



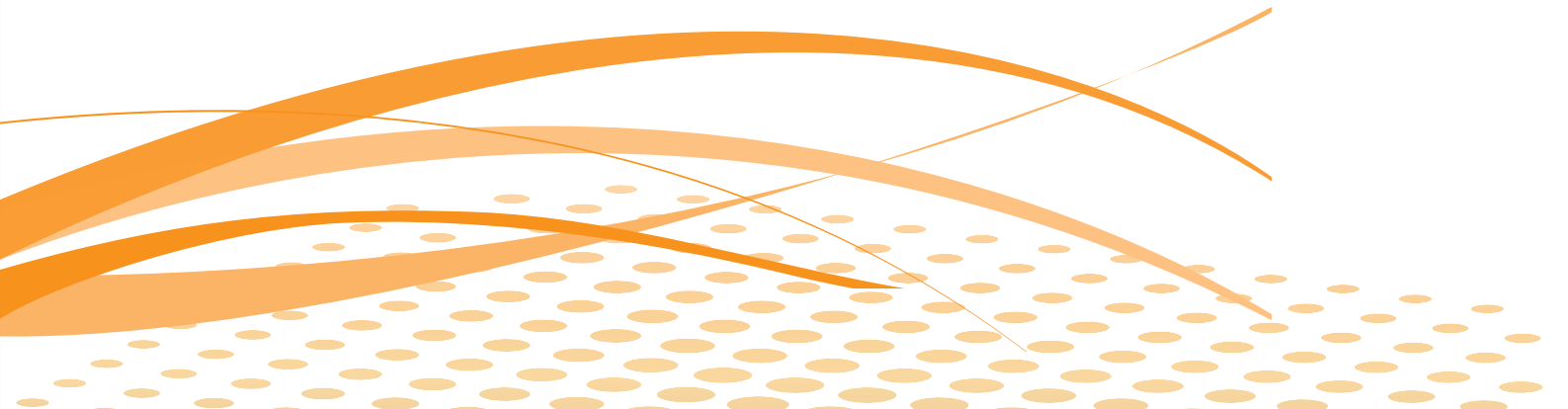
飛克國際控股有限公司

FLYKE INTERNATIONAL HOLDINGS LTD.

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

Stock Code : 1998

Annual Report 2011

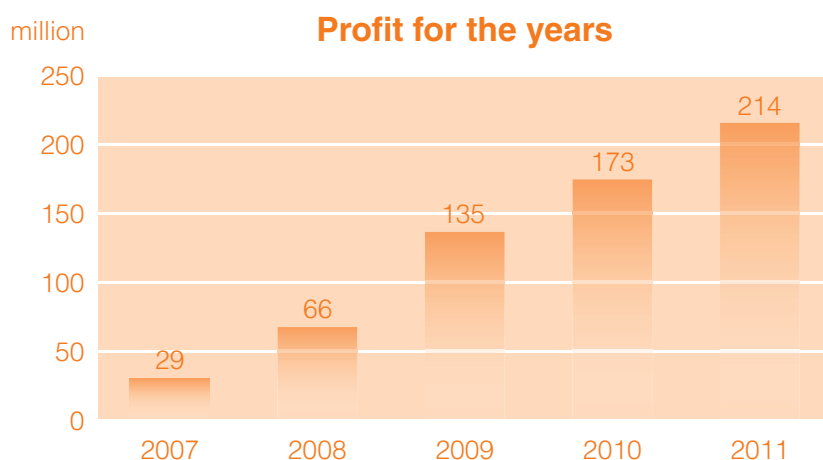
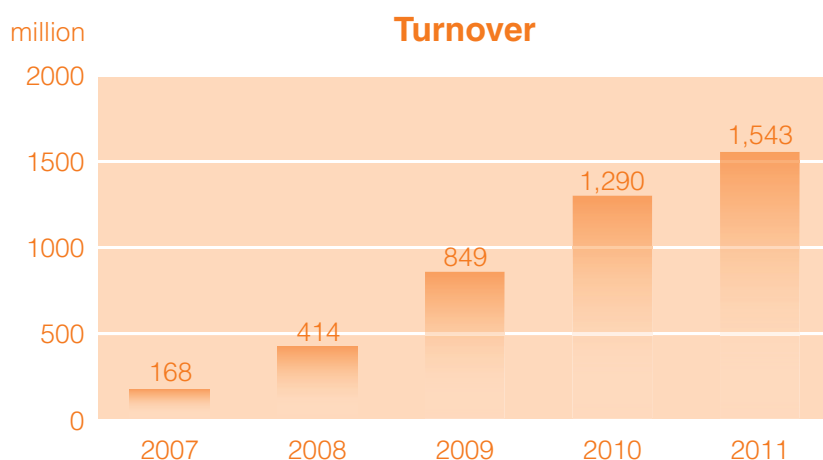


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# Financial Highlights



#### For the year ended 31 December

	2011	2010	Change %
	RMB'000	RMB'000	
Turnover	<b>1,543,096</b>	1,289,935	19.6%
Gross profit	<b>445,330</b>	368,914	20.7%
Profit for the year	<b>214,073</b>	172,649	24.0%
	(%)	(%)	
Return on equity holders' equity (note 1)	<b>26.1%</b>	29.1%	-3.0%
Gearing ratio (note 2)	<b>11.7%</b>	17.5%	-5.8%
Gross profit margin	<b>28.9%</b>	28.6%	0.3%
Basic and diluted earnings per share (RMB)	<b>0.264</b>	0.260	1.5%
Final dividend (HK\$)	<b>0.0300</b>	0.0475	-36.8%

#### Notes:

- Return on equity holder's equity is equal to the profit for the year divided by the equity.
- The calculation of gearing ratio is based on the total bank loans divided by the equity.

# Financial Summary

## PROFITABILITY DATA

	For the year ended 31 December				
	2011 (RMB'000)	2010 (RMB'000)	2009 (RMB'000)	2008 (RMB'000)	2007 (RMB'000)
Turnover	<b>1,543,096</b>	1,289,935	849,292	413,594	167,875
Gross profit	<b>445,330</b>	368,914	209,556	124,795	49,858
Profit for the year	<b>214,073</b>	172,649	134,780	66,458	29,405
Basic and diluted earnings per share (RMB) (Note 1)	<b>0.264</b>	0.260	0.168	0.083	0.037

## PROFITABILITY RATIOS

	For the year ended 31 December				
	2011 (%)	2010 (%)	2009 (%)	2008 (%)	2007 (%)
Gross profit margin	<b>28.9%</b>	28.6%	24.7%	30.2%	29.7%
Net profit margin	<b>13.9%</b>	13.4%	15.9%	16.1%	17.5%
Return on equity holders' equity	<b>26.1%</b>	29.1%	66.2%	48.0%	40.4%

## FINANCIAL POSITION DATA

	As at 31 December				
	2011 (RMB'000)	2010 (RMB'000)	2009 (RMB'000)	2008 (RMB'000)	2007 (RMB'000)
Non-current assets	<b>138,163</b>	137,185	120,358	99,751	52,700
Current assets	<b>909,649</b>	732,281	348,472	209,760	159,429
Current liabilities	<b>210,824</b>	268,035	264,610	171,197	139,310
Bank borrowings	<b>96,000</b>	104,000	116,370	48,500	43,500
Net current assets	<b>698,825</b>	464,246	83,862	38,563	20,119
Total assets less current liabilities	<b>836,988</b>	601,431	204,220	138,314	72,819
Net assets	<b>820,212</b>	592,806	203,452	138,314	72,819
Bank balances and cash	<b>313,922</b>	359,436	98,747	26,849	2,518
Current ratio (times)	<b>4.3</b>	2.7	1.3	1.2	1.1

Note 1: The weighted average number of shares in issue during the year ended 2011 and 2010 was 811,896,000 and 665,205,000 respectively, please refer to note 14 to the consolidated financial statements of this report.

# 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. WANG Dong  
Mr. ZHU Guohe

## COMPANY SECRETARY

Ms. CHOW Choi Han, *ACIS, ACS*

## BOARD COMMITTEES

### Audit Committee

Mr. CHU Kin Wang, Peleus (*Chairman*)  
Mr. WANG Dong  
Mr. ZHU Guohe

### Remuneration Committee

Mr. WANG Dong (*Chairman*)  
Mr. LI Yong  
Mr. ZHU Guohe

### Nomination Committee

Mr. WANG Dong (*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

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

## HEAD OFFICE IN THE PRC

Yongpu Industrial Zone  
Yangdai, Chendai Town  
Jinjiang City  
Fujian Province 362218  
The People's Republic of China ("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](http://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 2011 (“**Review Period**”).

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

The *Flyke* brand targets at the fashionable and casual wear market with age group ranging from 25 to 35 years old in China. The brand aim is to provide customers with quality products in fashionable design and with a reasonable price. The management had realized the competition stem from sport industry would pose considerable threat to the profits in the 2011, so it had decisively initiated the change of the product style from sport focused design to fashionable casual wear.

During the Review Period, competition in sportswear industry in China was still keen. However, *Flyke* reached a satisfactory result by engaging foreign designers to design more fashionable and casual style. The Group's aggregate turnover increased by approximately 19.6% to approximately RMB1,543.1 million as a result of this change. Expansion of authorized retail stores had also contributed to the revenue increased. The number of authorized retail stores and image stores operated by 20 authorized distributors were 2,152 and 8 respectively as of 31 December 2011. There were also 50 campus retail stores with the *Flyke* brand as of 31 December 2011.

The turnover derived from the *Flyke* products accounted for approximately 72.5% of the aggregate turnover of the Group or approximately RMB1,120.1million during the Review Period representing an increase by approximately 23.8% as compared with the same period in 2010. The increase in turnover of *Flyke* brand was partly contributed by the engagement of foreign designers in fashionable and casual wear of *Flyke* products during the Review Period. As a result of being in a much bigger (casual wear) market, creating right design with international designers enables us be ahead of competitors in identifying global fashion trend, and exploits market opportunities.

During the Review Period, the turnover derived from the Export ODM Business grew steadily by approximately 10.0% to approximately RMB372.8 million and accounted for approximately 24.2% of the aggregate turnover of the Group due to 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.

Looking into the future, to reshape the brand to a top casual wear fashion brand is our main aim. At the same time we realized direct and fast retailing will greatly increase our revenue and profit margin if we can manage it professionally. In the coming financial period, we will initiate opening direct retailing store(s), and start to build a professional retail team. The great change under-going right now, in my view will bring great fruit for our shareholders in coming years.

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*

Fujian, PRC, 30 March 2012

# Management Discussion and Analysis

## BUSINESS REVIEW

### *Flyke* brand

#### Business

The Group is principally engaged in the design, production and sales of footwear, apparels and accessories with the *Flyke* brand. The Group targets consumers with age group ranging from 25 to 35 years old in China and is selling *Flyke* products through the authorised retail stores and image stores operated by our authorised distributors. During the Review Period, our products were sold at 2,152 authorised retail stores and 8 image stores. *Flyke* products were also sold at 50 authorised campus retail stores at selected universities and tertiary institutions in China operated by our campus partner – Saier. The turnover contributed by footwear, apparels and accessories with the *Flyke* brand amounted to approximately RMB1,120.1 million, representing an increase of approximately 23.8% as compared with the same period in 2010. During the Review Period, we outsourced all apparels and accessories with the *Flyke* brand to the independent contract manufacturers via Original Equipment Manufacturers ( “OEM” ) arrangement while all footwear with *Flyke* brand was produced in-house.

#### Sustainable growth of retail network

Leveraging our management experience and understanding of customers' consumption habits in China, the Group's distribution network continues to grow steadily. The total number of authorised distributors increased from 19 as of 31 December 2010 to 20 as of 31 December 2011 while the total number of authorised retail stores and image stores increased to 2,152 and 8 respectively as of 31 December 2011. Meanwhile, our campus partner – Saier operated 50 authorised campus retail stores at selected universities and tertiary institutions in China as of 31 December 2011. To maintain the sustainable growth of retail network, we consolidated some ineffective stores and improved the store layout and store display. The expansion of the number of retail stores and the establishment of image stores also stepped up the recognition and awareness of the *Flyke* brand among the targeted market.

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 and promotion. The Group divides the China market into four sales regions, namely Northern China, Eastern China, Central/Southwestern China and Southern China.

# Management Discussion and Analysis (Continued)

The following table sets forth the number and the geographical locations of the 2,152 authorised retail stores and 8 image stores, operated by the 20 authorised distributors as of 31 December 2011:–

	Number of stores as of 31 December		Change	
	2011	2010	no. of stores	%
Northern China	624	518	106	20.5%
Eastern China	459	408	51	12.5%
Southern China	471	357	114	31.9%
Central/Southwestern China	606	530	76	14.3%
<b>Total</b>	<b>2,160</b>	<b>1,813</b>	<b>347</b>	<b>19.1%</b>

Notes:

1. Northern China includes Xinjiang, Shandong, Beijing, Yantai and 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. Total 50 campus retail stores as of 31 December 2011 were not included

## Production

As of 31 December 2011, we owned 12 production lines for footwear. All *Flyke* brand footwear were produced in-house while part of Export ODM Business is outsourced to independent contract manufacturers through OEM arrangement. The Directors are planning to increase 1 production line for footwear in the future so as to meet the increasing demand of our footwear.

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

## Product design and development

The Directors believe that the product design and development capability of the Group is the competitive edge to our sustainable growth in the competitive market. The Group thus has entered into contracts with international designers to supply updated fashion trend and design in overseas markets, to improve the existing product collections of the Group, and to develop new collections and enhance the design capacity of the design teams so as to strengthen both of our product mix and product design. During the year ended 31 December 2011, the total expenses for the product design and development increased by 16.6% to approximately RMB38.7 million representing approximately 2.5% of the aggregate turnover of the Group, from approximately RMB33.2 million for the same period in 2010.



# Management Discussion and Analysis (Continued)

## 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. During the year, the advertising and promotion expenses to the Group's turnover increased by 0.7% to 3.7%. Other than advertising, the Group also granted subsidy to our authorised distributors as our supporting for the establishment of their image stores to promote our brand image. The distributors will be entitled to the subsidy only if the agreed sales target had been achieved.

## Export ODM Business

The Group has established vertically integrated business model for the Export ODM Business with the design, production and sales of footwear to overseas markets including some international brand customers. 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 and fashion trend of footwear from the overseas markets. This multi-faceted and most updated information from the overseas markets allows us to keep on the track of international trend of footwear and improve the design of *Flyke* footwear. During the Review Period, sales from the Export ODM Business amounted to approximately RMB372.8 million, representing an increase of approximately 10.0% from approximately RMB338.8 million in 2010. This business accounted for approximately 24.2% of the Group's aggregate turnover. The Directors believe that the sales from Export ODM Business can grow steadily due to our active participation of international and internal sales fairs but the proportion of the Export ODM Business turnover to the Group's aggregate turnover may diminish due to the expected rapid growth of *Flyke* brand.

## Soles

The business is primarily engaged in the design, production and sales of soles. The sales from the business reached approximately RMB50.2 million, representing an increase of approximately 8.7% from approximately RMB46.2 million in the same period of 2010. This business accounted for approximately 3.3% of the Group's aggregate turnover for the year. As of 31 December 2011, the Group had 21 production lines with an annual production capacity of approximately 13 million pairs of soles.

# Management Discussion and Analysis (Continued)

## FINANCIAL REVIEW

### Turnover

During the year ended 31 December 2011, the aggregate turnover increased by approximately RMB253.2 million or 19.6% to approximately RMB1,543.1 million. The increase in turnover was primarily attributable to the increase in sales of our *Flyke* products.

The following table sets forth a summary of the turnover of the Group by three principal activities during the year ended 31 December 2011 (with comparative figures for the year ended 31 December 2010):–

	For the year ended 31 December			
	2011		2010	
	RMB'000	%	RMB'000	%
Sales of footwear, apparels and accessories with the <i>Flyke</i> brand	1,120,106	72.5%	905,000	70.2%
Sales under the Export ODM Business	372,804	24.2%	338,775	26.3%
Sales of soles	50,186	3.3%	46,160	3.5%
<b>Total</b>	<b>1,543,096</b>	<b>100.0%</b>	<b>1,289,935</b>	<b>100.0%</b>

### Sales of the *Flyke* products

The *Flyke* brand products include footwear, apparels and accessories. The footwear with the *Flyke* brand was produced by the Group while the apparels and accessories with the *Flyke* brand were produced by the Group's independent contract manufacturers via OEM arrangement. The Group sold all the *Flyke* products directly to the authorised distributors which operate and manage the authorised retail stores. As of 31 December 2011, *Flyke* products were sold at 2,152 authorised retail stores and 8 image stores, operated by 20 independent authorised distributors and at 50 authorised campus retail stores operated by the campus partner – Saier.

The following table illustrates the sale analysis of the *Flyke* products by product categories during the year ended 31 December 2011 (with comparative figures for the year ended 31 December 2010):–

	For the year ended 31 December			
	2011		2010	
	RMB'000	%	RMB'000	%
Sales of apparels and accessories	585,429	52.3%	468,548	51.8%
Sales of footwear	534,677	47.7%	436,452	48.2%
<b>Total</b>	<b>1,120,106</b>	<b>100.0%</b>	<b>905,000</b>	<b>100.0%</b>

## Management Discussion and Analysis (Continued)

The following table sets forth a sale breakdown of the *Flyke* brand (excluded the turnover from authorised campus retail stores) by regions during the Review Period:

	For the year ended 31 December				
	2011		2010		Change
	RMB'000	% of Turnover	RMB'000	% of Turnover	
Northern China	291,515	26.1%	225,696	24.9%	29.2%
Eastern China	209,914	18.7%	174,574	19.3%	20.2%
Southern China	274,366	24.5%	226,075	25.0%	21.4%
Central/Southwestern China	344,311	30.7%	278,655	30.8%	23.6%
<b>Total</b>	<b>1,120,106</b>	<b>100.0%</b>	<b>905,000</b>	<b>100.0%</b>	<b>23.8%</b>

Notes: The sales from authorised campus retail stores operated by Saier of approximately RMB29.9 million for the Review Period (2010: RMB29.1 million) were included in Eastern China.

The increase in turnover of *Flyke* products was attributed to the increase in sales volume and ex-factory price as the improvement in design and material as well 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 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 2011 (with comparative figures for the year ended 31 December 2010):-

	For the year ended 31 December				
	2011		2010		Change of average ex-factory price
	Total pairs/pieces sold '000	Average ex-factory price RMB	Total pairs/ pieces sold '000	Average ex-factory price RMB	
Apparels and accessories (pieces/sets)	8,195	71.4	7,723	60.7	17.6%
Footwear (pairs)	7,326	73.0	6,606	66.1	10.4%

### Sales of footwear under the Export ODM

The Export ODM Business enjoyed a steady growth during the year ended 31 December 2011, albeit that the percentage contributing to the aggregate turnover of the Group during the year decreased. This was principally due to the rapid growth in sales of the *Flyke* products. During the year ended 31 December 2011, the Export ODM Business recorded a steady growth of approximately 10.0% to approximately RMB372.8 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 increased quantities.

## Management Discussion and Analysis (Continued)

The following table illustrates a sale analysis of the Export ODM Business by production sources during the year ended 31 December 2011 (with comparative figures for the year ended 31 December 2010):–

	For the year ended 31 December			
	2011		2010	
	RMB'000	%	RMB'000	%
Sales of own produced footwear	244,273	65.5%	203,287	60.0%
Sales of outsourced footwear	128,531	34.5%	135,488	40.0%
<b>Total</b>	<b>372,804</b>	<b>100.0%</b>	<b>338,775</b>	<b>100%</b>

The following table sets forth the number of pairs sold and the average selling price of footwear for the Export ODM Business for the year ended 31 December 2011 (with comparable figures for the year ended 31 December 2010):–

	For the year ended 31 December				
	2011		2010		Change of average ex-factory price %
	Total pairs sold '000	Average ex-factory price RMB	Total pairs sold '000	Average ex-factory price RMB	
Footwear	6,572	56.7	6,282	53.9	5.2%

### Sales of soles

During the year ended 31 December 2011, the sales of soles increased by approximately 8.7% to approximately RMB50.2 million principally due to the increased demand for footwear in the market.

### Cost of sales

The cost of sales was incurred in (a) the design and production of the *Flyke* footwear, apparels and accessories; (b) the design and production of the footwear for the Export ODM Business; (c) the design and production of Soles and (d) the outsourcing fees to the Group's contract manufacturers for the production of certain footwear for the Export ODM Business and the apparels and 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 2011, total cost of sales increased by approximately 19.2% to approximately RMB1,097.8 million from approximately RMB921.0 million for the year ended 31 December 2010, of which the outsourcing fee to contract manufacturers increased by approximately 17.3% to approximately RMB523.8 million for the year ended 31 December 2011 from approximately RMB446.7 million for the year ended 31 December 2010.

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

# Management Discussion and Analysis (Continued)

## Gross profit and gross profit margin

The gross profit of the Group increased by approximately 20.7% to approximately RMB445.3 million (2010: RMB368.9 million) while the gross profit margin was kept at a similar level of approximately 28.9% (2010: 28.6%). The increase in gross profit was mainly attributable to the growth of *Flyke* brand.

The following table illustrates the gross profit and the gross profit margins of the Group by its principal activities, namely footwear, apparels and accessories with the *Flyke* brand, the Export ODM Business and soles during the year ended 31 December 2011 (with comparative figures for the year ended 31 December 2010):-

	For the year ended 31 December			
	2011		2010	
	RMB'000	%	RMB'000	%
Sales of footwear, apparels and accessories with the <i>Flyke</i> brand	342,872	30.6%	277,378	30.6%
Sales under Export ODM Business	91,362	24.5%	81,085	23.9%
Sales of soles	11,096	22.1%	10,451	22.6%
<b>Total</b>	<b>445,330</b>	<b>28.9%</b>	<b>368,914</b>	<b>28.6%</b>

## *Flyke* products

The gross profit for the sales of the *Flyke* products during the Review Period increased by approximately 23.6% to approximately RMB342.9 million while the gross profit margin was kept at approximately 30.6% as the increase in ex-factory price was offset by the increase in cost of raw material and labour. The increase of gross profit was primarily attributable to the retail network expansion and increase in ex-factory price and quantities as a result of the improvement of design and materials 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 2011 (with comparative figures for the year ended 31 December 2010):-

	For the year ended 31 December			
	2011		2010	
	RMB'000	Gross profit margin %	RMB'000	Gross profit margin %
Sales of apparels and accessories	166,267	28.4%	133,555	28.5%
Sales of footwear	176,605	33.0%	143,823	33.0%
<b>Total</b>	<b>342,872</b>	<b>30.6%</b>	<b>277,378</b>	<b>30.6%</b>

# Management Discussion and Analysis (Continued)

## Export ODM Business

The gross profit for the Export ODM Business for the Review Period increased by approximately 12.7% to approximately RMB91.4 million while the gross profit margin increased from approximately 23.9% for the year ended 31 December 2010 to approximately 24.5% for the year ended 31 December 2011. The increase in gross profit was a result of the increase of in-house production of footwear and the increase in sales volume and ex-factory price and also of the improvement of design and materials during Review Period.

## Sales of soles

The gross profit for the sales of soles increased by approximately 6.2% to approximately RMB11.1 million. The increase in gross profit was attributable to the increase in quantities sold.

## Other income

The other income of the Group for the year ended 31 December 2011 decreased to approximately RMB1.8 million (2010: RMB4.6 million) due to a subsidy granted by local government of approximately RMB3.7 million for successful listing in March 2010 of which approximately RMB3.3 million was received and recognised as income during the year ended 31 December 2010.

## Selling and distribution expenses

During the year ended 31 December 2011, the selling and distribution expenses amounted to approximately RMB74.5 million (2010: RMB56.6 million) representing approximately 4.8% to the aggregate sales of the Group (2010: 4.4%). 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 awareness and image in mass media during the Review Period and the increase in salary of staff due to the expansion of the Group business.

## Administrative expenses

During the year ended 31 December 2011, the administrative expenses amounted to approximately RMB33.8 million (2010: RMB55.0 million) representing a decrease of approximately 38.5%. The decrease was primarily due to the professional fees incurred for the purpose of the listing plan for the year ended 31 December 2010.

# Management Discussion and Analysis (Continued)

## 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 RMB38.7 million (2010: RMB33.2 million) representing approximately 2.5% of aggregate turnover (2010: 2.6%).

## Equity-settled share-based payments

The recognition of approximately RMB21.6 million as to equity-settled share-based payment was a result of share options granted to the eligible employees and Directors.

## Finance costs

The finance costs consisted of interest expense on bank borrowings. During the year ended 31 December 2011, the finance costs incurred by the Group amounted to approximately RMB9.1 million (2010: RMB7.3 million) due to the increase in interest rate of the Group during the Review Period. The balance of bank borrowings were approximately RMB96.0 million as of 31 December 2011 (2010: RMB104.0 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 2011. The Group was not subject to any tax in the Cayman Islands and the British Virgin Islands during the year ended 31 December 2011.

The Group's income tax expense during the year ended 31 December 2011 amounted to approximately RMB55.4 million (2010: RMB48.7 million), representing an increase of approximately 13.8%, which was mainly due to the increase in profit derived from the Group. Flyke (China) is subject to Law of People's Republic of China on Enterprise Income Tax ("EIT") 12.5% from 1 January 2010 to 31 December 2011. The Group's effective income tax rate was approximately 20.5% for the year ended 31 December 2011 (2010: 22.0%).

## Profit for the year

Profit for the year increased by approximately 24.0% from approximately RMB172.6 million for the year ended 31 December 2010 to RMB214.1 million for the year ended 31 December 2011. The increase in the profitability of the Group was principally driven by the increase in profits in *Flyke* brand.

## BUSINESS OUTLOOK

### *Flyke* brand

As a result of keen competition of sportswear industry and the prosperous prospect of the fashionable and casual wear industry in China, we started to allocate our resources to the fashionable and casual style products during the Review Period, which we achieved a satisfied result. To enlarge the market shares and grasp this opportunity in view of sustainable growth of our business in fashionable and casual wear, 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 enhance the awareness and image of the Group, we appointed a professional firm and implemented the recommendations provided by the specialists and engaged the overseas designers, to advise the Group's brand image and design. The Group will continue to allocate resources for advertising and promotion activities to promote the *Flyke* brand awareness and image. Meanwhile, the steady growth of our distribution network and the establishment of our image stores will be another effective way to enhance brand awareness and image.

# Management Discussion and Analysis (Continued)

## Sales network expansion

We will continue to increase the authorised retail stores steadily in light of the rapid growth of continuous urbanization and the expected increase in their consumption power in China in the coming years. The authorised retail stores and image stores increased by 343 and 4 respectively during the Review Period and we expect the authorised retail stores will increase sustainably. Other than the authorised retail stores and image stores established by our authorised distributors, the Group will open our self-operated image stores in the near future.

## Product innovation

Other than our design staff, the Group had also engaged overseas designers to advise us on brand image, design and identity so as to enhance our capacities in design, research and development. The Group will continue to engage some international designers in order to improve our capacity and image as well as to support our future development.

## Production capacity

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

## Export ODM Business

Except for *Flyke* brand, Export ODM Business is another source of income contributed to the Group. To maintain the growth of the business, the Group will continuously participate in international exhibitions to increase international recognition and awareness. The Directors also 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 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 up to the Review Period: –

Use of net proceeds from the global offering	(HK\$ million)		
	Available to utilise	Utilised as of 31 December 2011	Unutilised as of 31 December 2011
Improvement in our information technology systems	22.5	-	22.5
Expansion of our product research and development teams	63.9	63.9	-
Establishment of 7 flagship stores and 23 image stores	63.9	24.6	39.3
Increase three footwear production lines	23.0	8.5	14.5
Establish new production facilities for apparels with the <i>Flyke</i> brand	80.0	-	80.0
Advertising and marketing activities	110.0	110.0	-
Total	363.3	207.0	156.3



# Management Discussion and Analysis (Continued)

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The bank balances and cash of the Group decreased from approximately RMB359.4 million as of 31 December 2010 to approximately RMB313.9 million as of 31 December 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 of Hong Kong Limited (the "Stock Exchange") will enable the Group to meet its future working capital requirements.

The net assets increased to approximately RMB820.2 million as of 31 December 2011 from approximately RMB592.8 million as of 31 December 2010.

The bank borrowings was approximately RMB96.0 million as of 31 December 2011 (2010: RMB104.0 million), all denominated in Renminbi.

As of 31 December 2011, the Group's gearing ratio (measured by total bank loans divided by the equity) was 11.7% (2010: 17.5%).

## 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 31 December 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 subscribe for a total of 96,000,000 option shares.

# 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 2011.

## 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.

## PRINCIPAL OPERATIONS

The Group's principal business activities during the financial year ended 31 December 2011 were design, production and sales of footwear, apparels and accessories.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2011 are set out in the consolidated statement of comprehensive income on page 35.

A final dividend of RMB0.0249 per share (equivalent to approximately HK\$0.030 at exchange rate RMB0.83: HK\$1) 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 22 June 2012.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed and no transfer of Shares of the Company will be registered during the following periods:

1. from Tuesday, 22 May 2012 to Friday, 25 May 2012, both days inclusive, for the purpose of determining the entitlement to attend and vote at the AGM. In order to qualify to attend and vote at the AGM, all transfers of Shares of the Company accompanied by the relevant share certificates and appropriate transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Union Registrars Limited, at 18th Floor, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong, not later than 4:00 p.m. on Monday, 21 May 2012.
2. from Monday, 4 June 2012 to Wednesday, 6 June 2012, both days inclusive, for the purpose of qualifying the entitlement to the proposed final dividend for the year ended 31 December 2011. In order to qualify for entitlement to the proposed final dividend for the year ended 31 December 2011, all transfers of Shares of the Company accompanied by the relevant share certificates and appropriate transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Union Registrars Limited, at 18th Floor, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong, not later than 4:00 p.m. on Friday, 1 June 2012.

## 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 2011 are set out in note 16 to the consolidated financial statements.

# Report of the Directors (Continued)

## SHARE CAPITAL

Details of share capital of the Company during the financial year ended 31 December 2011 are set out in note 25 to the consolidated financial statements.

## RESERVES

Details of the movements in reserves of the Company are set out in note 33 to the consolidated financial statement.

## 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 2011, the aggregate sales to the Group's five largest customers accounted for approximately 43% of the Group's turnover and sales to the Group's largest customer was approximately 24% of the Group's total turnover.

During the year, the aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 41% of the Group's total purchases, and the purchases attributable to the Group's largest supplier was approximately 10% 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

On 27 May 2011, the Shareholders granted a general and unconditional mandate to the Directors, in the annual general meeting of the Company, to exercise all powers of the Company to repurchase up to 10% of the aggregate nominal amount of the issued share capital of the Company as at 27 May 2011.

During the Review Period, the Company repurchased a total of 10,456,000 fully paid ordinary shares of the Company at an aggregate consideration of approximately HK\$9.55 million on the Stock Exchange. Details of the repurchases of such ordinary shares of the Company were as follows:

Month of repurchase	Number of ordinary shares repurchased	Price per ordinary share		Aggregate purchase price (HK\$)
		Highest price paid (HK\$)	Lowest price paid (HK\$)	
September 2011	5,164,000	1.02	0.79	4,951,400
October 2011	2,914,000	0.90	0.78	2,399,760
November 2011	1,494,000	0.95	0.90	1,365,660
December 2011	884,000	0.99	0.91	831,540
Total	10,456,000			9,548,360

# Report of the Directors (Continued)

All of the 10,456,000 repurchased ordinary shares of the Company were cancelled during the Review Period and the issued share capital of the Company was reduced by the par value thereof. The above repurchases were effected by the Directors, pursuant to the mandate from the Shareholders, with a view to benefit the Shareholders as a whole in enhancing the net assets and earnings per share of the Company.

Save as disclosed in this report, there was no purchase, sale or redemption, by the Company or any of its subsidiaries, of the Company's listed securities during the Review Period.

## ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended 31 December 2011 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 during the Review Period and up to the date of this report were:

### 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. WANG Dong (appointed on 24 February 2012)

Mr. HUANG Shanhe (resigned on 24 February 2012)

Pursuant to article 83 of the Company's articles of association, Mr. WANG Dong (appointed to fill a casual vacancy) shall hold office until the first general meeting of Shareholders after his appointment, that is the forthcoming annual general meeting, and be subject to re-election at such meeting.

Pursuant to article 84 of the Company's articles of association, Mr. LIN Wenzu and Mr. CHU Kin Wang, Peleus 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 30 to 32 of this report.

# Report of the Directors (Continued)

## 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 and shall continue thereafter.

Each of the independent non-executive Directors has entered into a service agreement with the Company for a fixed term of two years commencing on 24 February 2012.

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.

## DISCLOSURE OF INFORMATION ON DIRECTORS

Pursuant to rule 13.51B of the Listing Rules, the changes of information on Directors are as follows:

Mr. CHU Kin Wang, Peleus, an independent non-executive Director, has been appointed as the independent non-executive director of China Vehicle Components Technology Holdings Limited (stock code: 1269), a company listed on the main board of the Stock Exchange and China AU Group Holdings Limited (stock code: 8176), a company listed on the GEM board of the Stock Exchange with effect from 19 October 2011 and 5 March 2012 respectively.

## 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.

# Report of the Directors (Continued)

## 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.

An offer of the grant of an option shall remain open for acceptance for a period of 28 days from the date of offer (or such longer period as the Board may specify in writing). And the Eligible Participants are required to pay the Company HK\$1.00 upon acceptance of the grant of the option.

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 exercise of all options to be granted under the Share Option Scheme shall not in aggregate exceed 10% of the Shares in issued as at the date of listing, i.e. 80,000,000 Shares or 30% of the issued share capital of the Company from time to time. As at the date of this report, Shares available for issue under the Share Option Scheme representing approximately 9.84% of the total number of Shares in issue. 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. The Board has the authority to determine the minimum period for which an option must be held before it can vest. The Share Option Scheme itself does not specify any minimum holding period.

The Share Option Scheme will remain in force for a period of 10 years from the date of its adoption and the remaining life of the Share Option Scheme is approximately 8 years.

## Report of the Directors (Continued)

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 Review Period:

Name or category of participant	Date of grant	Outstanding as of 1 January 2011	Granted during the Review Period	Exercised during the Review Period	Cancelled/ Lapsed during the Review Period	Outstanding as of 31 December 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 Review Period is HK\$20,747,000.

# Report of the Directors (Continued)

## 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 2011.

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 2011.

## 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 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	59.06%
	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.



## Report of the Directors (Continued)

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	59.00%
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	122,400,000 (note 1)	15.05%
	Beneficial owner	10,400,000	—	Long		
Equity Trust (HK) Limited	Trustee	80,400,000	—	Long	80,400,000 (note 2)	9.76%

Notes:

- 112,000,000 Shares and underlying 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.
- The Shares are held on trust for Mr. LIN Wenzu and Mr. LIN Mingxu, the beneficiaries of The Flyke Trust.

# Report of the Directors (Continued)

## **CORPORATE GOVERNANCE**

Principal corporate governance practices as adopted by the Company are set out in the Corporate Governance Report section set out on pages 26 to 29 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*

Fujian, PRC, 30 March 2012

# 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 Appendix 14 of the Listing Rules upon its Listing on 29 March 2010. During the Review Period, 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.2.1 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. During the Review Period and up to the date of this report, the composition of the Board was as following:

### 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. WANG Dong (appointed on 24 February 2012)  
Mr. HUANG Shanhe (resigned on 24 February 2012)

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 titled "Biographical Details of Directors and Senior Management" in this report.

# Corporate Governance Report (Continued)

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 a fixed term of two years from 24 February 2012. 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 2011.

## 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 mainly 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. During the Review Period, the Audit Committee consists of all three independent non-executive Directors, namely Mr. CHU Kin Wang, Peleus, Mr. HUANG Shanhe and Mr. ZHU Guohe. Mr. CHU is the chairman of the Audit Committee. During the Review Period, the Audit Committee held four meetings to make recommendation on the re-appointment of external auditor, review financial statements, financial reporting system and internal control procedures of the Company.

### 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. During the Review Period, 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 was the chairman of the Remuneration Committee. During the Review Period, the Remuneration Committee held one meeting to review, determine and make recommendation on the remuneration policy and structure relating to Directors and senior management of the Company.

# Corporate Governance Report (Continued)

## 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. During the Review Period, the Nomination Committee consists of three members, namely Mr. LIN Wenzu, an executive Director and Mr. HUANG Shanhe and Mr. ZHU Guohe. Mr. HUANG was the chairman of the Nomination Committee. During the Review Period, the Nomination Committee held one meeting to review the structure, size and composition of the Board.

## BOARD MEETINGS

During the Review Period, the Directors have made contribution to the affairs of the Group and eleven Board meetings were held to review and approve the interim and annual results, the overall development strategies and financial objectives 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.

During the Review Period, four regular Board meetings were held and details of Directors' attendance record throughout the Review Period is as follows:

Directors	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting
<b>Executive Directors</b>				
Mr. LIN Wenjian	10/11	N/A	N/A	N/A
Mr. LIN Mingxu	11/11	N/A	N/A	N/A
Mr. LIN Wenzu	11/11	N/A	N/A	1/1
Mr. LI Yong	11/11	N/A	1/1	N/A
<b>Independent non-executive Directors</b>				
Mr. CHU Kin Wang, Peleus	11/11	4/4	N/A	N/A
Mr. ZHU Guohe	10/11	4/4	1/1	1/1
Mr. HUANG Shanhe (resigned on 24 February 2012)	7/11	3/4	1/1	1/1
Mr. WANG Dong (appointed on 24 February 2012)	0/0	0/0	0/0	0/0

## 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.

# Corporate Governance Report (Continued)

## 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 2011, 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 2011, the fee paid/payable to the auditor of the Company in respect of audit services amounted to approximately HK\$1 million and non-audit services amounted to approximately HK\$300,000.

## 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

In accordance with the Listing Rules, any vote of shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Therefore, all votes of the shareholders at general meetings of the Company shall 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 42, 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 21 years' experience, Mr. LIN Wenjian has indepth 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 泉州恆達製鞋有限公司 (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 40, 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 19 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 泉州恆達製鞋有限公司 (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 37, 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 manager 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 11 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 泉州恆達製鞋有限公司 (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 38, 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 18 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.

## Biographical Details of Directors and Senior Management (Continued)

### Independent non-executive Directors

**Mr. CHU Kin Wang, Peleus**, aged 47, 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, auditing, 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), EYANG Holdings (Group) Co., Limited (宇陽控股(集團)有限公司) (stock code: 117), China Vehicle Components Technology Holdings Limited (中國車輛零部件科技控股有限公司) (stock code: 1269) and China AU Group Holdings Limited (中國金豐集團控股有限公司) (stock code: 8176).

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 Sun Century Group Ltd. (太陽世紀集團有限公司) (stock code: 1383), during the relevant period known as Hong Long Holdings Limited (鴻隆控股有限公司).

Mr. CHU graduated from The University of Hong Kong with a master degree in business administration. 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. WANG Dong**, aged 34, is an independent non-executive Director, appointed on 24 February 2012. Mr. WANG is also the chairman of the remuneration committee and nomination committee of the Board and a member of the audit committee of the Board. Mr. WANG graduated from the Xiamen University (廈門大學) and obtained a Bachelor of Physics in 1999, he also obtained a Master of Radio Physics (無線電物理學碩士) from the School of Physics & Mechanical and Electrical Engineering of the Xiamen University (廈門大學物理及機電工程學院) in 2002. Mr. WANG became a teaching assistant in the Department of Physics of the Xiamen University in 2002 and he is currently an assistant professor of the School of Physics & Mechanical and Electrical Engineering of the Xiamen University.

**Mr. ZHU Guohe**, aged 42, 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 15 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.



## Biographical Details of Directors and Senior Management (Continued)

### SENIOR MANAGEMENT

#### Chief financial officer

**Mr. CHIM Kam Pang**, aged 34, is the chief financial officer. Mr. CHIM has over eight 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 50, 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 31, 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 35, 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 43, 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 47, 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 37, 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



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 35 to 78, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and 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, 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. 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.

# Independent Auditor's Report (Continued)

## 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 2011 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*

### **Pang Wai Hang**

Practising Certificate Number: P05044

Hong Kong

30 March 2012

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Turnover	7	<b>1,543,096</b>	1,289,935
Cost of sales		<b>(1,097,766)</b>	(921,021)
Gross profit		<b>445,330</b>	368,914
Other income	9	<b>1,765</b>	4,572
Selling and distribution expenses		<b>(74,541)</b>	(56,607)
Administrative expenses		<b>(33,752)</b>	(55,035)
Other operating expenses		<b>(38,722)</b>	(33,219)
Equity-settled share-based payments		<b>(21,579)</b>	-
Finance costs	10	<b>(9,067)</b>	(7,326)
Profit before tax	11	<b>269,434</b>	221,299
Income tax expense	12	<b>(55,361)</b>	(48,650)
Profit for the year		<b>214,073</b>	172,649
Exchange differences arising on translation of foreign operations and other comprehensive expenses for the year		<b>(1,377)</b>	(2,859)
Total comprehensive income for the year		<b>212,696</b>	169,790
Earnings per share (RMB)			
Basic and diluted	14	<b>0.264</b>	0.260

# Consolidated Statement of Financial Position

As at 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	16	114,668	113,177
Prepaid lease payments	17	23,495	24,008
		<b>138,163</b>	137,185
<b>Current assets</b>			
Inventories	18	67,957	40,258
Trade and other receivables	19	527,257	332,074
Prepaid lease payments	17	513	513
Bank balances and cash	20	313,922	359,436
		<b>909,649</b>	732,281
<b>Current liabilities</b>			
Trade and other payables	21	83,556	149,511
Amount due to the controlling shareholder	22	63	6
Amount due to a director	22	72	72
Income tax payable		31,133	14,446
Bank borrowings	24	96,000	104,000
		<b>210,824</b>	268,035
<b>Net current assets</b>		<b>698,825</b>	464,246
		<b>836,988</b>	601,431
<b>Capital and reserves</b>			
Share capital	25	71,627	70,483
Reserves		748,585	522,323
<b>Total equity</b>		<b>820,212</b>	592,806
<b>Non-current liability</b>			
Deferred tax liabilities	26	16,776	8,625
		<b>836,988</b>	601,431

The consolidated financial statements on pages 35 to 78 were approved and authorised for issue by the board of directors on 30 March 2012 and are signed on its behalf by:

LIN Wenjian

LIN Wenzu

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Share capital RMB'000 (Note 25)	Share premium RMB'000 (Note a)	Capital redemption reserve RMB'000 (Note b)	Special reserve RMB'000 (Note c)	Statutory reserve RMB'000 (Note d)	Share options reserve RMB'000	Translation reserve RMB'000	Retained earnings RMB'000	Proposed final dividend RMB'000	Total equity RMB'000
At 1 January 2010	-	-	-	28,256	27,110	-	25	148,061	-	203,452
Profit for the year	-	-	-	-	-	-	-	172,649	-	172,649
Other comprehensive expense for the year	-	-	-	-	-	-	(2,859)	-	-	(2,859)
Total comprehensive income (expense) for the year	-	-	-	-	-	-	(2,859)	172,649	-	169,790
Issue of shares during the year	88	-	-	-	-	-	-	-	-	88
Shares issued under placing and public offering	17,619	317,150	-	-	-	-	-	-	-	334,769
Transaction costs attributable to issue of shares	-	(15,293)	-	-	-	-	-	-	-	(15,293)
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
At 1 January 2011	70,483	249,081	-	28,256	48,062	-	(2,834)	167,758	32,000	592,806
Profit for the year	-	-	-	-	-	-	-	214,073	-	214,073
Other comprehensive expense for the year	-	-	-	-	-	-	(1,377)	-	-	(1,377)
Total comprehensive income (expense) for the year	-	-	-	-	-	-	(1,377)	214,073	-	212,696
Issue of shares upon subscription	2,013	31,200	-	-	-	-	-	-	-	33,213
Transaction costs attributable to issue of shares	-	(149)	-	-	-	-	-	-	-	(149)
Recognition of equity-settled share-based payments	-	-	-	-	-	21,579	-	-	-	21,579
Shares repurchase and cancelled	(869)	(7,064)	869	-	-	-	-	(869)	-	(7,933)
Transfer from retained earnings	-	-	-	-	25,511	-	-	(25,511)	-	-
Dividend paid during the year (Note 15)	-	-	-	-	-	-	-	-	(32,000)	(32,000)
Proposed final dividend (Note 15)	-	-	-	-	-	-	-	(20,277)	20,277	-
At 31 December 2011	71,627	273,068	869	28,256	73,573	21,579	(4,211)	335,174	20,277	820,212

## Notes:

- 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.
- Capital redemption reserve represents the nominal value of the shares repurchased which has been paid out of the distributable reserves of the Company.
- 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.
- 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.

# Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	2011 RMB'000	2010 RMB'000
<b>OPERATING ACTIVITIES</b>		
Profit before tax	<b>269,434</b>	221,299
Adjustments for :		
Amortisation of prepaid lease payments	<b>513</b>	418
Bank interest income	<b>(1,325)</b>	(922)
Depreciation of property, plant and equipment	<b>9,163</b>	8,409
Equity-settled share-based payments	<b>21,579</b>	-
Finance costs	<b>9,067</b>	7,326
Operating cash flows before movements in working capital	<b>308,431</b>	236,530
Increase in inventories	<b>(27,699)</b>	(14,434)
Increase in trade and other receivables	<b>(195,183)</b>	(110,823)
(Decrease) increase in trade and other payables	<b>(66,173)</b>	13,725
Cash generated from operations	<b>19,376</b>	124,998
Income tax paid	<b>(30,523)</b>	(35,036)
<b>NET CASH (USED IN) FROM OPERATING ACTIVITIES</b>	<b>(11,147)</b>	89,962
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment and prepaid lease payments	<b>(10,654)</b>	(25,667)
Interest received	<b>1,325</b>	922
Placements of pledged bank deposits	-	(2,220)
Withdrawal of pledged bank deposits	-	4,440
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(9,329)</b>	(22,525)

# Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2011

	2011 RMB'000	2010 RMB'000
<b>FINANCING ACTIVITIES</b>		
New bank borrowings raised	<b>221,000</b>	337,050
Shares issued under subscription agreement, net of issuing expenses	<b>33,064</b>	-
Advance from (repayment to) the controlling shareholder	<b>57</b>	(3,956)
Interest paid	<b>(9,067)</b>	(7,326)
Payment for repurchase of shares	<b>(7,933)</b>	-
Dividend paid	<b>(32,000)</b>	(100,000)
Repayment of bank borrowings	<b>(229,000)</b>	(349,420)
Shares issued under placing and public offering, net of issuing expenses	-	319,476
Issue of shares	-	88
Advance from a director	-	72
<b>NET CASH (USED IN) FROM FINANCING ACTIVITIES</b>	<b>(23,879)</b>	195,984
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(44,355)</b>	263,421
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<b>359,436</b>	98,747
Effect of foreign exchange rate changes	<b>(1,159)</b>	(2,732)
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash</b>	<b>313,922</b>	359,436



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 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 year ended 31 December 2010.

The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in design, production and sales of footwear, apparels and accessories. The Company acts as an investment holding company. Details of the principal activities of its subsidiaries are set out in Note 34.

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 HKFRSs issued by the HKICPA.

Amendments to HKFRS 1	Limited Exemptions from Comparative HKFRS 7 Disclosures for First-Time Adopters
Amendments to HKFRSs Hong Kong Accounting Standard ("HKAS") 24 (as revised in 2009)	Improvements to HKFRSs issued in 2010 Related Party Disclosures
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK(IFRIC) – Interpretation ("Int") 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

The adoption of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

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

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters <sup>1</sup>
Amendments to HKFRS 7	First-time Adoption of HKFRSs – Government Loans <sup>2</sup> Disclosures – Transfers of Financial Assets <sup>1</sup> Disclosures – Offsetting Financial Assets and Financial Liabilities <sup>2</sup> Mandatory Effective Date of HKFRS 9 and Transition Disclosures <sup>3</sup>
HKFRS 9	Financial Instruments <sup>3</sup>
HKFRS 10	Consolidated Financial Statements <sup>2</sup>
HKFRS 11	Joint Arrangements <sup>2</sup>
HKFRS 12	Disclosure of Interests in Other Entities <sup>2</sup>
HKFRS 13	Fair Value Measurement <sup>2</sup>
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income <sup>5</sup>
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets <sup>4</sup>
HKAS 19 (as revised in 2011)	Employee Benefits <sup>2</sup>
HKAS 27 (as revised in 2011)	Separate Financial Statements <sup>2</sup>
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures <sup>2</sup>
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities <sup>6</sup>
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2011.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2013.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2015.

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2012.

<sup>5</sup> Effective for annual periods beginning on or after 1 July 2012.

<sup>6</sup> Effective for annual periods beginning on or after 1 January 2014.

### **Amendments to HKFRS 7 Disclosures – Transfers of Financial Assets**

The amendments to HKFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors of the Company anticipate that the application of these amendments to HKFRS 7 will have no significant effect on the Group's disclosures regarding transfers of financial assets in the future.

### **Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities and amendments to HKFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities**

The amendments to HKAS 32 clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of “current has a legally enforceable right of set-off” and “simultaneous realisation and settlement”.

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amended offsetting disclosures are required for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

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

### ***HKFRS 9 Financial Instruments***

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

Key requirements of HKFRS 9 are described as follows:

- 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 the 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. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of 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 presented 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.

The directors of the Company anticipate that the adoption of HKFRS 9 in the future may have 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.

### ***New and revised standards on consolidation, joint arrangements, associates and disclosures***

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and HK (SIC) – Int 12 Consolidation – Special Purpose Entities. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

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

### *New and revised standards on consolidation, joint arrangements, associates and disclosures* (Continued)

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures and HK (SIC) – Int 13 Jointly Controlled Entities – Non-Monetary Contributions by Ventures. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joints arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The directors of the Company anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The application of these five standards may have significant impact on amounts reported in the consolidated financial statements. However, the directors of the Company have not yet performed a detailed analysis of the impact of the application of these standards and hence have not yet quantified the extent of the impact.

### **HKFRS 13 – Fair Value Measurement**

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instruments for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 Financial Instruments – Disclosures will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors of the Company anticipate that HKFRS 13 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 affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

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

### *Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income*

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

## 3. SIGNIFICANT ACCOUNTING POLICIES

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.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that 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 goods.

The principal accounting policies are set out below.

### **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.

### **Merger accounting for business combination involving entities under common control**

The consolidated financial statements incorporate the financial statements items of the combining entities or business in which the common control combination occurs as if they had been combined from the date when the combining entities or business first came under the control of the controlling party.

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

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Merger accounting for business combination involving entities under common control

(Continued)

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

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

### Revenue recognition

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

Revenue from the sale of goods is recognised when the goods are delivered and title has passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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 income can be measured reliably. Interest income 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 in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives 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.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Property, plant and equipment** (Continued)

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. Costs include professional fee and, for qualifying assets, borrowing cost capitalised in accordance with the Group's accounting policy. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

### **Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the 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 lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

#### *Leasehold land for own use*

When a lease includes both land and building elements, the Group assesses 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, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease.

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. 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.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

## 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. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of 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) using exchange rates prevailing at the end of each reporting period. Income and expenses items 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 translation reserve.

### 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 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.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

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

### Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme ("MPF Scheme") and state-managed retirement benefit schemes are recognised 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).



# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Share-based payment transactions (Continued)

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.

For share options that are vested at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When 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.

### 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 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.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Taxation** (Continued)

Current and 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 current and deferred tax are 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. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

### **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.

### **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. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. 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.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Financial instruments** (Continued)

#### **Financial assets** (Continued)

##### *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 and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

##### *Impairment loss on financial assets*

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be 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, in addition, 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 90 to 120 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

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

For financial assets measured at amortised cost, if, in a subsequent period, the amount of 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 as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### *Financial liabilities and equity instruments* (Continued)

##### *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

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

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.

##### *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.

### **Derecognition**

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### *Derecognition* (Continued)

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.

A substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished and the consideration paid (if any) shall be 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 immediately in profit or loss.

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

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

## 4. CRITICAL ACCOUNTING JUDGEMENTS 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 associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

### **Critical judgements in applying the entity's accounting policies**

The following is the critical judgement, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the 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 there should be no major difficulties in obtaining the legal titles in future and the Group is in substance controlling these buildings and land use rights.

#### **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 (2010: Nil).

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

## 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 ageing 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 2011, the carrying amounts of inventories was approximately RMB67,957,000 (2010: RMB40,258,000). No impairment loss was recognised during the year (2010: 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 (2010: 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, net of 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 and share buy-backs as well as the issue of new debts or redemption of existing debts.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

## 6. FINANCIAL INSTRUMENTS

### Categories of financial instruments

	2011 RMB'000	2010 RMB'000
Loans and receivables (including cash and cash equivalents)	808,195	663,896
Financial liabilities at amortised cost	173,173	227,704

### 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, 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.

#### Market risk

##### Currency risk

The Group has bank balances and other payables 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	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
HK\$	18,668	45,111	1,014	1,293



# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

## 6. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies (Continued)

#### Market risk (Continued)

##### Currency risk (Continued)

##### Sensitivity analysis

The following table details the Group's sensitivity to a 5% (2010: 5%) increase and decrease in RMB against HK\$ 5% (2010: 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% (2010: 5%) change in foreign currency rates. A positive number below indicates an increase in post-tax profit for the year when RMB weakens 5% (2010: 5%) against HK\$. For a 5% (2010: 5%) strengthening of RMB against HK\$, there would be an equal but opposite impact on the profit for the year.

	2011 RMB'000	2010 RMB'000
Profit for the year	735	1,778

##### Interest rate risk

At 31 December 2011 and 2010, the Group is 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.

At 31 December 2010, the Group was also 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 did not have an interest rate hedging policy. However, the management monitored interest rate exposure and would consider other necessary action when significant interest rate exposure was anticipated.

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 (2010: 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 (2010: 50 basis points) higher / lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2011 would decrease / increase by approximately RMB398,000 (2010: RMB328,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

## 6. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies (Continued)

#### **Credit risk**

As at 31 December 2011, 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.

In respect of bank balances, the Group mitigates its exposure to credit risk by placing deposits with banks with established credit ratings.

The Group has concentration of credit risk as 24% (2010: 28%) and 43% (2010: 51%) 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 PRC as at 31 December 2011 and 2010.

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

#### **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 ensures compliance with loan covenants.

The Group relies principally on its internally generated capital and bank borrowings as a significant source of liquidity. The Group had fully utilised its short-term loan facilities as at 31 December 2011 and 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.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

## 6. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies (Continued)

#### Liquidity risk (Continued)

##### Liquidity tables

	Carrying amounts RMB'000	Total undiscounted cash flows and due within one year RMB'000
At 31 December 2011		
<b>Non-derivative financial liabilities</b>		
Trade and other payables	77,038	77,038
Amount due to the controlling shareholder	63	63
Amount due to a director	72	72
Bank borrowings	96,000	99,059
	173,173	176,232

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

#### Fair value

The fair value of 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 other 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 revenue arising on sale of footwear, apparels and accessories and soles for the year. An analysis of the Group's revenue for the year is as follows:

	2011 RMB'000	2010 RMB'000
Footwear	907,481	775,227
Apparels and accessories	585,429	468,548
Soles	50,186	46,160
	1,543,096	1,289,935

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

## 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, Mr. LIN 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 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 footwear, apparels and 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 (country of domicile) 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 2011, the Group has only one (2010: one) customer with whom transactions have exceeded 10% of the Group's aggregate turnover. The amounts of sales from this customer amounted to approximately RMB355,502,000 (2010: RMB325,806,000) for the year.

## 9. OTHER INCOME

	2011 RMB'000	2010 RMB'000
Bank interest income	1,325	922
Government grants (Note)	440	3,300
Others	-	350
	<b>1,765</b>	<b>4,572</b>

Note: For the years ended 31 December 2011 and 2010, the government grants were received from the local government authority for the successful listing of the Company's shares on the Main Board of the Stock Exchange.

## 10. FINANCE COSTS

	2011 RMB'000	2010 RMB'000
Interest on bank borrowings wholly repayable within five years	9,067	7,326

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

## 11. PROFIT BEFORE TAX

	2011 RMB'000	2010 RMB'000
Profit before tax has been arrived at after charging:		
Director's emoluments (Note 13)	11,278	1,618
Salaries and other allowances	137,384	102,083
Post-employment benefits (excluding directors)	7,691	6,463
Equity-settled share-based payments (excluding directors)	12,111	-
<b>Total staff costs</b>	<b>168,464</b>	<b>110,164</b>
Amortisation of prepaid lease payments	513	418
Auditor's remuneration	831	953
Cost of inventories recognised as an expense	1,097,766	921,021
Depreciation of property, plant and equipment	9,163	8,409
Operating lease rental paid in respect of rented premises	67	165
Research and development costs (included in other operating expenses)*	38,722	33,219
Net foreign exchange loss	1,914	233

\* Research and development costs included staff costs of approximately RMB8,930,000 (2010: RMB8,297,000) and depreciation of property, plant and equipment of approximately RMB380,000 (2010: RMB394,000) in research and development activities.

## 12. INCOME TAX EXPENSE

	2011 RMB'000	2010 RMB'000
The charge comprises:		
PRC Enterprise Income Tax ("EIT")		
- Current year	47,210	37,582
- Underprovision in prior years	-	3,211
	<b>47,210</b>	<b>40,793</b>
Deferred tax (Note 26)	8,151	7,857
	<b>55,361</b>	<b>48,650</b>

- (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) 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 years ended 31 December 2011 and 2010.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

## 12. INCOME TAX EXPENSE (Continued)

- (iii) Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% 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:

	2011 RMB'000	2010 RMB'000
Profit before tax	269,434	221,299
Tax at domestic income tax rates (Note)	69,621	55,782
Tax effect of income not taxable for tax purpose	(10)	(67)
Tax effect of expenses not deductible for tax purpose	4,928	7,136
Effect of Tax Exemption granted to a PRC subsidiary	(29,823)	(25,212)
Underprovision in prior years	-	3,211
Withholding tax on undistributed profits of subsidiaries	10,645	7,800
Income tax expense for the year	55,361	48,650

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.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

## 13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

### (a) Directors

Details of emoluments paid and payable to each of the seven (2010: seven) directors of the Company for the years ended 31 December 2011 and 2010 are as follows:

	Fees RMB'000	Salaries and other allowances RMB'000	Post employment benefits RMB'000	Equity- settled share-based payments RMB'000	Total RMB'000
<b>For the year ended 31 December 2011</b>					
Executive directors:					
Mr. LIN	-	588	5	261	854
Mr. Lin Wenzu	-	300	5	3,912	4,217
Mr. Lin Mingxu	-	300	5	3,912	4,217
Mr. Li Yong	-	300	5	1,383	1,688
Independent non-executive directors:					
Mr. Chu Kin Wang, Peleus	100	-	-	-	100
Mr. Huang Shanhe (Note)	101	-	-	-	101
Mr. Zhu Guohe	101	-	-	-	101
<b>Total</b>	<b>302</b>	<b>1,488</b>	<b>20</b>	<b>9,468</b>	<b>11,278</b>

### 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
<b>Total</b>	<b>228</b>	<b>1,373</b>	<b>17</b>	<b>-</b>	<b>1,618</b>

Note : Mr. Huang Shanhe has been resigned and Mr. Wang Dong has been appointed as an independent non-executive director on 24 February 2012.

### (b) Employees

Of the five individuals with the highest emoluments in the Group, four (2010: four) were directors of the Company whose emoluments are included in the disclosures Note 13(a) above. The emoluments of the remaining one (2010: one) highest paid individuals were as follows:

	2011 RMB'000	2010 RMB'000
Salaries and other allowances and benefits-in-kind	324	338
Post-employment benefits	10	10
Equity-settled share-based payments	156	-
<b>Total</b>	<b>490</b>	<b>348</b>

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

## 13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

### (b) Employees (Continued)

Note:

The emolument of the above employees is below RMB831,000 (2010: RMB880,000) (approximately HK\$1,000,000).

During the years ended 31 December 2011 and 2010, 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 years ended 31 December 2011 and 2010.

## 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:

	2011 RMB'000	2010 RMB'000
<b>Earnings</b>		
Profit for the year attributable to owners of the Company for the purposes of basic and diluted earnings per share	214,073	172,649
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	811,896	665,205
<b>Earnings per share (in RMB)</b>		
Basic and diluted	0.264	0.260

For the year ended 31 December 2011, diluted earnings per share 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 (Note 27) and investor option (Note 23) as the exercise prices of those options are higher than the average market price of the Company's shares for the year ended 31 December 2011.

For the year ended 31 December 2010, diluted earnings per share 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 of the Company's shares for the year ended 31 December 2010.



# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

## 15. DIVIDENDS

	2011 RMB'000	2010 RMB'000
Dividends recognised as distribution during the year:		
Special dividend (Note a)	-	100,000
2010 final dividend – RMB0.0400 (2010: Nil) per share (Note b)	<b>32,000</b>	-
	<b>32,000</b>	100,000
Proposed final dividend – RMB0.0249 (2010: RMB0.0400) per share (Note b)	<b>20,277</b>	32,000

Notes:

- (a) 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 shares of the Company to the then shareholders. Such dividends were fully settled in March 2010. The rate of dividend per share was not presented as it was not indicative of the rate at which future dividends would be declared.
- (b) The directors of the Company recommended the payment of a final dividend of HK\$0.0300 (equivalent to approximately RMB0.0249) (2010: HK\$0.0475 (equivalent to approximately RMB0.0400)) per share amounting to HK\$24,406,000 (equivalent to approximately RMB20,277,000) (2010: HK\$38,000,000 (equivalent to RMB32,000,000)) for the year ended 31 December 2011, subject to the approval of the shareholders at the forthcoming annual general meeting.

## 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
<b>COST</b>						
At 1 January 2010	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
Additions	1,530	120	4	-	9,000	10,654
Transfer	8,000	-	-	-	(8,000)	-
At 31 December 2011	82,781	67,046	1,371	3,825	4,000	159,023
<b>DEPRECIATION</b>						
At 1 January 2010	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
Provided for the year	3,001	5,514	158	490	-	9,163
At 31 December 2011	13,113	29,449	936	857	-	44,355
<b>CARRYING VALUES</b>						
At 31 December 2011	69,668	37,597	435	2,968	4,000	114,668
At 31 December 2010	63,139	42,991	589	3,458	3,000	113,177

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

## 16. PROPERTY, PLANT AND EQUIPMENT (Continued)

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 2011, the Group has not yet obtained the legal title of the buildings with an aggregate carrying values of approximately RMB13,522,000 (2010: RMB45,027,000).

## 17. PREPAID LEASE PAYMENTS

	2011 RMB'000	2010 RMB'000
Analysed for reporting purposes as:		
Current asset	513	513
Non-current asset	23,495	24,008
	<b>24,008</b>	<b>24,521</b>

The prepaid lease payments consist of cost of land use rights in respect of land located in the PRC held under medium-term lease.

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

As at 31 December 2011, the Group has not yet obtained the legal title of land use rights with an aggregate carrying amount of approximately RMB634,000 (2010: RMB17,230,000).

## 18. INVENTORIES

	2011 RMB'000	2010 RMB'000
Raw materials	15,097	1,982
Work-in-progress	10,990	5,712
Finished goods	41,870	32,564
	<b>67,957</b>	<b>40,258</b>

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

## 19. TRADE AND OTHER RECEIVABLES

	2011 RMB'000	2010 RMB'000
Trade receivables	493,849	304,442
Prepayments	32,984	27,614
Other receivables	424	18
	<b>527,257</b>	<b>332,074</b>

The Group normally allows a credit period of 90 to 120 days to its trade customers. The Group does not hold any collateral over these balances.

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:

	2011 RMB'000	2010 RMB'000
Within 60 days	334,223	263,624
61 to 180 days	159,626	40,818
Total	<b>493,849</b>	<b>304,442</b>

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 2011	493,849	493,849	-
31 December 2010	304,442	263,624	40,818

## 20. BANK BALANCES AND CASH

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 0.50% (2010: 0.36%) per annum.

Included in bank balances and cash are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	2011 RMB'000	2010 RMB'000
HK\$	18,668	45,111

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

## 21. TRADE AND OTHER PAYABLES

	2011 RMB'000	2010 RMB'000
Trade payables	55,473	112,028
Other payables and accruals	21,565	11,598
Value added tax payables	6,518	25,885
	<b>83,556</b>	<b>149,511</b>

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

	2011 RMB'000	2010 RMB'000
Within 90 days	55,473	111,683
91 to 180 days	-	345
Trade payables	<b>55,473</b>	<b>112,028</b>

The average credit period on purchases of goods is 30 to 90 days (2010: 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 2011, approximately RMB1,014,000 (2010: RMB1,293,000) 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. DERIVATIVE FINANCIAL LIABILITIES

The derivative financial liabilities of the Group are not for hedging purpose. Derivative financial liabilities 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 25(d)). The shares were issued to Potent Growth on 8 June 2011 (the "Subscription Completion Date").

Pursuant to Subscription Agreement, on the Subscription Completion Date, the Company granted to Potent Growth the option 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.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

## 23. DERIVATIVE FINANCIAL LIABILITIES (Continued)

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.

On 11 October 2011, after further negotiations, the Company and Potent Growth entered into a supplemental agreement (the "Supplemental Agreement") pursuant to which the Company and Potent Growth agreed that the option exercise price of HK\$1.90 per option share shall be calculated in RMB adopting the exchange rate at HK\$1= RMB0.82.

The Supplementary Agreement carries a term substantially different from the Subscription Agreement, such modification is required to be treated as an extinguishment under the respective requirements set out in HKAS 39. Accordingly, the derivative financial liability is derecognised on 11 October 2011. The movement of the derivative financial liabilities during the year is set out below:

	RMB'000
Changes in fair value on initial recognition	28,346
Derecognition	(28,346)
At 31 December 2011	-

The fair values of the share options granted on 8 June 2011 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
Closing share price	HK\$1.70
Expected volatility	42.4%
Expected life	3 years
Risk-free rate	0.83%
Expected dividend yield	2.97%
Fair value of option	HK\$ 33,797,000
Equivalent to	RMB 28,346,000

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 share options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

## 24. BANK BORROWINGS

	2011 RMB'000	2010 RMB'000
Unsecured :		
Guaranteed	84,000	84,000
Non-guaranteed	12,000	20,000
	<b>96,000</b>	104,000

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

	2011 RMB'000	2010 RMB'000
Fixed-rate borrowings	-	20,000
Variable-rate borrowings (Note)	96,000	84,000
	<b>96,000</b>	104,000

Note: The Group's variable-rate borrowings carry interests at 100% to 130% of The People's Bank of China Base Lending Rate during the years ended 31 December 2011 and 2010.

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

	2011	2010
Effective interest rate:		
Fixed-rate borrowings	-	1.941% - 6.903%
Variable-rate borrowings	<b>5.350% - 8.528%</b>	4.860% - 7.550%

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

During the year ended 31 December 2011, the Group obtained new bank borrowings in the amount of approximately RMB221,000,000 (2010: RMB337,050,000). 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 2011, bank borrowings of RMB84,000,000 (2010: RMB84,000,000) are guaranteed by independent third parties and 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 of that borrowing.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

## 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 2010	50,000	50,000	N/A	
Increase in authorised share capital (Note a (i))	2,000,000,000	N/A	200,000,000	
Cancellation of authorised share capital (Note a (iii))	(50,000)	(50,000)	N/A	
At 31 December 2010 and 2011	2,000,000,000	-	200,000,000	
Issued and fully paid:				
At 1 January 2010	1	1	N/A	-
Issue of shares during the year (Note a (i))	1,000,000	N/A	100,000	88
Repurchased during the year (Note a (ii))	(1)	(1)	N/A	-
Shares issued under placing and public offering (Note c)	200,000,000	N/A	20,000,000	17,619
Capitalisation of share premium (Note b)	599,000,000	N/A	59,900,000	52,776
At 31 December 2010 and 1 January 2011	800,000,000	-	80,000,000	70,483
Issue of shares upon subscription (Note d)	24,000,000	N/A	2,400,000	2,013
Repurchased during the year (Note e)	(10,456,000)	N/A	(1,045,600)	(869)
At 31 December 2011	813,544,000	-	81,354,400	71,627

Notes:

- a. 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.
- b. Pursuant to written resolutions passed on 24 February 2010, the Company issued and allotted 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.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

## 25. SHARE CAPITAL (Continued)

Notes: (Continued)

- c. 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.
- d. Pursuant to the Subscription Agreement, 24,000,000 new ordinary shares with a par value of HK\$0.10 each in the Company was issued at a subscription price of HK\$1.65 per share on the Subscription Completion Date. The net proceeds from the subscription after deducting all related expenses of approximately RMB149,000 was approximately RMB33,064,000 which was used to provide additional general working capital for the Company.
- e. The Company repurchased its own ordinary shares on the Stock Exchange and the said ordinary shares were cancelled following the repurchase.

During the year ended 31 December 2011, the Company repurchased its own ordinary shares on the Stock Exchange as follows:

Period	Number of shares repurchased '000	Highest price paid per share HK\$	Lowest price paid per share HK\$	Aggregate amount paid HK\$'000	Amount as presented RMB'000
September 2011	5,164	1.02	0.79	4,951	4,114
October 2011	2,914	0.90	0.78	2,400	1,994
November 2011	1,494	0.95	0.90	1,366	1,134
December 2011	884	0.99	0.91	831	691
	10,456			9,548	7,933

Note: The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. Pursuant to section 37(4) of the Companies Law (2007 Revision) of the Cayman Islands, an amount equivalent to the par value of the shares cancelled of approximately HK\$1,046,000 (equivalent to approximately RMB869,000) was transferred from retained profits to the capital redemption reserve. The premium paid on the repurchase of the shares of approximately HK\$8,502,000 (equivalent to approximately RMB7,064,000) was charged to share premium.

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



# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

## 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 2010	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)
Credited (charged) to consolidated statement of comprehensive income for the year	2,494	(10,645)	(8,151)
At 31 December 2011	5,064	(21,840)	(16,776)

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. Also, pursuant to the Sino-Hong Kong Double Tax Arrangement, a qualified Hong Kong tax resident will be liable for a reduced withholding tax rate of 5% on dividends from a PRC enterprise if the Hong Kong tax resident is the "beneficial owner" and holds 25% or more of the equity interest of the PRC enterprise. The Group has adopted the 5% withholding tax rate for PRC withholding tax purposes.

## 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 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 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 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 2011, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 49,160,000 (2010: 16,160,000), representing 6% (2010: 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.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

## 27. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

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.

Details of specific categories of 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 between 1 July 2012 and 30 December 2020	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 between 1 January 2014 and 30 December 2020	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 between 1 January 2016 and 30 December 2020	HK\$1.726
Option 2011	4 May 2011	-	4 May 2011 to 3 May 2021	HK\$1.620

The following table discloses movements of the Company's share options held by directors and employees during the year:

Option type	Outstanding at 1/1/2011	Granted during the year	Exercised during the year	Forfeited during the year	Expired during the year	Outstanding at 31/12/2011
Option 2010	16,160,000	-	-	-	-	16,160,000
Option 2011	-	33,000,000	-	-	-	33,000,000
	16,160,000	33,000,000	-	-	-	49,160,000
Weighted average exercise price	HK\$1.726	HK\$1.620	N/A	N/A	N/A	HK\$1.655

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

## 27. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The following table discloses movements of the Company's share options held by directors and employees during prior year:

Option type	Outstanding at 1/1/2010	Granted during the year	Exercised during the year	Forfeited during the year	Expired during the year	Outstanding at 31/12/2010
Option 2010	-	16,160,000	-	-	-	16,160,000
Weighted average exercise price	N/A	HK\$1.726	N/A	N/A	N/A	HK\$1.726

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

During the year ended 31 December 2011, options were granted on 4 May 2011. The estimated fair value of the options granted was HK\$20,747,000 (or equivalent to approximately RMB17,213,000). The closing price of the Company's shares immediately before the date of grant was HK\$1.620.

During the year ended 31 December 2010, options were granted on 31 December 2010. The estimated fair value of the options granted was HK\$14,006,000 (or equivalent to approximately RMB12,138,000). The closing price of the Company's shares immediately before the date of grant was HK\$1.730.

These fair values were calculated using the Binomial Model. The inputs into the model were as follows:

	4 May 2011	31 December 2010
Expected volatility	43.60%	45.31%
Expected life	10 years	10 years
Risk-free rate	2.55%	2.86%
Expected dividend yield	2.97%	-

Expected volatility was determined by using the historical volatility of selected comparable companies, since the Company is a newly listed company and has limited price history.

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 options.

The Group recognised total expenses of approximately RMB21,579,000 for the year ended 31 December 2011 (2010: Nil) in relation to the fair value of the share options granted by the Company and vested during the year.

## 28. CAPITAL COMMITMENTS

	2011 RMB'000	2010 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of the addition of construction in progress	2,525	6,600

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

## 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:

	2011 RMB'000	2010 RMB'000
Within one year	12	32

## 30. RETIREMENT BENEFITS SCHEME

The Group operates a 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 RMB7,711,000 (2010: RMB6,480,000) 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. RELATED PARTY TRANSACTIONS

In addition to those disclosed in Notes 22 and 24 respectively, the Group entered into the following significant transactions with related parties during the years ended 31 December 2011 and 2010.

### (a) Compensation of key management personnel

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

	2011 RMB'000	2010 RMB'000
Short-term benefits	3,070	2,771
Post-employment benefits	43	47
Equity-settled share-based payments	11,378	-
	14,491	2,818

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

## 31. RELATED PARTY TRANSACTIONS (Continued)

### (a) Compensation of key management personnel (Continued)

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.

## 32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2011 RMB'000	2010 RMB'000
Non-current asset			
Investment in a subsidiary	34	-	-
Current assets			
Other receivables		2,027	-
Amount due from the controlling shareholder	(a)	27	12
Amounts due from subsidiaries	(a)	380,916	271,680
Bank balances		17,444	31,065
		<b>400,414</b>	302,757
Current liabilities			
Other payables		1,426	1,332
Amount due to a subsidiary	(a)	6,227	-
		<b>7,653</b>	1,332
Net current assets		<b>392,761</b>	301,425
		<b>392,761</b>	301,425
Capital and reserves			
Share capital	25	71,627	70,483
Reserves	33	321,134	230,942
		<b>392,761</b>	301,425

Note

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

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

## 33. RESERVES OF THE COMPANY

	Share premium RMB'000	Capital redemption reserve RMB'000	Share option reserve RMB'000	(Accumulated losses) retained earnings RMB'000	Proposed final dividend RMB'000	Total RMB'000
At 1 January 2010	-	-	-	(2,366)	-	(2,366)
Profit and total comprehensive income for the year	-	-	-	84,227	-	84,227
Shares issued under placing and public offering,	317,150	-	-	-	-	317,150
Transaction cost attributable to issue of shares	(15,293)	-	-	-	-	(15,293)
Capitalisation of share premium	(52,776)	-	-	-	-	(52,776)
Dividend paid during the year	-	-	-	(100,000)	-	(100,000)
Proposed final dividend	-	-	-	(32,000)	32,000	-
At 31 December 2010	249,081	-	-	(50,139)	32,000	230,942
Profit and total comprehensive income for the year	-	-	-	76,626	-	76,626
Issue of share upon subscription	31,200	-	-	-	-	31,200
Transaction costs attributable to issue of shares	(149)	-	-	-	-	(149)
Recognition of equity-settled share-based payments	-	-	21,579	-	-	21,579
Shares repurchased and cancelled	(7,064)	869	-	(869)	-	(7,064)
Dividend paid during the year	-	-	-	-	(32,000)	(32,000)
Proposed final dividend	-	-	-	(20,277)	20,277	-
At 31 December 2011	273,068	869	21,579	5,341	20,277	321,134

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.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

## 34. PARTICULARS OF SUBSIDIARIES

Details of all subsidiaries held by the Company at 31 December 2011 and 2010 are as follows:

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		Principal activities
				Directly	Indirectly	
Win Eagle International Holdings Limited	The BVI	Ordinary	US\$1	100%	-	Investment holding
Xin Wei (Fujian) Light Industry Co., Ltd.* (鑫威(福建)轻工有限公司) # (Note)	The PRC	Contributed Capital	RMB102,039,950	-	100%	Design, production and sales of shoes soles, sport shoes and sportswear
Flyke (China) # (Note)	The PRC	Contributed Capital	RMB101,390,860	-	100%	Design, production and sales of shoes soles, sport shoes and sportswear
Xinwei Hong Kong Investment Limited	Hong Kong	Ordinary	HK\$10,000	-	100%	Investment holding
Flyke Hong Kong Holdings Limited	Hong Kong	Ordinary	HK\$10,000	-	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.

Note: During the year ended 31 December 2010, the amounts of the registered capital of Xin Wei (Fujian) Light Industry Co., Ltd and Flyke (China) were increased from RMB14,464,000 to RMB102,039,950 and from RMB13,792,000 to RMB101,390,860, respectively.

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