13.59%
Mr. ZHANG Qing	Interest of controlled corporation	16,000,000	96,000,000	Long	112,000,000 (note 1)	13.59%
Equity Trust (HK) Limited	Trustee	80,400,000	—	Long	80,400,000 (note 2)	9.76%

Notes:

1. These shares are held by Potent Growth Limited, the entire issued share capital of which is wholly and beneficially owned by Mr. ZHANG Qing. By virtue of the SFO, Mr. ZHANG Qing is deemed to be interested in the 112,000,000 Shares and underlying shares held by Potent Growth Limited.

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

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the six months ended 30 June 2011.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the "**Code**") as set out in Appendix 14 to The Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") from the date of listing of the shares on the Stock Exchange to 30 June 2011 except the provision requiring the roles of the chairman and chief executive officer to be undertaken by two individuals under paragraph A.2.1 of the Code.

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 and the audit committee of the Board have reviewed the effectiveness of the Group's internal control systems and considered that the Group's internal control systems are reasonably implemented and the Group has fully complied with the Code provisions regarding internal control systems in general.

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as the code for securities transactions by the Directors. The Company has made specific enquiries of all the Directors and all the Directors have confirmed that they have complied with the required standards set out in the Model Code throughout the six-month period ended 30 June 2011.

REVIEW OF INTERIM RESULTS BY THE AUDIT COMMITTEE

The Company established the audit committee to review and monitor the financial reporting process and internal control of the Group, to review the financial information of the Group. The audit committee consists of all three independent non–executive Directors and Mr. CHU Kin Wang, Peleus is the chairperson of the audit committee. The audit committee have reviewed the Company's financial statements and the Group' s consolidated financial statements for the six months ended 30 June 2011, including the accounting principles and practices adopted by the Group.

Independent Review Report

信永中和 ShineWing

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

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

INTRODUCTION

We have reviewed the interim financial information set out on pages 19 to 34, which comprises the condensed consolidated statement of financial position of Flyke International Holdings Ltd. (the "**Company**") and its subsidiaries as at 30 June 2011 and the related condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("**HKAS 34**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

SHINEWING (HK) CPA Limited
Certified Public Accountants
Pang Wai Hang
Practising Certificate Number: P05044

Hong Kong
26 August 2011

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2011

	Notes	For the six months ended 30 June **2011** **RMB'000** **(Unaudited)**	 2010 RMB'000 (Unaudited)
Turnover	3	**712,333**	632,064
Cost of sales		**(508,271)**	(460,773)
Gross profit		**204,062**	171,291
Other income		**1,151**	3,829
Selling and distribution expenses		**(37,128)**	(18,445)
Administrative expenses		**(15,204)**	(31,415)
Other operating expenses		**(21,090)**	(19,497)
Change in fair value of derivative financial liabilities	14	**(28,812)**	-
Finance costs		**(4,993)**	(3,245)
Equity-settled share-based payments	17	**(19,421)**	-
Profit before taxation	5	**78,565**	102,518
Income tax expense	6	**(22,970)**	(29,068)
Profit for the period		**55,595**	73,450
Exchange difference arising on translation of foreign operations and total other comprehensive expenses for the period		**(2,060)**	(457)
Total comprehensive income for the period		**53,535**	72,993
Earnings per share (RMB)	7		
Basic		**0.069**	0.092
Diluted		**0.068**	0.092

Condensed Consolidated Statement of Financial Position

At 30 June 2011

	Notes	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	9	**113,933**	113,177
Prepaid lease payments	9	**23,751**	24,008
		137,684	137,185
Current assets			
Inventories		**44,073**	40,258
Trade and other receivables	10	**438,736**	332,074
Prepaid lease payments	9	**513**	513
Bank balances and cash		**431,372**	359,436
		914,694	732,281
Current liabilities			
Trade and other payables	11	**222,633**	149,511
Amount due to controlling shareholder	12	**-**	6
Amount due to a director	13	**101**	72
Derivative financial liabilities	14	**28,812**	-
Income tax payable		**18,351**	14,446
Bank borrowings	15	**104,000**	104,000
		373,897	268,035
Net current assets		**540,797**	464,246
		678,481	601,431
Capital and reserves			
Share capital	16	**72,496**	70,483
Reserves		**594,330**	522,323
Total equity		**666,826**	592,806
Non-current liability			
Deferred taxation		**11,655**	8,625
		678,481	601,431

Condensed Consolidated Statement of Changes In Equity

For the six months ended 30 June 2011

	Share capital	Share premium	Special reserve	Statutory reserve	Share options reserve	Translation reserve	Retained earnings	Proposed final dividend	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Note a)	(Note b)	(Note c)					
At 1 January 2010 (audited)	-	-	28,256	27,110	-	25	148,061	-	203,452
Total comprehensive (expenses) income for the period	-	-	-	-	-	(457)	73,450	-	72,993
Issue of shares during the period	88	-	-	-	-	-	-	-	88
Capitalisation of share premium	52,776	(52,776)	-	-	-	-	-	-	-
Shares issued under placing and public offering, net of issuing expenses	17,619	301,857	-	-	-	-	-	-	319,476
Dividends paid during the period	-	-	-	-	-	-	(100,000)	-	(100,000)
At 30 June 2010 (unaudited)	**70,483**	**249,081**	**28,256**	**27,110**	**-**	**(432)**	**121,511**	**-**	**496,009**
At 1 January 2011 (audited)	70,483	249,081	28,256	48,062	-	(2,834)	167,758	32,000	592,806
Total comprehensive (expenses) income for the period	-	-	-	-	-	(2,060)	55,595	-	53,535
Issue of shares upon subscription	2,013	31,200	-	-	-	-	-	-	33,213
Transaction costs attributed to issue of shares	-	(149)	-	-	-	-	-	-	(149)
Recognition of equity-settled share-based payments	-	-	-	-	19,421	-	-	-	19,421
Dividends paid during the period	-	-	-	-	-	-	-	(32,000)	(32,000)
At 30 June 2011 (unaudited)	**72,496**	**280,132**	**28,256**	**48,062**	**19,421**	**(4,894)**	**223,353**	**-**	**666,826**

Notes:

a) 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.

b) 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.

c) 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 taxation 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.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2011

	For the six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash from operating activities	**81,263**	26,271
Net cash used in investing activities	**(4,295)**	(20,137)
Net cash (used in) from financing activities	**(3,900)**	242,228
Net increase in cash and cash equivalents	**73,068**	248,362
Cash and cash equivalents at the beginning of the period	**359,436**	98,747
Effect of foreign exchange rate changes	**(1,132)**	(94)
Cash and cash equivalents at the end of the period, represented by bank balances and cash	**431,372**	347,015

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2011

1. GROUP RESTRUCTURING AND BASIS OF PREPARATION OF THE CONSOLIDATED INTERIM FINANCIAL INFORMATION

Flyke International Holdings Ltd. (the "**Company**") was incorporated in the Cayman Islands as an exempted Company with limited liability on 21 April 2008. 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 'Company Information' section to the interim 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 are 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 condensed 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 HKICPA, assuming that the current structure of the Group had been in existence throughout the six months ended 30 June 2011 and the year ended 31 December 2010.

The condensed consolidated interim financial information have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and with Hong Kong Accounting Standard ("**HKAS**") 34 Interim Financial Reporting.

The condensed consolidated interim financial information is presented in Renminbi ("**RMB**"), which is the same as the functional currency of the Company.

The Company and its subsidiaries (collectively referred to as the "**Group**") are principally engaged in the design, production and sales of sports shoes, sportswear and sports accessories.

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies and methods of computation used in the condensed consolidated interim financial information for the six months ended 30 June 2011 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010, except as described below.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

In the current interim period, the Group has applied for the first time, the following new and revised standards and interpretations ("**new or revised HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010
HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HKAS 24 (Revised)	Related Party Disclosures
HKAS 32 (Amendments)	Classification of Rights Issues
HK(IFRIC) – Interpretation ("Int") 14 (Amendments)	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

The application of the above new or revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated interim financial information and/ or disclosures set out in these condensed consolidated interim financial information.

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

HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[1]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[4]
HKFRS 11	Joint Arrangements[4]
HKFRS 12	Disclosures of Interests in Other Entities[4]
HKFRS 13	Fair Value Measurement[4]
HKAS 1 (Revised)	Presentation of Financial Statements[3]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[2]
HKAS 19 (2011)	Employee Benefits[4]
HKAS 27 (Revised)	Separate Financial Statements[4]
HKAS 28 (Revised)	Investments in Associates and Joint Ventures[4]

[1] Effective for annual periods beginning on or after 1 July 2011.
[2] Effective for annual periods beginning on or after 1 January 2012.
[3] Effective for annual periods beginning on or after 1 July 2012.
[4] Effective for annual periods beginning on or after 1 January 2013.

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

3. 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:

	For the six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sports shoes	**419,872**	393,392
Sportswear and sports accessories	**267,785**	216,883
Shoe soles	**24,676**	21,789
	712,333	632,064

4. SEGMENT INFORMATION

Operating segments, and the amounts of each segment item reported in the condensed consolidated interim financial information, 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.

5. PROFIT BEFORE TAXATION

	For the six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit before taxation has been arrived at after charging (crediting):		
Directors' emoluments	**10,000**	598
Salaries and other allowances	**66,708**	49,469
Retirement benefits scheme contributions (excluding directors)	**3,539**	3,148
Equity-settled share-based payments (excluding directors)	**10,327**	-
Total staff costs	**90,574**	53,215
Amortisation of prepaid lease payments	**257**	181
Auditors' remuneration	**419**	350
Cost of inventories recognised as an expense	**508,271**	460,773
Depreciation of property, plant and equipment	**4,244**	3,327
Listing expenses	**-**	14,542
Operating lease rental paid in respect of rented premises	**44**	82
Research and development costs (included in other operating expenses) *	**21,090**	19,497
Bank interest income	**(711)**	(189)
Government grants **	**(440)**	(3,300)

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

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

6. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
The income tax expense comprises:		
The Peolpe's Republic of China (the "**PRC**") Enterprise Income Tax ("**EIT**") - Current	**19,940**	29,145
Deferred taxation	**3,030**	(77)
	22,970	29,068

i.) 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.

ii.) For the six months ended 30 June 2011 and 2010, Hong Kong Profits Tax has not been provided for in the condensed consolidated interim financial information as the Group did not have any assessable profits subject to Hong Kong Profits Tax.

iii.) 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 first profit-making year of Flyke (China) was 2007. As year 2007 was not a full year of 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%.

** English name is for identification only.*

7. 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:

	For the six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purposes of calculating basic and diluted earnings per share	**55,595**	73,450
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**805,171,271**	800,000,000
Effect of dilutive ordinary shares in respect of share options	**6,527,522**	-
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**811,698,793**	800,000,000

Note: The computation of diluted earnings per share does not assume the exercise of the Company's outstanding investor options as the exercise price of these option is higher than the average market price of the Company's shares for the six months ended 30 June 2011.

For the six months ended 30 June 2010, 800,000,000 shares were in issue on the assumption that the Reorganisation and the capitalisation issue had been effective on 1 January 2009.

The dilutive earnings per share is the same as the basic earnings per share for the six months ended 30 June 2010 as there were no dilutive potential ordinary shares outstanding for the six months ended 30 June 2010.

8. DIVIDENDS

	For the six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
2010 Final dividend paid – RMB0.04 per share (Note i)	**32,000**	-
Special dividend paid during the period (Note ii)	**-**	100,000
	32,000	100,000

i) During the six months ended 30 June 2010, the Company declared special dividends of approximately RMB100,000,000 prior to the listing of the Company to the then shareholder. Such dividends were fully settled in March 2010.

ii) No dividends were paid, declared or proposed during the six months ended 30 June 2011. The directors of the Company do not recommend the payment of an interim dividend.

9. PROPERTY, PLANT AND EQUIPMENT AND PREPAID LEASE PAYMENTS

For the six months ended 30 June 2011, the Group spent approximately RMB5,000,000 for the construction of staff quarters which is still being constructed (six months ended 30 June 2010: RMB19,803,000 on additions to plant and machinery and the construction of a new factory).

At 30 June 2011, the Group has not yet obtained the legal title of the buildings with an aggregate carrying value of approximately RMB43,401,000. (31 December 2010: RMB45,027,000).

At 31 December 2010, the Group has not yet obtained the legal title of prepaid lease payments with an aggregate carrying value of approximately RMB17,230,000 (30 June 2011: Nil).

10. TRADE AND OTHER RECEIVABLES

	30 June 2011 **RMB'000** **(Unaudited)**	31 December 2010 RMB'000 (Audited)
Trade receivables	**414,012**	304,442
Prepayments	**24,706**	27,614
Other receivables	**18**	18
	438,736	332,074

The Group generally allows an average credit period of 60 days to its trade customers and is extended to 90 days for certain well established customers.

An aged analysis of the trade receivables presented based on the invoice date at the end of the reporting period is as follows:

	30 June 2011 **RMB'000** **(Unaudited)**	31 December 2010 RMB'000 (Audited)
Within 60 days	**380,328**	263,624
61 to 180 days	**33,684**	40,818
	414,012	304,442

11. TRADE AND OTHER PAYABLES

	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
Trade payables	177,159	112,028
Other payables and accruals	28,625	11,598
Valued added tax payable	16,849	25,885
	222,633	149,511

An aged analysis of the trade payables presented based on the invoice date is as follows

	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
Within 90 days	177,159	111,683
91 to 180 days	-	345
	177,159	112,028

12. AMOUNT DUE TO CONTROLLING SHAREHOLDER

The amount was unsecured, non-interest bearing and fully settled during the period.

13. AMOUNT DUE TO A DIRECTOR

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

14. DERIVATIVE FINANCIAL LIABILITIES

The derivative financial liabilities of the Group are not for hedging purpose. Derivative financial liabilities at the end of the reporting period comprise of options to subscribe for shares in the Company.

On 26 May 2011, the Company entered into a subscription agreement ("**Subscription Agreement**") with Potent Growth Limited ("**Potent Growth**"), an independent third party for the subscription of 24,000,000 new ordinary shares of HK$0.10 each in the Company at a subscription price of HK$1.65 per share (Note 16 (e)). The shares were issued to Potent Growth on 8 June 2011 (the "**Subscription Completion Date**").

Pursuant to the Subscription Agreement, on the Subscription Completion Date, the Company granted to Potent Growth the option ("**Investor Options**") to subscribe for up to 96,000,000 new shares from the Subscription Completion Date for an option period of thirty-six months at the option exercise price of HK$1.90 per option share. The closing share price of the Company's shares immediately before the date of grant was HK$1.91.

Since the conversion option will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments, the conversion option is classified as derivative financial liabilities.

The fair values of the share options granted on 8 June 2011 and at the end of the reporting period were calculated using the Binominal Option Pricing Model by AVISTA Valuation Advisory Limited, an independent valuer not connected with the Group. The inputs into the model were as follows:

	8 June 2011	30 June 2011
Closing share price	HK$1.70	HK$1.75
Expected volatility	42.4%	41.8%
Expected life	3 years	2.9 years
Risk-free rate	0.83%	0.58%
Expected dividend yield	2.97%	2.97%
Fair value of option (HK$'000)	HK$33,797	HK$34,727
Equivalent to (RMB'000)	RMB28,346	RMB28,812

The Binominal Option Pricing Model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

15. BANK BORROWINGS

For the six months ended 30 June 2011, the Group obtained new bank borrowings amounting to approximately RMB179,000,000 for general working capital (six months ended 30 June 2010: RMB124,050,000). Included in bank borrowings at 30 June 2011 are amounts of approximately RMB24,000,000 (31 December 2010: RMB20,000,000) which carried interest at fixed rates ranging from 5.560% to 5.841% (31 December 2010: 1.941% to 6.903%) per annum and approximately RMB80,000,000 (31 December 2010: RMB84,000,000) carried interest at variable rates ranging from 5.310% to 5.810% (31 December 2010: 4.860% to 7.550%) per annum.

During the six months ended 30 June 2011, the Group settled bank borrowings amounting to approximately RMB179,000,000 (six months ended 30 June 2010: RMB95,650,000). The bank borrowing are repayable within one year.

16. 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 2010	50,000	50,000	N/A	
Increase in authorised capital (Note b (i))	2,000,000,000	N/A	200,000,000	
Cancellation of authorised capital (Note b (iii))	(50,000)	(50,000)	N/A	
At 31 December 2010 and 30 June 2011	2,000,000,000	-	200,000,000	
Issued and fully paid:				
At 1 January 2010	1	1	N/A	-
Issued of shares during the period (Note b (i))	1,000,000	N/A	100,000	88
Repurchased during the period (Note b (ii))	(1)	(1)	N/A	-
Capitalisation of share premium (Note c)	599,000,000	N/A	59,900,000	52,776
Shares issued under placing and public offering (Note d)	200,000,000	N/A	20,000,000	17,619
At 31 December 2010	800,000,000	-	80,000,000	70,483
Issue of shares upon subscription (Note e)	24,000,000	-	2,400,000	2,013
At 30 June 2011	824,000,000	-	82,400,000	72,496

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.

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.

16. SHARE CAPITAL *(continued)*

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.

e. Pursuant to the Subscription Agreement, 24,000,000 new ordinary shares of HK$0.10 each in the Company was issued on the Subscription Completion Date. The net proceeds from the subscription after deducting all related expenses was approximately RMB33,064,000 which was used to provide additional general working capital for the Company.

f. All the new ordinary shares issued during the period/ year rank pari passu with the existing ordinary shares in all respects.

17. EQUITY-SETTLED SHARE-BASED PAYMENTS

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 acknowledging 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 fulltime 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 table below discloses the movement of the Company's share options held by the Eligible Participants.

	Number of share options '000
Outstanding at 1 January 2011	16,160
Granted during the period (Note)	33,000
Outstanding at 30 June 2011	49,160

No share options were granted during the six months ended 30 June 2010.

Note: On 4 May 2011, 33,000,000 share options were granted to Eligible Participants for a period of ten years at an exercise price of HK$1.62 per share. The closing price of the Company's shares immediately before 4 May 2011, the date of grant, was HK$1.60.

At 30 June 2011, 33,000,000 share options were exercisable (31 December 2010 : Nil).

17. EQUITY-SETTLED SHARE-BASED PAYMENTS *(continued)*

In the current period, share options were granted on 4 May 2011. The fair values of the share options determined at the date of grant using the Binomial Option Pricing Model was approximately HK$20,747,000 (equivalent to approximately RMB17,213,000).

The inputs into the model were as follows:

	4 May 2011
Closing share price	HK$1.60
Expected volatility	43.60%
Expected life	10 years
Risk-free rate	2.55%
Expected dividend yield	2.97%

The Binomial Option Pricing Model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the share options.

The Group recognised total expenses of approximately RMB19,421,000 for the six months ended 30 June 2011 (six months ended 30 June 2010: Nil) in relation to the share options granted by the Company.

18. CAPITAL COMMITMENTS

At 30 June 2011, the Group had capital expenditure in respect of construction in progress of approximately RMB1,600,000 (unaudited) (31 December 2010: RMB6,600,000, audited) contracted for but not provided in the condensed consolidated interim financial information.

19. 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. Rentals were fixed at the inception of the lease. No provision for contingent rent and terms of renewal was established in the leases.

At 30 June 2011, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due within one year of approximately RMB35,000 (unaudited) (31 December 2010: RMB32,000, audited).

20. RELATED PARTY TRANSACTIONS

In addition to the related party balances detailed in the condensed consolidated interim financial information and Notes 12 and 13, the Group had entered into the following significant transactions with related parties during the six months ended 30 June 2011 and 2010.

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

(b) Compensation of key management personnel

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

	For the six month ended 30 June	
	2011	2010
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Short-term benefits	**1,524**	1,056
Post-employment benefits	**26**	11
Equity-settled share-based payments	**9,094**	-
	10,644	1,067

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

(c) For the six months ended 30 June 2010, Fujian Xinhao Sporting Goods Development Co., Ltd.* (福建鑫豪體育發展有限公司), a company wholly-owned by Mr. Lin Ezhi, the spouse of Mr. LIN, provided a guarantee in favour of the Group in respect of bank borrowings of RMB7,500,000. The guarantee was released on 11 August 2010 upon full settlement of the bank borrowings.

** English name is for identification purpose only.*