FLYKE

INTERIM REPORT

2012

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

Contents

Company Information

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-executive Directors

Mr. CHU Kin Wang, Peleus
Mr. WANG Dong
Mr. ZHU Guohe

COMPANY SECRETARY

Ms. HO Wing Yan, *ACIS, ACS (PE)*

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. HO Wing Yan, *ACIS, ACS (PE)*

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

Financial Highlights

	For the six months ended 30 June		Change
	2012	2011	%
OPERATING RESULTS			
Turnover (RMB'000)	**609,753**	712,333	(14.4)%
Gross profit (RMB'000)	**176,185**	204,062	(13.7)%
Profit for the period (RMB'000)	**76,444**	55,595	37.5%
Basic earnings per share (RMB)	**0.094**	0.069	36.2%
Diluted earnings per share (RMB)	**0.094**	0.068	38.2%
KEY FINANCIAL RATIOS			
Gross profit margin	**28.9%**	28.6%	0.3%
Net profit margin	**12.5%**	7.8%	4.7%
Return on owners' equity	**8.7%**	8.3%	0.4%
	As of 30 June 2012	As of 31 December 2011	
FINANCIAL POSITION			
Non-current assets (RMB'000)	**139,367**	138,163	
Current assets (RMB'000)	**961,809**	909,649	
Current liabilities (RMB'000)	**200,588**	210,824	
Bank borrowings (RMB'000)	**116,000**	96,000	
Net current assets (RMB'000)	**761,221**	698,825	
Total assets less current liabilities (RMB'000)	**900,588**	836,988	
Net assets (RMB'000)	**878,335**	820,212	
Bank balances and cash (RMB'000)	**309,371**	313,922	
Current ratio (times)	**4.8**	4.3	
Gearing ratio (%)[1]	**13.2%**	11.7%	

Footnote:

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

Management's 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. For the six months ended 30 June 2012 ("Review Period"), our products were sold at 2,017 authorised retail stores (including image stores) in China. The turnover contributed by footwear, apparels and accessories with the *Flyke* brand decreased by 16.5% to approximately RMB425.0 million as compared with the same period in 2011 as a result of keen market competition. As of 30 June 2012, 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 were produced in-house.

During the Review Period, we consolidated some less efficient stores while facing the intense competition in the market. During the Review Period, we terminated the campus retail stores for purpose of the reallocation of our resources on the development of new products in the near future. As of 30 June 2012, total authorised retail stores (including image stores) decreased by 143 to 2,017 as compared with the period ended 31 December 2011. The Group began to support our authorised distributors to establish image stores in 2010 in order to increase brand recognition and promotion. As at 30 June 2012, our authorised distributors had established 10 image stores.

The Group will continue to consolidate the distribution network in the near future by closing the less efficient stores and work closely with the authorised distributors to face the existing challenges by providing additional value-added and supporting services to enhance their competitiveness in the market. For administrative purposes, the Group divides the China market into four sales regions, namely Northern China, Eastern China, Central/Southwestern China and Southern China.

	Number of authorised retail stores		
Distribution network	**As of 30 June 2012**	As of 31 December 2011	Change %
Northern China	**584**	624	(6.4)%
Eastern China	**419**	459	(8.7)%
Southern China	**464**	471	(1.5)%
Central/Southwestern China	**550**	606	(9.2)%
Total	**2,017**	2,160	(6.6)%

Notes:

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

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

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

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

(5) The total number of authorised retail stores included image stores.

Production capacity

We currently own 12 production lines for footwear. All *Flyke* brand footwear were produced in our own facilities while part of the 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 demand of our footwear.

The Group currently outsources the production of apparels or accessories to independent contract manufacturers via "OEM" arrangement and is planning to establish a new factory with annual production capacity of 5 million pieces/sets of apparels in the future to enhance the flexibility and responsiveness to market changes and to improve the profit margin of *Flyke* apparels.

As of 30 June 2012, the Group had 21 production lines with an annual capacity of approximately 13 million pairs of soles.

Product design and development

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

Marketing and promotion

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

Export ODM Business

The Group has established a vertically integrated business model for the Export ODM Business with the design, production and sales of footwear over ten years. All products were sold to overseas buyers including some international brands. The Export ODM Business not only provides a stable source of cash inflow for the Group, but also allows us to keep abreast with international trend of design. We currently outsource part of our production to independent contract manufacturers through "OEM" arrangement. During the Review Period, turnover derived from the Export ODM Business amounted to approximately RMB160.6 million, representing a decrease of approximately 10.1% from approximately RMB178.7 million as of 30 June 2011. This business accounted for approximately 26.3% of the Group's aggregate turnover for the Review Period.

Soles

The business is primarily engaged in the design, production and sales of soles. The Group normally uses the soles for internal production of footwear and may sell some to local footwear companies. The turnover of the business was approximately RMB24.2 million and accounted for approximately 4% of the Group's aggregate turnover for the Review Period.

FINANCIAL REVIEW

Turnover

The Group's aggregate turnover decreased to approximately RMB609.8 million during the Review Period, representing a decrease of approximately 14.4% as compared with the same period in 2011. The decrease in aggregate turnover was primarily attributable to the shrinking of both domestic and overseas demand as a result of economic uncertainty during the Review Period.

The following table sets forth a summary of the aggregate turnover of the Group by three principal activities for the six months ended 30 June 2012 (with comparative figures for the six months ended 30 June 2011):

	For the six months ended 30 June				
	2012		2011		Change
	RMB'000	**% of Turnover**	RMB'000	% of Turnover	%
Sales of footwear, apparels and accessories with the *Flyke* brand	**424,998**	**69.7%**	508,974	71.5%	(16.5)%
Sales under the Export ODM Business	**160,604**	**26.3%**	178,683	25.1%	(10.1)%
Sales of soles	**24,151**	**4.0%**	24,676	3.4%	(2.1)%
Total	**609,753**	**100%**	712,333	100.0%	(14.4)%

Flyke brand

The *Flyke* products include footwear, apparels and accessories. The footwear with the *Flyke* brand are produced by the Group while the apparels and accessories with the *Flyke* brand were outsourced to the Group's independent contract manufacturers through the "OEM" arrangement. The Group currently sells all the *Flyke* products directly to the authorised distributors which then sell to end consumers directly via the authorised retail stores (including image stores). As of 30 June 2012, *Flyke* products were sold at 2,017 authorised retail stores (including image stores) operated by 19 independent authorised distributors. As of 30 June 2012, the aggregate turnover from *Flyke* brand products amounted to approximately RMB425 million, representing a decrease of approximately 16.5% as compared with the same period in 2011, mainly attributable to keen market competition. The turnover from *Flyke* products contributed approximately 69.7% of aggregate turnover of the Group as of 30 June 2012, of which 53.7% was derived from the sales of apparels and accessories with *Flyke* brand.

The following table illustrates an analysis of the sales of the *Flyke* products by product categories during the six months ended 30 June 2012 (with comparative figures for the six months ended 30 June 2011):

	For the six months ended 30 June				
	2012		2011		Change
	RMB'000	**%**	RMB'000	%	%
Sales of footwear	**196,671**	**46.3%**	241,189	47.4%	(18.5)%
Sales of apparels and accessories	**228,327**	**53.7%**	267,785	52.6%	(14.7)%
Total	**424,998**	**100%**	508,974	100%	(16.5)%

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

	For the six months ended 30 June		
	2012	2011	Change
	RMB'000	RMB'000	%
Northern China	**111,690**	134,194	(16.8)%
Eastern China	**75,559**	89,288	(15.4)%
Southern China	**110,155**	127,372	(13.5)%
Central/Southwestern China	**127,594**	158,120	(19.3)%
Total	**424,998**	508,974	(16.5)%

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

	For the six months ended 30 June				
	2012		2011		
	Total pairs/ pieces sold '000	**Average ex-factory price RMB**	Total pairs/pieces sold '000	Average ex-factory price RMB	Change of average ex-factory price %
Sales of footwear	**2,895**	**67.9**	3,437	70.2	(3.3)%
Sales of apparels and accessories	**3,517**	**64.9**	4,533	59.1	9.8%

Export ODM Business

The turnover derived from the Export ODM Business for the Review Period amounted to approximately RMB160.6 million contributing approximately 26.3% to the aggregate turnover of the Group. The decrease in turnover of the Export ODM Business was principally due to the decrease in sales volume as a result of economic uncertainty of overseas markets.

The following table sets forth total number of pairs sold and the average selling price of footwear for the Export ODM Business for the six months ended 30 June 2012 (with comparable figures for the six months ended 30 June 2011):

	For the six months ended 30 June				
	2012		2011		
	Total pairs sold '000	**Average ex-factory price RMB**	Total pairs sold '000	Average ex-factory price RMB	Change of average ex-factory price %
Footwear	**2,723**	**59.0**	3,264	54.7	7.9%

Soles

During the Review Period, the sales of soles amounted to approximately RMB24.2 million.

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 payable to the Group's contract manufacturers for the production of certain sport shoes 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.

During the Review Period, total cost of sales decreased by approximately 14.7% to approximately RMB433.6 million, of which the outsourcing fee to contract manufacturers amounted to approximately RMB196.1 million representing a decrease of approximately 17.5% as compared with the same period in 2011.

The decrease in cost of sales was in line with the decrease in aggregate turnover of the Group during the Review Period.

Gross profit and gross profit margin

During the Review Period, the overall gross profit of the Group amounted to approximately RMB176.2 million, representing a decrease of approximately 13.7% as compared with the same period in 2011 and the gross profit margin slightly increased to 28.9%.

The following table illustrates the gross profit and the gross profit margin of the Group by its principal activities, namely footwear, apparels and accessories with the *Flyke* brand, the Export ODM Business and soles during the six months ended 30 June 2012 (with comparative figures for the six months ended 30 June 2011):

	For the six months ended 30 June				
	2012		2011		
	RMB'000	**Gross profit margin %**	RMB'000	Gross profit margin %	Change of gross profit margin %
Sales of footwear, apparels and accessories with the *Flyke* brand	**126,723**	**29.8%**	152,061	29.9%	(0.1)%
Sales under our Export ODM Business	**44,332**	**27.6%**	46,570	26.1%	1.5%
Sales of soles	**5,130**	**21.2%**	5,431	22.0%	(0.8)%
Total	**176,185**	**28.9%**	204,062	28.6%	0.3%

Flyke brand

The gross profit of the *Flyke* products for the Review Period amounted to RMB126.7 million. During the Review Period, there is no material change in gross profit margin of *Flyke* products while the decrease in gross profit by 16.7% was due to the intense market competition.

The following table illustrates an analysis of the gross profit and gross profit margin of the *Flyke* products by product categories during the six months ended 30 June 2012 (with comparative figures for the six months ended 30 June 2011):

	For the six months ended 30 June				
	2012		2011		
	RMB'000	**Gross profit margin %**	RMB'000	Gross profit margin %	Change of gross profit margin %
Sales of footwear	**62,949**	**32.0%**	77,404	32.1%	(0.1)%
Sales of apparels and accessories	**63,774**	**27.9%**	74,657	27.9%	-
Total	**126,723**	**29.8%**	152,061	29.9%	(0.1)%

Export ODM Business

The gross profit of the Export ODM Business for the Review Period dropped to approximately RMB44.3 million representing a decrease by 4.8% compared with same period in 2011. The decrease in gross profit was a result of the shrinking of overseas demand in a view of the uncertainty of global markets.

Soles

The gross profit for the sales of soles amounted to approximately RMB5.1 million representing a decrease of 5.5% as compared with same period in 2011.

Other income

The other income of the Group for the Review Period decreased to approximately RMB0.6 million due to the one-off grants of RMB0.4 million from the local government in 2011 for successful listing of the Group in 2010.

Selling and distribution expenses

During the Review Period, the selling and distribution expenses amounted to approximately RMB39.6 million (2011: RMB37.1 million). The selling and distribution expenses represented approximately 6.5% to the aggregate sales of the Group (2011: 5.2%). The increase of selling and distribution expenses was primarily due to recognition of the subsidy granted to the establishment of image stores by our authorised distributors.

Administrative expenses

During the Review Period, the administrative expenses amounted to approximately RMB16.2 million (2011: RMB15.2 million) representing an increase of approximately 6.7%. The increase was primarily due to the increase in salary and related benefit.

Research and development expenses

Research and development expenses consisted of expenses incurred in product design and development. The Group incurred approximately RMB16.1 million during the Review Period (2011: RMB21.1 million) representing 2.6% of aggregate turnover (2011: 3.0%).

Finance costs

The finance costs consisted of interest expense on bank borrowings. The finance costs incurred by the Group decreased by approximately RMB1 million from approximately RMB5 million in the last corresponding period to approximately RMB4 million during the Review Period.

Income tax expense

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

The Group's income tax expense decreased by approximately 3.6% from approximately RMB23 million in the last corresponding period to approximately RMB22.2 million during the Review Period. The Group's effective income tax rate was approximately 22.5% for the Review Period, as compared to 29.2% in the last corresponding period.

Profit for the Review Period

Profit for the Review Period increased from RMB55.6 million for the period ended 30 June 2011 to RMB76.4 million for the Review Period as a result of the one-off expense of accounting treatment of recognition of RMB28.8 million related to the change of fair value of derivative financial liabilities as a result of 96,000,000 options granted to an investor in June 2011 and a decrease in equity-settled share based payments arising from the share options granted to the eligible employees and directors.

BUSINESS OUTLOOK

Flyke brand

We are optimistic about the future growth of the domestic markets although the worldwide economic recovery is facing the challenge. The Group has started to allocate the resources to fashionable and casual style products during the Review Period and is planning to launch the new products this year. In a view of sustainable growth of the Group, the Group 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 to successful development in the future through setting up the stores image and advertising to enhance the awareness and image of *Flyke* brand so as to further penetrate into cities and counties of considerably high growth potential.

Sales network

We will continue to consolidate our authorised retail stores in light of the improvement of the efficiency.

Product innovation

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

Production capacity

In order to support our future expansion, the Group is planning to add one new production line of footwear and establishing 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.

Export ODM Business

As our Export ODM Business has been well recognised in the overseas markets and generated a stable cash inflow and income for the Group, the Group will continuously participate in international exhibitions to increase international recognition and awareness. The Directors consider that the Group can benefit from the improvement in quality, design and technology in the Export ODM Business.

USE OF PROCEEDS

Use of Net Proceeds from the Global Offering

The net proceeds from the global offering were approximately HK$363.3 million (after deducting related expenses). The following table sets forth the use of the net proceeds during the six months ended 30 June 2012:

		(HK$ million)	
Use of net proceeds from the global offering	**Available to utilise**	**Utilised as of 30 June 2012**	**Unutilised as of 30 June 2012**
Improvement in our information technology systems	22.5	-	22.5
Expansion of our product research and development teams	63.9	63.9	-
Establishment of seven flagship stores and 23 image stores	63.9	24.8	39.1
Increase three footwear production lines	23.0	8.5	14.5
Establish new production facilities for apparels with the *Flyke* brand	80.0	-	80.0
Advertising and marketing activities	110.0	110.0	-
Total	**363.3**	**207.2**	**156.1**

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The bank balances and cash of the Group amounted to approximately RMB309.4 million as of 30 June 2012. The Group's working capital requirement was essentially financed by its internal resources. The Directors believe that the funds generated from operations, the available banking facilities and the net proceeds received from the listing of the Shares on the Stock Exchange will enable the Group to meet its future working capital requirements.

The net assets increased to approximately RMB878.3 million as of 30 June 2012 from approximately RMB820.2 million as of 31 December 2011.

The bank borrowings amounted to RMB116 million as of 30 June 2012, all denominated in Renminbi.

As of 30 June 2012, the Group's gearing ratio (measured by the total bank loans divided by total equity) was 13.2% (31 December 2011: 11.7%).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

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

PLEDGE OF ASSETS

As of 30 June 2012, the Group pledged certain prepaid lease payments and property, plant and equipment with aggregate net book value of approximately RMB80.4 million to secure banking facilities granted to the Group.

CONTINGENT LIABILITIES

As of 30 June 2012, we had no material contingent liabilities.

EMOLUMENTS POLICY

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

SHARE OPTIONS

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

Name or category of participant	Date of grant	Outstanding as of 1 January 2012	Granted during the Period	Exercised during the Period	Cancelled/ Lapsed during the Period	Outstanding as of 30 June 2012	Exercisable Period	Exercise price	Closing price immediately before the date of grant
								HK$	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
		49,160,000	—	—	—	49,160,000			

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

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

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

Name of Director	Capacity	Number of Shares held	Number of underlying shares held pursuant to share options	Position	Total	Approximate Percentage of issued share capital
Mr. LIN Wenjian	Interest of controlled corporation	480,000,000 (note 1)	—	Long	480,500,000	59.13%
	Beneficial owner	—	500,000	Long		
Mr. LIN Mingxu	Beneficial owner	60,000,000 (note 2)	7,500,000	Long	67,500,000	8.30%
Mr. LIN Wenzu	Beneficial owner	60,000,000 (note 2)	7,500,000	Long	67,500,000	8.30%
Mr. LI Yong	Beneficial owner	—	4,000,000	Long	4,000,000	0.49%

Notes:

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

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

(ii) Long positions in associated corporations of the Company

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

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

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

Name of shareholder	Capacity	Number of Shares held	Number of underlying shares held pursuant to share options	Position	Total	Approximate Percentage of issued share capital
Super Creation	Beneficial owner	480,000,000	—	Long	480,000,000	59.07%
Potent Growth Limited	Beneficial owner	16,000,000	96,000,000	Long	112,000,000	13.78%
Mr. ZHANG Qing	Interest of controlled corporation	16,000,000	96,000,000	Long	122,400,000 (note 1)	15.06%
	Beneficial owner	10,400,000	—	Long		
TMF Trust (HK) Limited	Trustee	80,400,000	—	Long	80,400,000 (note 2)	9.89%

Notes:

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

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

PURCHASE, SALE OR REDEMPTION OF 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 944,000 fully paid ordinary shares of the Company at an aggregate consideration of HK$893,106 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
		Highest price paid (HK$)	Lowest price paid (HK$)	(HK$)
January 2012	484,000	0.96	0.89	444,720
February 2012	460,000	1.00	0.92	448,386
Total	944,000			893,106

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the Review Period.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has complied with the Corporate Governance Code (the "Code") as set out in Appendix 14 to The Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the six-month period ended 30 June 2012 except the provision requiring the roles of the chairman and chief executive to be undertaken by two individuals under paragraph A.2.1 of the Code.

Mr. LIN Wenjian, executive Director, is the Chairman of the Group, responsible for the leadership and effective running of the Board, ensuring that all material issues are decided by the Board in a conducive manner as well as the chief executive 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 of the Company are performed by the same individual, Mr. LIN Wenjian. The Company is aware of the requirement under paragraph A.2 of the Code that the roles of chairman and chief executive 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 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.

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

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the code for securities transactions by the Directors. The Company has made specific enquiries of all the Directors and all the Directors have confirmed that they have complied with the required standards set out in the Model Code throughout the six-month period ended 30 June 2012.

REVIEW OF INTERIM RESULTS BY THE AUDIT COMMITTEE

The Company established the audit committee to review and monitor the financial reporting process and internal control of the Group, to review the financial information of the Group. The audit committee consists of all three independent non–executive Directors namely Mr. CHU Kin Wang, Peleus, Mr. WANG Dong and Mr. ZHU Guohe. Mr. CHU is the chairperson of the audit committee. The audit committee have reviewed the Company's financial statements and the Group's consolidated financial statements for the six months ended 30 June 2012, including the accounting principles and practices adopted by the Group.

Independent Review Report

信永中和
ShineWing

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

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

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Flyke International Holdings Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 17 to 32, which comprises the condensed consolidated statement of financial position as of 30 June 2012 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

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

Hong Kong
24 August 2012

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2012

	Notes	For the six months ended 30 June **2012** **RMB'000** **(Unaudited)**	 2011 RMB'000 (Unaudited)
Turnover	3	**609,753**	712,333
Cost of sales		**(433,568)**	(508,271)
Gross profit		**176,185**	204,062
Other income		**579**	1,151
Selling and distribution expenses		**(39,648)**	(37,128)
Administrative expenses		**(16,224)**	(15,204)
Research and development expenses		**(16,148)**	(21,090)
Change in fair value of derivative financial liabilities	13	**-**	(28,812)
Finance costs		**(3,963)**	(4,993)
Equity-settled share-based payments		**(2,183)**	(19,421)
Profit before taxation	5	**98,598**	78,565
Income tax expense	6	**(22,154)**	(22,970)
Profit for the period		**76,444**	55,595
Exchange difference arising on translation of foreign operations and total other comprehensive income (expense) for the period		**505**	(2,060)
Total comprehensive income for the period		**76,949**	53,535
Earnings per share (RMB)	7		
Basic		**0.094**	0.069
Diluted		**0.094**	0.068

Condensed Consolidated Statement of Financial Position

At 30 June 2012

	Notes	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	9	**116,129**	114,668
Prepaid lease payments	9	**23,238**	23,495
		139,367	138,163
Current assets			
Inventories		**90,151**	67,957
Trade and other receivables	10	**561,774**	527,257
Prepaid lease payments	9	**513**	513
Bank balances and cash		**309,371**	313,922
		961,809	909,649
Current liabilities			
Trade and other payables	11	**65,464**	83,556
Amount due to the controlling shareholder	12	**6,612**	63
Amount due to a director	12	**72**	72
Income tax payable		**12,440**	31,133
Bank borrowings	14	**116,000**	96,000
		200,588	210,824
Net current assets		**761,221**	698,825
		900,588	836,988
Capital and reserves			
Share capital	15	**71,550**	71,627
Reserves		**806,785**	748,585
Total equity		**878,335**	820,212
Non-current liability			
Deferred tax liabilities		**22,253**	16,776
		900,588	836,988

Condensed Consolidated Statement of Changes In Equity

For the six months ended 30 June 2012

	FOR THE SIX MONTHS ENDED 30 JUNE 2011								
	Share capital RMB'000	**Share premium** RMB'000	**Special reserve** RMB'000	**Statutory reserve** RMB'000	**Share options reserve** RMB'000	**Translation reserve** RMB'000	**Retained earnings** RMB'000	**Proposed final dividend** RMB'000	**Total** RMB'000
		(note a)	(note b)	(note c)					
At 1 January 2011 (audited)	70,483	249,081	28,256	48,062	-	(2,834)	167,758	32,000	592,806
Profit for the period	-	-	-	-	-	-	55,595	-	55,595
Other comprehensive expenses for the period									
Exchange differences arising on translating foreign operations	-	-	-	-	-	(2,060)	-	-	(2,060)
Total comprehensive income (expenses) for the period	-	-	-	-	-	(2,060)	55,595	-	53,535
Issue of shares upon subscription	2,013	31,200	-	-	-	-	-	-	33,213
Transaction costs attributed to issue of shares	-	(149)	-	-	-	-	-	-	(149)
Recognition of equity-settled share-based payments	-	-	-	-	19,421	-	-	-	19,421
Dividends paid during the period	-	-	-	-	-	-	-	(32,000)	(32,000)
At 30 June 2011 (unaudited)	72,496	280,132	28,256	48,062	19,421	(4,894)	223,353	-	666,826

	FOR THE SIX MONTHS ENDED 30 JUNE 2012									
	Share capital RMB'000	**Share premium** RMB'000	**Capital redemption reserve** RMB'000	**Special reserve** RMB'000	**Statutory reserve** RMB'000	**Share options reserve** RMB'000	**Translation reserve** RMB'000	**Retained earnings** RMB'000	**Proposed final dividend** RMB'000	**Total** RMB'000
		(note a)	(note d)	(note b)	(note c)					
At 1 January 2012 (audited)	71,627	273,068	869	28,256	73,573	21,579	(4,211)	335,174	20,277	820,212
Profit for the period	-	-	-	-	-	-	-	76,444	-	76,444
Other comprehensive income for the period										
Exchange differences arising on translating foreign operations	-	-	-	-	-	-	505	-	-	505
Total comprehensive income for the period	-	-	-	-	-	-	505	76,444	-	76,949
Recognition of equity-settled share-based payments	-	-	-	-	-	2,183	-	-	-	2,183
Shares repurchased and cancelled	(77)	(655)	77	-	-	-	-	(77)	-	(732)
Dividends paid during the period	-	-	-	-	-	-	-	-	(20,277)	(20,277)
At 30 June 2012 (unaudited)	71,550	272,413	946	28,256	73,573	23,762	(3,706)	411,541	-	878,335

Notes:

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

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

c) In accordance with the relevant regulations applicable in the People's Republic of China (the "PRC"), subsidiaries established in the PRC are required to transfer at least 10% of their statutory annual profits after 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.

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

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2012

	For the six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash (used in) generated from operating activities	**(917)**	81,263
Net cash used in investing activities	**(5,709)**	(4,295)
Net cash generated from (used in) financing activities	**1,593**	(3,900)
Net (decrease) increase in cash and cash equivalents	**(5,033)**	73,068
Cash and cash equivalents at beginning of the period	**313,922**	359,436
Effect of foreign exchange rate changes	**482**	(1,132)
Cash and cash equivalents at end of the period, represented by bank balances and cash	**309,371**	431,372

1. BASIS OF PREPARATION

Flyke International Holdings Ltd. (the "Company") was incorporated in the Cayman Islands as an exempted Company with limited liability on 21 April 2008. The shares of the Company have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 29 March 2010. Its parent company is Super Creation International Limited ("Super Creation"), a company incorporated in the British Virgin Islands (the "BVI"). Its ultimate controlling party is Mr. LIN Wenjian ("Mr. LIN").

The addresses of the registered office and principal place of business of the Company are disclosed in the "Company Information" section to the interim report.

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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

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

2. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2012 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standard ("HKFRSs") issued by the HKICPA.

HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets
HKAS 12 (Amendments)	Deferred Tax – Recovery of Underlying Assets

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

3. TURNOVER

Turnover represents revenue arising on sale of footwear, apparels and accessories and soles for the period. An analysis of the Group's revenue for the period is as follows:

	For the six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Footwear	**357,275**	419,872
Apparels and accessories	**228,327**	267,785
Soles	**24,151**	24,676
	609,753	712,333

4. SEGMENT INFORMATION

Operating segments, and the amounts of each segment item reported in the condensed 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.

5. PROFIT BEFORE TAXATION

	For the six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit before taxation has been arrived at after charging (crediting):		
Directors' emoluments	**1,347**	10,000
Staff costs (excluding directors)	**74,401**	80,574
Total staff costs	**75,748**	90,574
Amortisation of prepaid lease payments	**257**	257
Auditors' remuneration	**410**	419
Cost of inventories recognised as an expense (note a)	**433,568**	508,271
Depreciation of property, plant and equipment	**4,823**	4,244
Operating lease rental paid in respect of rented premises	**23**	44
Research and development costs (note b)	**16,148**	21,090
Bank interest income	**(575)**	(711)
Government grants (note c)	**-**	(440)

Notes:

(a) Cost of inventories recognised as an expense includes staff costs of approximately RMB55,644,000 (30 June 2011: RMB42,103,000) and depreciation of property, plant and equipment of approximately RMB3,230,000 (30 June 2011: RMB3,571,000) which are included in the amounts disclosed separately above.

(b) Research and development costs include staff costs of approximately RMB4,675,000 (30 June 2011: RMB4,323,000) and depreciation of property, plant and equipment of approximately RMB171,000 (30 June 2011: RMB348,000) in research and development activities which are included in the amounts disclosed separately above.

(c) For the six months ended 30 June 2011, 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.

6. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
The tax charge comprises:		
PRC Enterprise Income Tax ("**EIT**")	**16,677**	19,940
Deferred taxation	**5,477**	3,030
	22,154	22,970

Notes:

(a) 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.

(b) For the six months ended 30 June 2012 and 2011, Hong Kong Profits Tax has not been provided for in the condensed consolidated financial statements as the Group did not have any assessable profits subject to Hong Kong Profits Tax.

(c) Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% 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%.

** English name is for identification purpose only.*

7. EARNINGS PER SHARE

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

	For the six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purposes of calculating basic and diluted earnings per share	**76,444**	55,595
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**812,988,619**	805,171,271
Effect of dilutive ordinary shares in respect of share options	**-**	6,527,522
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**812,988,619**	811,698,793

The computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options (note 16) and investor option (note 13) as the exercise prices of those options are higher than the average market price of the Company's shares for the six months ended 30 June 2012.

The computation of diluted earnings per share does not assume the exercise of the Company's outstanding investor option (note 13) as the exercise price of the option is higher than the average market price of the Company's shares for the six months ended 30 June 2011.

8. DIVIDENDS

During the current interim period, a final dividend of HK$0.0300 (equivalent to approximately RMB0.0249) per share in respect of the year ended 31 December 2011 (30 June 2011: HK$0.0475 (equivalent to approximately RMB0.0400) per share in respect of the year ended 31 December 2010) was declared and paid to the owners of the Company. The aggregate amount of the final dividend declared and paid in the interim period amounted to HK$24,406,000 (equivalent to approximately RMB20,277,000) (30 June 2011: HK$38,000,000 (equivalent to approximately RMB32,000,000)).

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2012 and 2011.

9. PROPERTY, PLANT AND EQUIPMENT AND PREPAID LEASE PAYMENTS

For the six months ended 30 June 2012, the Group spent approximately RMB2,520,000 for the construction of staff quarter and approximately RMB3,764,000 on additions to plant and machinery, furniture, fixtures and office equipment and motor vehicles (six months ended 30 June 2011: RMB5,000,000 for the construction of a staff quarter).

At 30 June 2012, the Group has not yet obtained the legal title of the buildings with an aggregate carrying values of approximately RMB13,198,000. (31 December 2011: RMB13,522,000).

At 31 December 2011, the Group has not yet obtained the legal title of prepaid lease payments with an aggregate carrying value of approximately RMB634,000 (30 June 2012: nil).

10. TRADE AND OTHER RECEIVABLES

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Trade receivables	**533,748**	493,849
Prepayments	**28,020**	32,984
Other receivables	**6**	424
	561,774	527,257

The Group generally allows credit period of 120 to 150 days (31 December 2011: 90 to 120 days) to its trade customers.

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

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Within 60 days	**201,402**	334,223
61 to 180 days	**332,346**	159,626
	533,748	493,849

11. TRADE AND OTHER PAYABLES

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Trade payables	**38,024**	55,473
Other payables and accruals	**15,399**	21,565
Valued added tax payable	**12,041**	6,518
	65,464	83,556

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

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Within 90 days	**38,024**	55,473

12. AMOUNTS DUE TO THE CONTROLLING SHAREHOLDER/A DIRECTOR

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

13. 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 15(a)). 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.

Since the investor 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 investor 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.

13. DERIVATIVE FINANCIAL LIABILITIES (continued)

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

The Binominal Option Pricing Model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the 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.

14. BANK BORROWINGS

For the six months ended 30 June 2012, the Group obtained new bank borrowings in the amount of approximately RMB112,000,000 (six months ended 30 June 2011: RMB221,000,000) for general working capital. Included in bank borrowings at 30 June 2012 are amounts of approximately RMB116,000,000 (31 December 2011: nil) which carried interest at fixed rates ranging from 6.888% to 8.528% (31 December 2011: nil) per annum. Included in bank borrowings at 31 December 2011 are amounts of approximately RMB96,000,000 (30 June 2012: nil) which carried interest at variable rates ranging 5.350% to 8.528% (30 June 2012: nil) per annum. The bank loans are repayable within one year.

For the six months ended 30 June 2012, the Group settled bank borrowings amounting to approximately RMB92,000,000 (six months ended 30 June 2011: RMB179,000,000).

15. SHARE CAPITAL

Ordinary shares of HK$0.1 each

	Number of shares	Amount HK$	Amount as presented RMB'000
Authorised:			
At 1 January 2011, 31 December 2011 and 30 June 2012	2,000,000,000	200,000,000	
Issued and fully paid:			
At 1 January 2011	800,000,000	80,000,000	70,483
Issued of shares upon subscription (note a)	24,000,000	2,400,000	2,013
Repurchased during the year (note b)	(10,456,000)	(1,045,600)	(869)
At 31 December 2011	813,544,000	81,354,400	71,627
Repurchased during the period (note b)	(944,000)	(94,400)	(77)
At 30 June 2012	812,600,000	81,260,000	71,550

Notes:

a. 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.

b. The Company repurchased its own ordinary shares on the Stock Exchange and the said ordinary shares were cancelled following the repurchase.

During the six months ended 30 June 2012 and 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
January 2012	484	0.96	0.89	445	365
February 2012	460	1.00	0.92	448	367
	944			893	732

15. SHARE CAPITAL (continued)

Notes: 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$94,400 (equivalent to approximately RMB77,000) (31 December 2011: 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$799,000 (equivalent to approximately RMB655,000) (31 December 2011: HK$8,502,000 (equivalent to approximately RMB7,064,000)) was charged to share premium.

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

16. EQUITY-SETTLED SHARE-BASED PAYMENTS

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

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

The subscription price in respect of each share under the Scheme shall, will be a price determined by the board of directors (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 30 June 2012, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 49,160,000 (31 December 2011: 49,160,000) representing 6% (31 December 2011: 6%) of the shares of the Company in issue at that date. The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company must not, in aggregate, exceed 30% of the total number of Shares in issue from time to time. Options may not be granted under any schemes of the Company (including the Scheme) if this will result in the said 30% limit being exceeded.

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

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

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

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

16. EQUITY-SETTLED SHARE-BASED PAYMENTS (continued)

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 prior period:

Option type	Outstanding at 1/1/2011	Granted during the period	Exercised during the period	Forfeited during the period	Expired during the period	Outstanding at 30/6/2011, 31/12/2011 and 30/6/2012
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

At 30 June 2012, 37,848,000 share options were exercisable (31 December 2011: 33,000,000).

16. EQUITY-SETTLED SHARE-BASED PAYMENTS (continued)

During the six months ended 30 June 2011, share options were granted on 4 May 2011. The fair values of the share options determined at the date of grant using the Binomial Option Pricing Model was approximately HK$20,747,000 (equivalent to approximately RMB17,213,000). The closing price of the Company's shares immediately before the date of grant was HK$1.620.

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

	4 May 2011
Expected volatility	43.60%
Expected life	10 years
Risk-free rate	2.55%
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.

For the six months ended 30 June 2012, the Group recognised total expenses of approximately RMB2,183,000 (30 June 2011: approximately RMB19,421,000) in relation to the share options granted by the Company.

17. CAPITAL COMMITMENTS

At 31 December 2011, the Group had capital expenditure in respect of construction in progress of approximately RMB2,525,000 (30 June 2012: nil) contracted for but not provided in the condensed consolidated financial statements.

18. OPERATING LEASE COMMITMENTS

The Group leases office under operating lease arrangement. Lease for property is 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 31 December 2011, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due within one year of approximately RMB12,000 (30 June 2012: nil).

19. RELATED PARTY TRANSACTIONS

In addition to those disclosed in note 12, the Group had entered into the following significant transactions with related parties during the six months ended 30 June 2012 and 2011.

(a) Compensation of key management personnel

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

	For the six month ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Short-term benefits	**1,630**	1,524
Post-employment benefits	**21**	26
Equity-settled share-based payments	**838**	10,667
	2,489	12,217

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