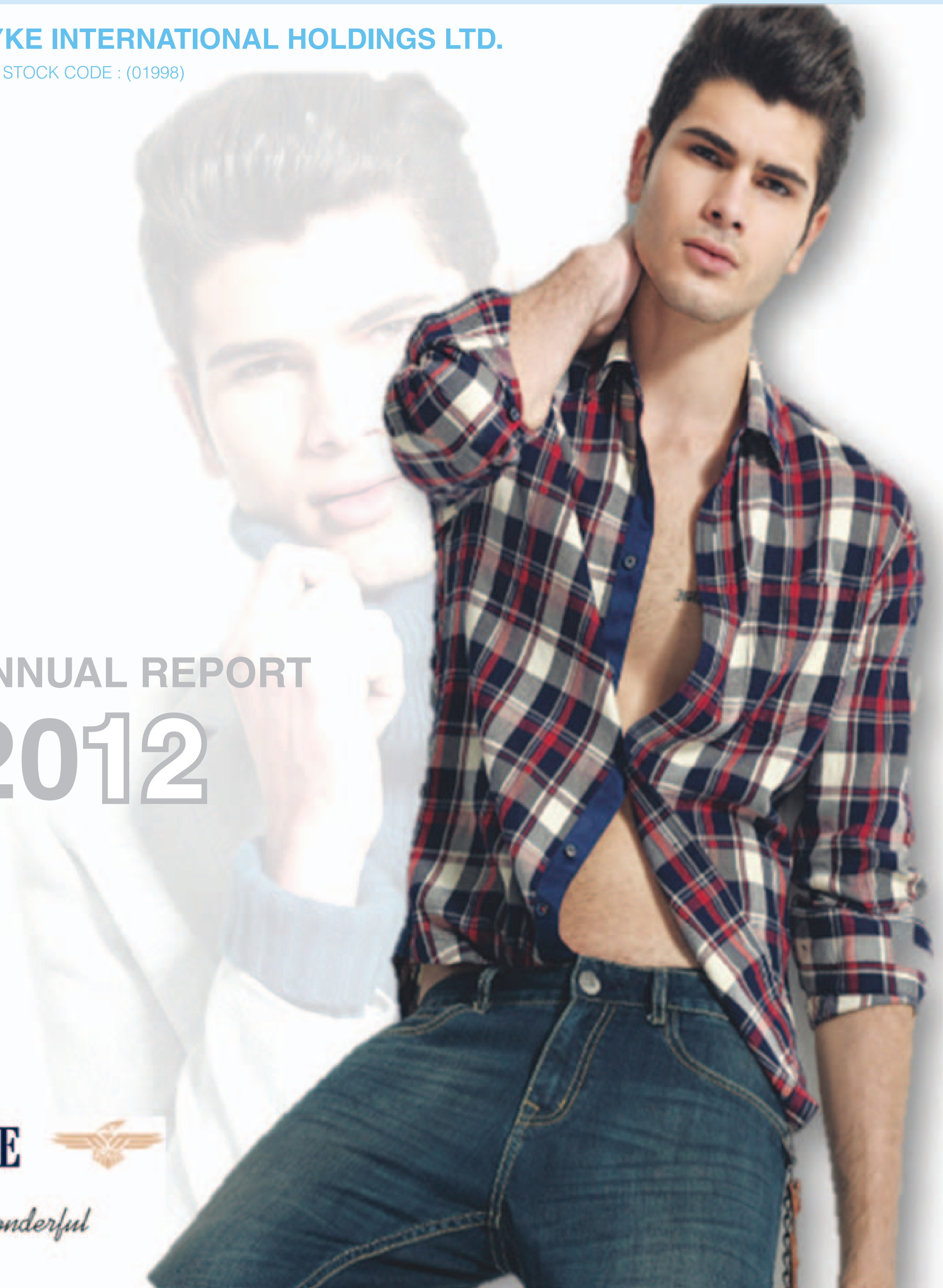
FLYKE

FLYKE INTERNATIONAL HOLDINGS LTD.

HKEX STOCK CODE : (01998)



ANNUAL REPORT 2012

FLYKE

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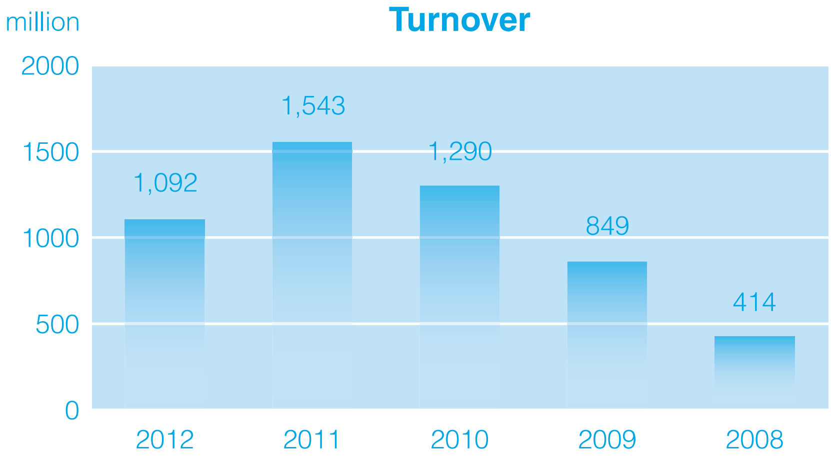
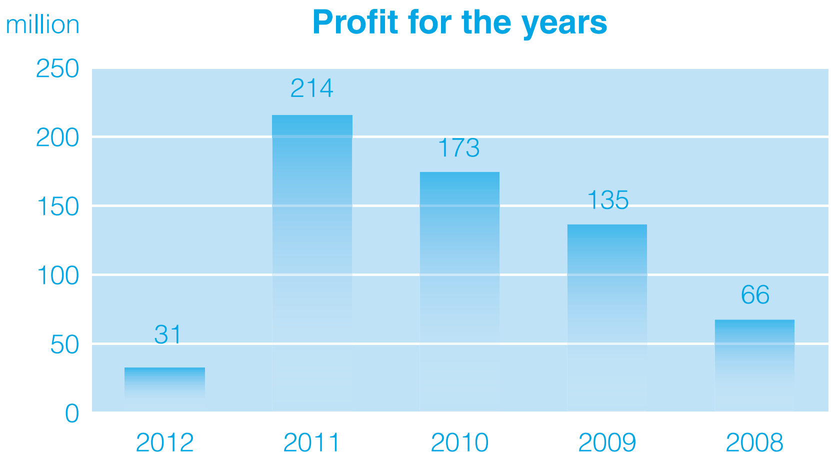
Contents

Financial Highlights





	For the year ended 31 December		
	2012 **RMB'000**	2011 RMB'000	Change %
Turnover	**1,092,395**	1,543,096	(29.2)%
Gross profit	**280,452**	445,330	(37.0)%
Impairment loss (note 1)	**60,933**	-	-
Profit for the year	**31,303**	214,073	(85.4)%
	(%)	(%)	
Return on equity holders' equity (note 2)	**3.8%**	26.1%	(22.3)%
Gearing ratio (note 3)	**27.8%**	11.7%	16.1%
Gross profit margin	**25.7%**	28.9%	(3.2)%
Basic earnings per share (RMB)	**0.039**	0.264	(85.2)%
Final dividend (HK$)	**0.0100**	0.0300	(66.7)%

Notes:

1. The impairment loss represents the provision in respect of over due trade receivables
2. Return on equity holder's equity is equal to the profit for the year divided by the equity.
3. 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				
	2012 (RMB'000)	2011 (RMB'000)	2010 (RMB'000)	2009 (RMB'000)	2008 (RMB'000)
Turnover	**1,092,395**	1,543,096	1,289,935	849,292	413,594
Gross profit	**280,452**	445,330	368,914	209,556	124,795
Profit for the year	**31,303**	214,073	172,649	134,780	66,458
Basic and diluted earnings per share (RMB) (Note 1)	**0.039**	0.264	0.260	0.168	0.083

PROFITABILITY RATIOS

	For the year ended 31 December				
	2012 (%)	2011 (%)	2010 (%)	2009 (%)	2008 (%)
Gross profit margin	**25.7%**	28.9%	28.6%	24.7%	30.2%
Net profit margin	**2.9%**	13.9%	13.4%	15.9%	16.1%
Return on equity holders' equity	**3.8%**	26.1%	29.1%	66.2%	48.0%

FINANCIAL POSITION DATA

	As at 31 December				
	2012 (RMB'000)	2011 (RMB'000)	2010 (RMB'000)	2009 (RMB'000)	2008 (RMB'000)
Non-current assets	**134,414**	138,163	137,185	120,358	99,751
Current assets	**1,042,351**	909,649	732,281	348,472	209,760
Current liabilities	**335,078**	210,824	268,035	264,610	171,197
Bank borrowings	**232,000**	96,000	104,000	116,370	48,500
Net current assets	**707,273**	698,825	464,246	83,862	38,563
Total assets less current liabilities	**841,687**	836,988	601,431	204,220	138,314
Net assets	**834,285**	820,212	592,806	203,452	138,314
Bank balances and cash	**289,078**	313,922	359,436	98,747	26,849
Current ratio (times)	**3.1**	4.3	2.7	1.3	1.2

Note 1: The weighted average number of shares in issue during the year ended 2012 and 2011 was 812,795,000 and 811,896,000 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 and Chief Executive)*
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

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

Xinwei Industrial Zone
Yangdai, Chendai Town
Jinjiang, Quanzhou 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

Royal Bank of Canada
Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
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

Industrial Bank Co., Ltd.
Agricultural Bank of China Limited

STOCK CODE

01998

COMPANY WEBSITE

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 2012 ("**Review Period**").

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

BRANDED APPAREL

In the latter part of 2011 our management team realized that the market for sportwear in third-tier and fourth-tier cities in China was becoming over-saturated. This was due to large domestic and international sportwear brands that traditionally participated in first and second-tier cities beginning to expand into third and fourth-tier cities. Furthermore, due to an optimistic demand outlook by several of our competitors in the third and fourth-tier cities, above-average inventory levels became prominent throughout distribution channels. These factors over the past twelve months caused industry participants to execute buy backs from distributors and heavily discount merchandise in order to normalize inventory levels and relieve downward pricing pressure.

Our Group looked at these headwinds facing the industry and decided in early 2012 that we were going to focus on consolidating our authorized retail locations in third-tier and fourth-tier cities and maintain significant control of sales order volumes to distributors. The Group was committed to the continuation of our 2011 strategy of revolutionizing the brand from a sportswear brand to a casualwear brand. This has allowed us to focus on appealing to consumer's day-to-day apparel needs as well as expanding on our already dynamic footwear product line. Our strategy was preemptive and allowed the Company to work through the headwinds prevalent in the tier-three and tier-four sportwear market.

Our Group found another way to use the industry headwinds to our advantage and we successfully launched a mid-end casualwear brand in the second half of 2012 that targets middle-to-high-class consumers ages 25-35 in tier-one, tier-two cities and upper-end tier-three cities. We have continued to use the Authorized Distributor model for our casualwear brand and successfully launched 22 casualwear retail locations in the second- half of 2012. Our Group believes that the continued expansion of this brand will be a tremendous growth catalyst moving-forward. The brand's aim is to provide consumers with quality, fashionably designed products within a reasonable price range.

BRANDED APPAREL RESULTS

Our *Flyke* casual-sportwear brand experienced relatively strong results in the first half of 2012, however we noticed a significant weakening in the market in the second-half of 2012, which significantly impacted our year-end results. The Group's aggregate turnover decreased by approximately 29.2% Year-over-Year to approximately RMB1,092.4 million as a result of a shift in the Group's strategy, headwinds in the Chinese footwear and sportwear market and the weak global economic climate.

The turnover derived from the *Flyke* casual-sportwear products accounted for approximately 66.6% of the aggregate turnover of the Group or approximately RMB728.0 million during the Review Period representing a decrease by approximately 35% as compared with the same period in 2011. The decrease in turnover of Flyke brand was attributable to the increase in market competition, weakening demand and our Group's shift in strategy towards consolidation during the Review Period. It is important to note that our Group took an impairment provision of RMB60.9 million due to the collection uncertainty of some past due account receivables from our Authorized Distributors. The provision of the Impairment loss, in our opinion is recoverable, however, we felt that it was precautionary to acknowledge that some of the payments from our distributors were not "on-time".

EXPORT ODM AND SHOE SOLES

During the Review Period, the turnover derived from the Export ODM Business declined by approximately 17.1% to approximately RMB309.2 million and accounted for approximately 28.3% of the aggregate turnover of the Group was the result of weak global demand and increase competition from ASEAN countries. On a move-forward basis we believe that the percentage of Group's turnover shared by the Export ODM Business to the aggregate turnover of the Group will further decrease as both of our brands continue to expand and make up more of the Group's total turnover.

DIVIDEND

Due to the challenges facing the market and the need for the Group to maintain capital to expand the casualwear brand we have reduced our dividend this year. We do recognize the need to provide our shareholders with value and felt it was important despite weaker results to provide our investors with a dividend. We also felt that it was important for the Group to expand the new brand and to strategically utilize funds from our earnings to continue expansion in 2013. It is our management team's belief that shareholders should share in the profits of the Group and with an improvement in our results our dividend will increase accordingly.

CONCLUDING REMARKS

2012 has been a difficult year for the apparel industry as a whole and our Group has been no exception. The challenges faced by our peers are the same challenges that our Group faces. I believe that the Company's strategy of utilizing 2012 as an opportunity to reposition our existing brand and create a new brand for the purpose of expanding into higher-end markets will be a long-term catalyst for growth and an increase in the Company's overall profit margins in the future. The transition that has taken place within the Group has enabled us to become leaner and more efficient in our operations. We are confident that we have positioned the Group to take advantage of a middle-class that should continue to have more disposable income across all tiers of cities in China and to operate in a more sustainable apparel market.

On behalf of the Board, I would like to express my heartfelt gratitude to each investor for their support, confidence and trust in 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, 22 March 2013

Management Discussion and Analysis

BUSINESS REVIEW

Brand Development

In 2004, The Group launched a sportwear brand ("*Flyke*") targeting consumers ages 14 to 25 years old in third-tier and fourth-tier cities in China. Since the launch of the brand the Group has adjusted its products from traditional sportwear to casual-sportwear. The reason for this shift has been the increased competition and decreasing demand in the sportwear industry. The Group has always taken the opportunity to evolve and to develop new products to meet the Chinese market's demand. During the most recent Review Period, the Board decided to implement a multi-brand strategy in order to diversify and increase market share in the casualwear market. The Group thus launched a new brand "**Flyke**", which is a mid-tier casualwear brand. The brand was officially launched in the second-half of 2012 and targets consumers ages 25 to 35 years old in first and second-tier cities in China. Early results from the sales of the new brand indicate that it has been well received and the Group has been satisfied with the results thus far.

Flyke casual-sportwear brand

Business

The casual-sportwear brand is principally focused on the design, production and sales of footwear, apparel and accessories. The Group targets consumers ages 14 to 25 years old in third and fourth-tier cities in China. *Flyke* casual-sportwear products are sold through authorised retail stores and image stores operated by our Authorised Distributors. During the Review Period, our products were sold at 1,564 authorised retail stores and 10 image stores. The aggregate turnover contributed by *Flyke* casual-sport brand amounted to approximately RMB728 million, representing a decrease of approximately 35% as compared with the same period in 2011. The reason for the decline in turnover was primarily due to the shift of the Group's strategy and the intense competition of sportwear industry in China. During the Review Period, the production of the casual-sports brand apparel and accessories was outsourced to independent contract manufacturers via Original Equipment Manufacturers ("**OEM**") arrangement while all *Flyke* casual-sports footwear was produced in-house.

Sales network

Facing intense competition and shift in strategy, the Group consolidated the distribution network by closing down 586 ineffective stores in 2012. The total number of Authorised Distributors decreased from 20 as of 31 December 2011 to 13 as of 31 December 2012 while the total number of authorised retail stores and image stores decreased from 2,160 at 31 December 2011 to 1,574 as of 31 December 2012. The Group consolidated the ineffective stores and improved the layout and display existing stores in order to improve the image and efficiencies of its retail business for its casual-sportwear brand. The Group believes that the recognition and awareness of the *Flyke* casual-sport brand is strong enough that it can increase sales per store while having less retail stores within third-tier and fourth-tier cities and focus resources on more targeted marketing campaigns.

The Group will continue to consolidate the retail network by working closely with the Authorised Distributors and by providing additional value-added and supporting services to enhance their network management capabilities during the course of the Group's consolidation efforts. The Group will continue the strategy of consolidation in 2013. The Group divides the China market into four sales regions, namely Northern China, Eastern China, Central/Southwestern China and Southern China.

The following table sets forth the number and the geographical locations of the 1,564 authorised retail stores and 10 image stores, operated by the Authorised Distributors as of 31 December 2012 (with comparative figures for the year ended 31 December 2011):–

	Number of stores as of 31 December		Change	
	2012	2011	no. of stores	%
Northern China	**430**	624	(194)	(31.1%)
Eastern China	**421**	459	(38)	(8.3%)
Southern China	**376**	471	(95)	(20.2%)
Central/Southwestern China	**347**	606	(259)	(42.7%)
Total	**1,574**	2,160	(586)	(27.1%)

Note:

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

Flyke casualwear brand

Business

In the second-half of 2012, the Group officially launched its casualwear brand which targets middle class consumers ages 25 to 35 years old in China. The Group sells **Flyke** casualwear products through authorised retail stores operated by our Authorised Distributors. During the Review Period, the casualwear products were sold at 22 authorised retail stores. The aggregate turnover contributed by **Flyke** casual brand amounted to approximately RMB14 million. We currently have no production facility for casual footwear and apparel and thus outsourced the production to independent contract manufacturers via OEM arrangement.

Sales network

The Group currently sells products to Authorised Distributors which then sell to end-customers directly via 22 authorised retail stores. Although the Group expects that the competition of casual-wear market will be intense in China, the Group believes the **Flyke** casualwear brand can grow strongly due to an increase in domestic consumption trends and increases in comsumer's disposable income for middle-end apparel in tier-one and tier-two cities. We also believe that the positioning of the brand as an American style brand with an appropriate Chinese cut will continue to be attractive among middle-class consumers in our target markets. Additionally, we have focused on developing not only stylish products but also products that are lifestyle-apparel.

Production

As of 31 December 2012, we owned 12 production lines for footwear. All *Flyke* casual-sportwear brand footwear were produced in-house while part of Export ODM Business is outsourced to independent contract manufacturers through OEM arrangements.

Meanwhile the Group currently outsources the production of all apparel and accessories of casual-sportwear brand and all casual-wear products to independent contract manufacturers via OEM arrangement. The Group is considering an apparel factory with an annual production capacity of 5 million pieces/sets of apparels which would enhance the Group flexibility and responsiveness to market changes.

Product design and development

The Directors believe that the product design and development capability of the Group is part of our competitive edge and a significant component to maintaining sustainable growth in the competitive market. The Group has entered into contracts with international designers to supply updated fashion trends and designs from overseas markets in order to continually improve the existing product collections. These relationships are important so as to develop new collections and enhance the design capacity of our in-house design teams which, in turn strengthen both our product mix and product design. During the year ended 31 December 2012, the total expenses for the product design and development decreased by 17.3% to approximately RMB32.1 million representing approximately 2.9% of the aggregate turnover of the Group, from approximately RMB38.7 million for the same period in 2011.

Marketing and promotion

Other than *Flyke* casual-sportwear brand, the Group launched casualwear brand **Flyke** in the second-half of 2012. To further strengthen the Group's brand image, the Group launched a series of activities on various media outlets. During the year, the advertising and promotion expenses to the Group's turnover increased from 3.7% to 7.2%. Other than advertising, the Group also granted subsidy to our Authorised Distributors as our support for the establishment of their image stores to promote our brand's image. The Authorised Distributors are only entitled to the subsidy if they achieve the agreed upon sales target.

Export ODM Business

The Group has an established vertically integrated business model for the Export ODM Business. The design, production and sales of footwear to overseas markets includes 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 customer footwear preferences and fashion trends of overseas markets. This multi-faceted and updated information from overseas markets allows us to keep track of international trends in footwear and improve the design of *Flyke* footwear. During the Review Period, sales from the Export ODM Business amounted to approximately RMB309.2 million, representing a decrease of approximately 17.1% from approximately RMB372.8 million in 2011. This business accounted for approximately 28.3% of the Group's aggregate turnover. The Directors believe that the sales from Export ODM Business can continue to contribute a stable cash inflow to the Group for development due to our active participation of international and domestic sales fairs.

Soles

The business is primarily engaged in the design, production and sales of soles. The sales from the business reached approximately RMB41.2 million, representing a decrease of approximately 18.0% from approximately RMB50.2 million in the same period of 2011. This business accounted for approximately 3.8% of the Group's aggregate turnover for the year. As of 31 December 2012, the Group had 21 production lines with an annual production capacity of approximately 13 million pairs of soles.

FINANCIAL REVIEW

Turnover

During the year ended 31 December 2012, the aggregate turnover of the Group decreased by approximately RMB450.7 million or 29.2% to approximately RMB1,092.4 million. The decrease in turnover was primarily attributable to the decrease in sales of our *Flyke* casual-sportwear products as a results of the shift in the Group's strategy and the overall weakness of sportwear market in China.

The following table sets forth a summary of the turnover of the Group by four principal activities during the year ended 31 December 2012 (with comparative figures for the year ended 31 December 2011):–

	For the year ended 31 December				
	2012		2011		Change of sales
	RMB'000	%	RMB'000	%	%
Sales of footwear, apparels and accessories with the *Flyke* casual-sport brand	**728,046**	**66.6%**	1,120,106	72.5%	(35.0)%
Sales of footwear, apparels and accessories with the **Flyke** casual brand *	**13,984**	**1.3%**	-	-	-
Sales under the Export ODM Business	**309,191**	**28.3%**	372,804	24.2%	(17.1)%
Sales of soles	**41,174**	**3.8%**	50,186	3.3%	(18.0)%
Total	**1,092,395**	**100.0%**	1,543,096	100.0%	(29.2)%

* We started the sales of **Flyke** casual brand products in second-half of 2012.

Sales of the Flyke casual-sportwear products

The brand products include footwear, apparels and accessories. *Flyke* footwear was produced by the Group while the apparel and accessories were produced by the Group's independent contract manufacturers via OEM arrangement. The Group sold all the *Flyke* casual-sportwear products directly to the Authorised Distributors, which operate and manage the authorised retail stores. As of 31 December 2012, *Flyke* casual-sportwear products were sold at 1,574 authorised retail stores including 10 image stores, operated by 13 independent Authorised Distributors.

The following table illustrates the sale analysis of the *Flyke* casual-sportwear products by product categories during the year ended 31 December 2012 (with comparative figures for the year ended 31 December 2011):–

	For the year ended 31 December				
	2012		2011		Change of sales
	RMB'000	%	RMB'000	%	%
Sales of apparel and accessories	**374,886**	**51.5%**	585,429	52.3%	(36)%
Sales of footwear	**353,160**	**48.5%**	534,677	47.7%	(34)%
Total	**728,046**	**100.0%**	1,120,106	100.0%	(35)%

The following table sets forth a sale breakdown of the *Flyke* casual-sportwear brand by regions during the Review Period:

	For the year ended 31 December				
	2012		2011		Change
		% of		% of	of sales
	RMB'000	**Turnover**	RMB'000	Turnover	%
Northern China	**198,715**	**27.3%**	291,515	26.1%	(31.8)%
Eastern China	**137,602**	**18.9%**	209,914	18.7%	(34.4)%
Southern China	**184,350**	**25.3%**	274,366	24.5%	(32.8)%
Central/Southwestern China	**207,379**	**28.5%**	344,311	30.7%	(39.8)%
Total	**728,046**	**100.0%**	1,120,106	100.0%	(35.0)%

The decrease in turnover of *Flyke* casual-sportwear products was primarily attributed to the decrease in sales volume as a result of a shift in Group's strategy and intense competition during the Review Period.

The following table sets forth the number of pairs/pieces/sets sold and the average ex-factory prices of the Group's *Flyke* casual-sportwear products during the year ended 31 December 2012 (with comparative figures for the year ended 31 December 2011):–

	For the year ended 31 December				
	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 %
Apparels and accessories (pieces/sets)	**5,290**	**70.9**	8,195	71.4	(0.8)%
Footwear (pairs)	**4,552**	**77.6**	7,326	73.0	6.3%

Sales of footwear under the Export ODM

During the year ended 31 December 2012, the Export ODM Business recorded a decrease by approximately 17.1% to approximately RMB309.2 million. The decline in the Export ODM Business was principally due to the challenging global economy which affects the demand for our exports.

The following table illustrates a sale analysis of the Export ODM Business by production sources during the year ended 31 December 2012 (with comparative figures for the year ended 31 December 2011):–

	For the year ended 31 December				
	2012		2011		Change of sales
	RMB'000	**%**	RMB'000	%	%
Sales of own produced footwear	**233,477**	**75.5%**	244,273	65.5%	(4.4)%
Sales of outsourced footwear	**75,714**	**24.5%**	128,531	34.5%	(41.1)%
Total	**309,191**	**100.0%**	372,804	100.0%	(17.1)%

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 2012 (with comparable figures for the year ended 31 December 2011):–

	For the year ended 31 December				
	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	**5,296**	**58.4**	6,572	56.7	2.9%

Sales of soles

During the year ended 31 December 2012, the sales of soles decreased by approximately 18.0% to approximately RMB41.2 million principally due to the decreased demand for footwear in the market.

Cost of sales

The cost of sales included raw materials, direct labour, production cost and outsourcing fees to contract manufacturers. It was incurred in: (a) the production of the *Flyke* footwear; (b) the production of the footwear for the Export ODM Business; (c) the production of Soles; (d) the outsourcing fees to the Group's contract manufacturers for the production of the **Flyke** footwear, apparel and accessories; (e) the outsourcing fees to the Group's contract manufacturers for the production of certain footwear for the Export ODM Business and (f) the outsourcing fees to the Group's contract manufacturers for the production of the apparels and accessories with the *Flyke* casual-sport brand.

For the year ended 31 December 2012, total cost of sales decreased by approximately 26.0% to approximately RMB811.9 million from approximately RMB1,097.8 million for the year ended 31 December 2011, of which the outsourcing fee to contract manufacturers decreased by approximately 33.6% to approximately RMB347.9 million for the year ended 31 December 2012 from approximately RMB523.8 million for the year ended 31 December 2011.

The percentage year-over-year decrease in the cost of sales was less than the percentage year-over-year decrease in the aggregate turnover because in-house production costs did not decrease in-line with aggregate turnover.

Gross profit and gross profit margin

The gross profit of the Group decreased by approximately 37% to approximately RMB280.5 million (2011: RMB445.3 million) while the gross profit margin decreased to approximately 25.7% (2011: 28.9%). The decrease in gross profit was mainly attributable to decrease in the sales of the *Flyke* casual-sportwear brand.

The following table illustrates the gross profit and the gross profit margins of the Group by its principal activities, namely footwear, apparel and accessories with the *Flyke* casual-sportwear brand and **Flyke** casualwear brand, the Export ODM Business and soles during the year ended 31 December 2012 (with comparative figures for the year ended 31 December 2011):–

	For the year ended 31 December				
	2012		2011		
		Gross profit margin		Gross profit margin	Change of gross profit
	RMB'000	**%**	RMB'000	%	%
Sales of footwear, apparels and accessories with the *Flyke* casual-sportwear brand	**197,080**	**27.1%**	342,872	30.6%	(42.5)%
Sales of footwear, apparels and accessories with the **Flyke** casualwear brand	**6,397**	**45.7%**	-	-	-
Sales under Export ODM Business	**68,494**	**22.2%**	91,362	24.5%	(25)%
Sales of soles	**8,481**	**20.6%**	11,096	22.1%	(23.6)%
Total	**280,452**	**25.7%**	445,330	28.9%	(37)%

Flyke casual-sportwear products

The gross profit for the sales of the *Flyke* casual-sportwear products during the Review Period decreased by approximately 42.5% to approximately RMB197.1 million while the gross profit margin decreased by approximately 3.5% to approximately 27.1% as the cost of raw material and labour decreased not in line with the sales. The decrease of gross profit was primarily attributable to the consolidation of our retail network as a result of our strategy to reduce the number of stores and the declining demand in the industry.

The following table illustrates an analysis of the gross profit and profit margin of the *Flyke* casual-sportwear products by product categories during the year ended 31 December 2012 (with comparative figures for the year ended 31 December 2011):–

	For the year ended 31 December				
	2012		2011		
		Gross profit margin		Gross profit margin	Change of gross profit
	RMB'000	**%**	RMB'000	%	%
Sales of apparels and accessories	**97,553**	**26.0%**	166,267	28.4%	41.3%
Sales of footwear	**99,527**	**28.2%**	176,605	33.0%	43.6%
Total	**197,080**	**27.1%**	342,872	30.6%	42.5%

Export ODM Business

The gross profit for the Export ODM Business for the Review Period decreased by approximately 25% to approximately RMB68.5 million while the gross profit margin decreased from approximately 24.5% for the year ended 31 December 2011 to approximately 22.2% for the year ended 31 December 2012. The decrease in gross profit was primarily a result of decreasing sales volume during the Review Period.

Soles

The gross profit for the sales of soles decreased by approximately 23.6% to approximately RMB8.5 million. The decrease in gross profit was attributable to the decrease in quantities sold.

Other income

The other income of the Group for the year ended 31 December 2012 decreased to approximately RMB1.0 million (2011: RMB1.8 million) due to a subsidy granted by local government of approximately RMB3.7 million for successful listing in March 2010 of which approximately RMB0.4 million was received and recognised as income during the year ended 31 December 2011.

Selling and distribution expenses

During the year ended 31 December 2012, the selling and distribution expenses amounted to approximately RMB101.8 million (2011: RMB74.5 million) representing approximately 9.3% to the aggregate sales of the Group (2011: 4.8%). The increase in percentage to the aggregate turnover of the Group was primarily due to a series of marketing launched to promote **Flyke** casualwear brand awareness in the media and recognised subsidies to image stores as expenses during the Review Period.

Administrative expenses

During the year ended 31 December 2012, the administrative expense was kept at a stable level of approximately RMB34.0 million (2011: RMB33.8 million). The expense did not decrease in line with turnover due to the increase in salary remuneration.

Impairment loss

It represents the provision of past due outstanding balances from trade receivables. During the Review Period, the Group recognised the impairment loss of RMB60.9 million after the assessment of the recoverability of each past due trade receivable.

Other operating expenses

Other operating expenses of RMB32.4 million consisted of expenses incurred from product design and development and donation, of which RMB32.1 million was incurred for product design and development. The decrease in product design and development of the sport casual wear brand lead to a decrease in other operating expenses by 16.3% to RMB32.4 million (2011: RMB38.7 million) representing approximately 3% of aggregate turnover (2011: 2.5%) during the Review Period.

Equity-settled share-based payments

The recognition of approximately RMB3.2 million (2011: RMB21.6 million) as to equity-settled share-based payment represents the cost 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 2012, the finance costs incurred by the Group increased by 3.2% to approximately RMB9.4 million (2011: RMB9.1 million) due to the increase in bank borrowing during the Review Period. The balance of bank borrowings was approximately RMB232.0 million as of 31 December 2012 (2011: RMB96.0 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 2012. The Group was not subject to any tax in the Cayman Islands and the British Virgin Islands during the year ended 31 December 2012.

The Group's income tax expense during the year ended 31 December 2012 amounted to approximately RMB8.5 million (2011: RMB55.4 million), representing a decrease of approximately 84.7% while the Group's effective income tax rate increased to approximately 21.3% for the year ended 31 December 2012 (2011: 20.5%). The reason of dramatic decrease of income tax expenses was the increase in advertising of the new brand promotion of casual wear, the decrease of sales from casual-sportwear brand products and deferred tax assets recognised on the impairment loss of in respect of trade receivables. 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 2012.

Profit for the year

Profit for the year decreased by approximately 85.4% from approximately RMB214.1 million for the year ended 31 December 2011 to RMB31.3 million for the year ended 31 December 2012. The decrease in the profitability of the Group was principally driven by the decrease in the Group's turnover by 29.2%, an increase in brand advertising and promotion of 37.4% and the recognition of RMB 60.9 million as impairment losses related to past due trade receivables.

BUSINESS OUTLOOK

Brand Development

Due to increased competition in the sportwear market and the attractive margins offered by the casualwear market in China, the Group consolidated 586 of our casual-sportwear stores during the Review Period and commenced allocating resources into our casualwear products. In the second-half of 2012 we launched our casualwear brand and as of 31 December 2012 we have 22 authorized casualwear retail stores. In order to increase our market share within the casualwear market our Board or Directors has set-out the following sustainable growth targets.

Strengthening Brand Awareness and Image

The Directors believe the strengthening of our new brand awareness and image is critical to enhancing the casualwear brand's market share. In 2012 the Group allocated RMB78.7 million for advertising and promotion purpose to promote the image of the brands as well consumer awareness. We intend on continuing with our brand promotional activities to enhance the recognition and enlarge market share.

Sales Network Expansion

The Group opened 22 authorized casualwear stores within shopping malls located in first-tier and second-tier cities and 1,574 casual-sportwear stores in third and forth-tier cities. The Group will continue to expand the number of casualwear stores steadily in the coming years while consolidating the casual-sportwear stores in order to concentrate the resources on the casual brand and improve per-store efficiency. Other than shopping malls, the Group will look to open street-front casualwear stores in order to gain exposure to sidewalk consumer traffic.

Product Innovation

Other than our in-house design staff, the Group will continue to engage experienced designers to enhance our brand image, product design and development as well expand capacity and product mix.

Product Capacity

The Group is currently outsourcing all casualwear, sports apparels and accessories of casual-sportwear brand to independent manufacturers via OEM. In order to support our future expansion, the Group maintains its plan to establish its own factory for apparel, which should increase our profit margins.

Export ODM Business

The Export ODM footwear business represents another stable source of income contributed to the Group. To maintain growth in this component of its business, the Group will continuously participate in international exhibitions to increase its international exposure ideally targeting other emerging economies. The Directors also consider that the Group can benefit from having access to overseas fashion trends and styles.

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: –

	(HK$ million)		
Use of net proceeds from the global offering	**Available to utilise**	**Utilised as of 31 December 2012**	**Unutilised as of 31 December 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 7 flagship stores and 23 image stores	63.9	25.1	38.8
Increase three footwear production lines	23.0	8.5	14.5
Establish new production facilities for apparels	80.0	-	80.0
Advertising and marketing activities	110.0	110.0	-
Total	363.3	207.5	155.8

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The bank balances and cash of the Group decreased from approximately RMB313.9 million as of 31 December 2011 to approximately RMB289.1 million as of 31 December 2012. The Directors believe that the funds generated from operations, the available banking facilities will enable the Group to meet its future working capital requirements.

The net assets increased to approximately RMB834.3 million as of 31 December 2012 from approximately RMB820.2 million as of 31 December 2011.

The bank borrowings was approximately RMB232 million as of 31 December 2012 (2011: RMB96 million), all denominated in Renminbi.

As of 31 December 2012, the Group's gearing ratio (measured by total bank loans divided by the equity) was 27.8% (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

At the end of the reporting period, property, plant & equipment with carrying value of approximately RMB15.3 million were pledged to secure banking facilities granted to the Group.

CONTINGENT LIABILITIES

As of 31 December 2012, we had no material contingent liabilities.

The Board is pleased to present the Report of the Directors and the audited financial statements for the year ended 31 December 2012.

PRINCIPAL OPERATIONS

The Group's principal business activities during the financial year ended 31 December 2012 is engaged in three principal business segments, including 1) the design, production and sales of footwear, apparels and accessories across two brands, 2) Export ODM Business and 3) the design, production and sales of soles.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income on page 38.

A final dividend of RMB0.008 per share (equivalent to approximately HK$0.01 at exchange rate RMB0.80: 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 (the "**Share(s)**") will be registered during the following periods:

1. from Wednesday, 22 May 2013 to Friday, 24 May 2013, 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 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 Tuesday, 21 May 2013.

2. from Tuesday, 4 June 2013 to Thursday, 6 June 2013, both days inclusive, for the purpose of qualifying the entitlement to the proposed final dividend for the year ended 31 December 2012. In order to qualify for entitlement to the proposed final dividend for the year ended 31 December 2012, all transfers of Shares 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, 3 June 2013.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five 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 2012 are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

Details of share capital of the Company during the financial year ended 31 December 2012 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 34 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 of Hong Kong Limited (the "**Stock Exchange**")(the "**Listing Rules**") or directed by the shareholders of the Company (the "**Shareholder(s)**") at a general meeting.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2012, the aggregate sales to the Group's five largest customers accounted for approximately 50.6% of the Group's turnover and sales to the Group's largest customer was approximately 28.2% of the Group's total turnover.

During the year, the aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 26.2% of the Group's total purchases, and the purchases attributable to the Group's largest supplier was approximately 6.2% of the Group's total purchases.

None of the Directors, their associates or any Shareholders (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 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

All of the 944,000 repurchased ordinary Shares 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 2012 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 and Chief Executive)*
Mr. LIN Mingxu
Mr. LIN Wenzu
Mr. LI Yong

Independent Non-executive Directors

Mr. CHU Kin Wang, Peleus
Mr. WANG Dong (appointed on 24 February 2012)
Mr. ZHU Guohe
Mr. HUANG Shanhe (resigned on 24 February 2012)

Pursuant to article 84 of the Company's articles of association, Mr. LIN Wenjian, Mr. LIN Mingxu and Mr. LI Yong 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 Rules 3.10(1) and 3.10A 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 33 to 35 of this report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company for an initial fixed term of three years commencing on 24 February 2010 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 committees with reference to the duties, responsibilities, performance of the Directors and the results of the Group.

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

EMOLUMENTS POLICY

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

RETIREMENT BENEFIT SCHEMES

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

SHARE OPTIONS

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 6% 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 7 years.

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 2012	Granted during the Review Period	Exercised during the Review Period	Cancelled/ Lapsed during the Review Period	Outstanding as of 31 December 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			

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 2012.

No contracts of significance for the provision of services to the Company or any of its subsidiaries by a controlling Shareholder or any of its subsidiaries subsisted at the end of year or at any time during the year ended 31 December 2012.

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	59.13%
	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, 40,800,000 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	40,800,000	—	Long	40,800,000 (note 2)	5.02%

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.

CORPORATE GOVERNANCE

Principal corporate governance practices as adopted by the Company are set out in the Corporate Governance Report section set out on pages 27 to 32 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, 22 March 2013

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. A high standard of corporate governance measures also contributes to the Group's success and therefore, the Directors have adopted the Corporate Governance Code (the "**Code**") as set out in Appendix 14 of the Listing Rules. 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 to be undertaken by two individuals.

CHAIRMAN AND CHIEF EXECUTIVE

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.2.1 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.

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 2012.

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 and Chief Executive)*
Mr. LIN Mingxu
Mr. LIN Wenzu
Mr. LI Yong

Independent Non-executive Directors

Mr. CHU Kin Wang, Peleus
Mr. WANG Dong (appointed on 24 February 2012)
Mr. ZHU Guohe
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.

In compliance with Rules 3.10(1) and 3.10A 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.

DIRECTORS' TRAINING

According to the code provision A.6.5 of the Code, all directors should participate in a programme of continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the board remains informed and relevant. The Company should be responsible for arranging and funding training, placing an appropriate emphasis on the roles, functions and duties of the Directors of the Company.

During the Year and up to the date of this report, the Company had arranged to provide to all Directors with the "Guidelines for Directors" and the "Guide for Independent Nonexecutive Directors" issued by the Hong Kong Institute of Directors. Each of the Directors had noted and studied the above mentioned documents and that the Company had received from each of the Directors the confirmations on taking continuous professional training.

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. Durung the Review Period, the Audit Committee consists of all three independent non-executive Directors, namely Mr. CHU Kin Wang, Peleus, Mr. WANG Dong, who was appointed on 24 February 2012, Mr. ZHU Guohe and Mr. HUANG Shanhe, who resigned on 24 February 2012. Mr. CHU is the chairman of the Audit Committee. During the Review Period, the Audit Committee held three meetings to make recommendation on the re-appointment of external auditor, review financial statements, financial reporting system and internal control procedures of the Company. The Audit Committee has reviewed the Company's financial statements and the Group's combined financial statements for the year ended 31 December 2012, including the accounting principles and practices adopted by the Group.

Remuneration Committee

The Company established a remuneration committee (the "**Remuneration Committee**") 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; and to determine with delegate responsibility, the remuneration packages of individual Executive Directors and senior management, this should includes benefits in kind, pesion rights and compensation payments, including any compensation payable for loss or termination of their office or appointment. 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. WANG Dong, who was appointed on 24 February 2012. Mr. ZHU Guohe and Mr. HUANG Shanhe, who resigned on 24 February 2012. Mr. WANG was the chairman of the Remuneration Committee. During the Review Period, the Remuneration Committee held two meetings to review and make recommendation on the remuneration policy and structure relating to Directors and senior management of the Company.

Nomination Committee

The Company established a nomination committee (the "**Nomination Committee**") 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, Mr. WANG Dong, who was appointed on 24 February 2012, Mr. ZHU Guohe and Mr. HUANG Shanhe, who resigned on 24 February 2012. Mr. WANG was the chairman of the Nomination Committee. During the Review Period, the Nomination Committee held two meetings to review the structure, size and composition of the Board.

Corporate Governance Functions

The terms of reference on corporate governance functions was adopted by the Board on 28 March 2012. The Board is responsible for performing the corporate governance functions to develop and review the Company's policies and practices on corporate governance and make recommendations; to review and monitor the training and continuous professional development of Directors and senior management; to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; to develop, review and monitor the code of conduct and compliance manual applicable to employees and Directors; and to review the Company's compliance with the "Corporate Governance Code and Corporate Governance Report" as set out in Appendix 14 of the Listing Rules and disclosure in the Corporate Governance Report contained in the annual report of the Company.

BOARD MEETINGS

During the Review Period, the Directors have made contribution to the affairs of the Group and five 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.

Details of Directors' attendance record throughout the Review Period is as follows:

Directors	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Annual General Meeting
Executive Directors					
Mr. LIN Wenjian	5/5	N/A	N/A	N/A	1/1
Mr. LIN Mingxu	5/5	N/A	N/A	N/A	1/1
Mr. LIN Wenzu	5/5	N/A	N/A	2/2	1/1
Mr. LI Yong	5/5	N/A	2/2	N/A	1/1
Independent non-executive Directors					
Mr. CHU Kin Wang, Peleus	4/5	3/3	N/A	N/A	0/1
Mr. WANG Dong (appionted on 24 February 2012)	4/4	3/3	1/1	1/1	1/1
Mr. ZHU Guohe	5/5	3/3	2/2	2/2	1/1
Mr. HUANG Shanhe (resigned on 24 February 2012)	1/1	0/0	1/1	1/1	0/0

DEED OF NON-COMPETITION

Mr. LIN Wenjian, Mr. LIN Mingxu, 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, 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 has 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.

AUDITOR'S REMUNERATION

During the year ended 31 December 2012, the fee paid/payable to the auditor of the Company in respect of audit services amounted to approximately HK$1 million and non-audit servcies amounted to approximately HK$330,000.

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.

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 2012, 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.

COMPANY SECRETARY

The Company has engaged in a service contract with an external service provider, which Ms. HO Wing Yan ("**Ms. HO**") is appointed as the Company Secretary of the Company. Mr. LIN Wenjian is the primary corporate contact person of the Company with Ms. Ho.

Being the company secretary of the Company, Ms. HO plays an important role in supporting the board by ensuring good information flow within the Board and that Board policy and procedures are followed. Ms. HO is responsible for advising the Board on corporate governance matters and should also facilitate induction and professional development of directors.

Ms. HO is an associate member of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. Ms. HO continues to study professional courses of corporate governance and has extensive experience in the company secretarial field for listed companies. Ms. HO is also a holder of the Practitioner's Endorsement issued by The Hong Kong Institute of Chartered Secretaries. According to Rule 3.29 of the Listing Rules, Ms. HO took more than 15 hours of relevant professional training.

SHAREHOLDERS' RIGHTS

Convening an extraordinary general meeting

Pursuant to article 58 of the articles of association of the Company, any one or more members of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Putting enquiries to the Board

To ensure effective communication between the Board and the Shareholders, the Company has adopted a shareholders' communication policy on 28 March 2012. Under the shareholders' communication policy, the Company's information shall be communicated to the Shareholders mainly through general meetings, including annual general meetings, the Company's financial reports (interim reports and annual reports), and its corporate communications and other corporate publications on the Company's website and the Stock Exchange's website.

Shareholders may at any time make a request for the Company's information to the extent such information is publicly available. Any such questions shall be first directed to the Company Secretary at the Company's head office and principal place of business in Hong Kong or the Company's Hong Kong branch share registrar and transfer office, Union Registrars Limited, at 18th Floor, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong.

Putting forward proposals at Shareholders' meeting

The number of Shareholders necessary for a requisition for putting forward a proposal at a Shareholders' meeting shall be any number of Shareholders representing not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings at the date of the requisition.

INVESTORS AND SHAREHOLDERS RELATIONS

The Board recognizes the importance of maintaining clear, timely and effective communication with investors and Shareholders. 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 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.

Biographical Details of Directors and Senior Management

BOARD OF DIRECTORS

Executive Directors

Mr. LIN Wenjian, aged 43, is the Chairman, Chief Executive 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 22 years of experience, Mr. LIN Wenjian has in-depth knowledge on the shoe/sportwear industry in China. In particular, Mr. LIN Wenjian is experienced in the shoe production process, research and development of shoe products and the management of shoe manufacturing facilities. Prior to joining Xinwei (China) in 1998, Mr. LIN Wenjian was a senior management of 泉州恒達制鞋有限公司 (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 41, 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 20 years of experience in the shoe manufacturing industry, Mr. LIN Mingxu has extensive knowledge on each stage of the shoe production process including, procurement of raw materials, development, design and production. Prior to joining the Company, Mr. LIN Mingxu worked as the head of the design and development department and the purchase manager of 泉州恒達制鞋有限公司 (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 38, is an executive Director, the deputy general manager and the head of the Export ODM Business. Mr. LIN is also a member of the nomination committee of the Company. 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 18 years of experience in design, development and sales of shoes, and has over 12 years of experience in the export business. During 1990 to 1992, Mr. LIN Wenzu worked as an export trading officer of 鑫達盛鞋服貿易公司 (Xin Da Fu Shoes and Apparel Trading Company*) responsible for the export business of sports shoes and apparel items to countries in South America. From 1992 to 1998, Mr. LIN Wenzu worked as an export manager of 泉州恒達制鞋有限公司 (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 39, 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 also a member of the remuneration committee of the Company. Mr. LI is responsible for positioning and formulating plan for Flyke brand and overseeing the sales and marketing department. Mr. LI has over 19 years of experience in marketing and sales. Prior to joining the Company, Mr. LI had worked in other shoe companies including 溫州時代集團有限公司 (Wenzhou Times Group Company Limited*) and 浙江紅蜻蜓鞋業股份有限公司 (Zhejiang Red Dragonfly Shoes Stock Company Limited*) responsible for marketing and sales. Mr. LI graduated from a two-year course on history from Hangzhou University in 1992.

Independent non-executive Directors

Mr. CHU Kin Wang, Peleus, aged 48, 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 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 35, 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 Company and a member of the audit committee of the Company. 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 43, 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 Company. Mr. ZHU graduated from the Huaqiao University (國立華僑大學) in 1994 with a bachelor degree in electrical technology. Mr. ZHU has over 14 years of experience in advertising, and is experienced in managing brands of certain industries including sports equipment. Mr. ZHU is now the owner and general manager of several advertising companies in Fujian Province. Mr. ZHU was accredited as "China's Sports Brands Strategy Experts" (中國體育策劃專家) in 2005 and "China's Outstanding Sports Brand Strategic Expert" (中國傑出運動品牌策劃專家) in 2008. Mr. ZHU is now the special lecturer of the Humanities College of Quanzhou Normal University (泉州師範學院). Since August 2009, Mr. ZHU has been an independent non-executive director of Xi De Lang Holdings Ltd., a company listed on Bursa Malaysia.

SENIOR MANAGEMENT

Chief financial officer

Mr. CHIM Kam Pang, aged 35, is the chief financial officer. Mr. CHIM has over 8 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 51, 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 32, 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 36, 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 44, 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 48, 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 38, 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 38 to 82, which comprise the consolidated statement of financial position as at 31 December 2012, 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 information.

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.

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 2012 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
22 March 2013

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Turnover	7	**1,092,395**	1,543,096
Cost of sales		**(811,943)**	(1,097,766)
Gross profit		**280,452**	445,330
Other income	9	**1,046**	1,765
Selling and distribution expenses		**(101,764)**	(74,541)
Administrative expenses		**(34,076)**	(33,752)
Impairment loss recognised in respect of trade receivables	19	**(60,933)**	-
Other operating expenses		**(32,392)**	(38,722)
Equity-settled share-based payments		**(3,187)**	(21,579)
Finance costs	10	**(9,360)**	(9,067)
Profit before tax	11	**39,786**	269,434
Income tax expense	12	**(8,483)**	(55,361)
Profit for the year		**31,303**	214,073
Exchange differences arising on translation of foreign operations and other comprehensive income (expenses) for the year		**585**	(1,377)
Total comprehensive income for the year		**31,888**	212,696
Earnings per share (RMB)			
Basic and diluted	14	**0.039**	0.264

Consolidated Statement of Financial Position

As at 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Non-current assets			
Property, plant and equipment	16	**111,432**	114,668
Prepaid lease payments	17	**22,982**	23,495
		134,414	138,163
Current assets			
Inventories	18	**83,679**	67,957
Trade and other receivables	19	**669,081**	527,257
Prepaid lease payments	17	**513**	513
Bank balances and cash	20	**289,078**	313,922
		1,042,351	909,649
Current liabilities			
Trade and other payables	21	**91,117**	83,556
Amount due to the controlling shareholder	22	**6,540**	63
Amount due to a director	22	**72**	72
Income tax payable		**5,349**	31,133
Bank borrowings	24	**232,000**	96,000
		335,078	210,824
Net current assets		**707,273**	698,825
		841,687	836,988
Capital and reserves			
Share capital	25	**71,551**	71,627
Reserves		**762,734**	748,585
Total equity		**834,285**	820,212
Non-current liability			
Deferred tax liabilities	26	**7,402**	16,776
		841,687	836,988

The consolidated financial statements on pages 38 to 82 were approved and authorised for issue by the board of directors on 22 March 2013 and are signed on its behalf by:

LIN Wenjian **LIN Wenzu**

Consolidated Statement Of Changes In Equity

For the year ended 31 December 2012

For the year ended 31 December 2011

	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 equity RMB'000
	(Note 25)	(Note a)	(Note b)	(Note c)	(Note d)					
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										
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	(1,377)	-	-	(1,377)
Total comprehensive (expense) income 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 repurchased 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

For the year ended 31 December 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 equity RMB'000
	(Note 25)	(Note a)	(Note b)	(Note c)	(Note d)					
At 1 January 2012	71,627	273,068	869	28,256	73,573	21,579	(4,211)	335,174	20,277	820,212
Profit for the year	-	-	-	-	-	-	-	31,303	-	31,303
Other comprehensive income for the year	-	-	-	-	-	-	-	-	-	-
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	585	-	-	585
Total comprehensive income for the year	-	-	-	-	-	-	585	31,303	-	31,888
Recognition of equity-settled share-based payments	-	-	-	-	-	3,187	-	-	-	3,187
Shares repurchased and cancelled	(76)	(649)	76	-	-	-	-	(76)	-	(725)
Dividend paid during the year (Note 15)	-	-	-	-	-	-	-	-	(20,277)	(20,277)
Proposed final dividend (Note 15)	-	-	-	-	-	-	-	(6,501)	6,501	-
At 31 December 2012	71,551	272,419	945	28,256	73,573	24,766	(3,626)	359,900	6,501	834,285

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

c. 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.

d. 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 2012

	2012 RMB'000	2011 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**39,786**	269,434
Adjustments for :		
Amortisation of prepaid lease payments	**513**	513
Bank interest income	**(1,046)**	(1,325)
Depreciation of property, plant and equipment	**9,816**	9,163
Equity-settled share-based payments	**3,187**	21,579
Finance costs	**9,360**	9,067
Impairment loss recognised in respect of trade receivables	**60,933**	-
Operating cash flows before movements in working capital	**122,549**	308,431
Increase in inventories	**(15,722)**	(27,699)
Increase in trade and other receivables	**(202,768)**	(195,183)
Increase (decrease) in trade and other payables	**7,575**	(66,173)
Cash generated from operations	**(88,366)**	19,376
Income tax paid	**(43,641)**	(30,523)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(132,007)**	(11,147)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment and prepaid lease payments	**(6,580)**	(10,654)
Interest received	**1,046**	1,325
NET CASH USED IN INVESTING ACTIVITIES	**(5,534)**	(9,329)
FINANCING ACTIVITIES		
New bank borrowings raised	**280,000**	221,000
Shares issued under subscription agreement, net of issuing expenses	**-**	33,064
Advance from the controlling shareholder	**6,557**	57
Interest paid	**(9,360)**	(9,067)
Payment for repurchase of shares	**(725)**	(7,933)
Dividend paid	**(20,277)**	(32,000)
Repayment of bank borrowings	**(144,000)**	(229,000)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**112,195**	(23,879)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(25,346)**	(44,355)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**313,922**	359,436
Effect of foreign exchange rate changes	**502**	(1,159)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**289,078**	313,922

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, 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.

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 35.

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

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

In the current year, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Hong Kong Accounting Standard ("HKAS") 1 (Amendments)	As part of the Annual Improvements to HKFRSs 2009-2011 Cycle issued in 2012
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets

Except as described below, the application of the amendments to 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.

Amendments to HKFRS 7 Disclosures – Transfers of Financial Assets

The Group has applied for the first time the amendments to HKFRS 7 Disclosures – Transfers of Financial Assets in the current year. The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred.

The Group has arrangements with a bank to transfer to the banks its contractual rights to receive cash flows from certain trade receivables. The arrangements are made through discounting those receivables to banks on a full recourse basis. Specifically, if the trade receivables are not paid at maturity, the banks have the right to request the Group to pay the unsettled balance. As the Group has not transferred the significant risks and rewards relating to these trade receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as a secured borrowing (see Note 24). The relevant disclosures have been made regarding the transfer of these trade receivables on application of the amendments to HKFRS 7 (see Note 19a). In accordance with the transitional provisions set out in the amendments to HKFRS 7, the Group has not provided comparative information for the disclosures required by the amendments.

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

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

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2009 – 2011 Cycle, except for the amendments HKAS 1[2]
HKFRS 7(Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities[1]
HKFRS 9 and HKFRS 7 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
HKFRS 10, HKFRS 12 and HKAS 27 (as revised in 2011)	Investment Entities[2]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[4]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[2]
HK(IFRIC)-Interpretation ("Int") 20	Stripping Costs in the Production Phase of a Surface Mine[1]

[1] Effective for annual periods beginning on or after 1 January 2013.
[2] Effective for annual periods beginning on or after 1 January 2014.
[3] Effective for annual periods beginning on or after 1 January 2015.
[4] Effective for annual periods beginning on or after 1 July 2012.

Annual Improvements to HKFRSs 2009 – 2011 Cycle issued in June 2012

The Annual Improvements to HKFRSs 2009 – 2011 Cycle include a number of amendments to various HKFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to HKFRSs include the amendments to HKAS 16 Property, Plant and Equipment and the amendments to HKAS 32 Financial Instruments: Presentation.

The amendments to HKAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in HKAS 16 and as inventory otherwise. The directors of the Company do not anticipate that the application of the amendments will have a material effect on the Group's consolidated financial statements.

The amendments to HKAS 32 clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 Income Taxes. The directors of the Company anticipate that the amendments to HKAS 32 will have no effect on the Group's consolidated financial statements as the Group has already adopted this treatment.

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

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 effective 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.

The directors of the Company anticipate that the application of these amendments to HKAS 32 and HKFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

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:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are 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 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.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that 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 of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

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

HKFRS 9 Financial Instruments (Continued)

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. HK (SIC)-Int 12 Consolidation – Special Purpose Entities will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, 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) the 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.

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK (SIC) – Int 13 Jointly Controlled Entities – Non-monetary Contributions by Venturers will be withdrawn upon the effective date of HKFRS 11. 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 joint 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 consolidation.

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.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided that all of these standards are applied at the same time.

The directors of the Company do not anticipate that the application of these five standards will have impact on amounts reported in the consolidated financial statements as all the subsidiaries are wholly-owned by the Company.

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment Entities

The amendments to HKFRS 10 introduce an exception to consolidating subsidiaries for an investment entity, except where the subsidiaries provide services that relate to the investment entity's investment activities. Under the amendments to HKFRS 10, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss.

To qualify as an investment entity, certain criteria have to be met. Specifically, an entity is required to:

- obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments to HKFRS 12 and HKAS 27 have been made to introduce new disclosure requirements for investment entities.

The amendments to HKFRS 10, HKFRS 12 and HKAS 27 are effective for annual periods beginning on or after 1 January 2014, with earlier application permitted. The directors of the Company anticipate that the application of the amendments will have no effect on the Group as the Company is not an investment entity.

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 instrument items 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 the application of the new standard may affect certain amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

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 Presentation of Items of Other Comprehensive Income introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income' and an 'income statement' is renamed as a 'statement of profit or loss'. 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 items of other comprehensive income to be 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 do not change the option to present items of other comprehensive income either before tax or net of tax.

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.

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

3. SIGNIFICANT ACCOUNTING POLICIES

The 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.

Income and expenses 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. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

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

Revenue from 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 supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses.

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.

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 fees and, for qualifying assets, borrowing costs 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing (Continued)

Leasehold land and building

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.

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 recognised 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 when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the 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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 date of grant is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

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

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 deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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.

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. 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 debt instrument 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 debt instrument, 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.

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 and other 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 120 to 150 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 and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivables 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments

Debt 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.

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.

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.

Financial liabilities are derecognised when, and only when the group's obligations are 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derecognition (Continued)

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

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 judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going 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.

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

Critical judgements in applying the entity's accounting policies

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

Legal title of buildings and land use rights

Despite the Group has paid the full purchase consideration as detailed in Notes 16 and 17 respectively, certain of the Group's legal titles to certain buildings and land use rights have not been granted by the relevant government authorities. Despite the fact that 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.

Retirement benefits scheme

The Group operates a MPF Scheme for all qualifying employees in Hong Kong. Under the MPF Scheme, the employer and its employees are each required to make contribution to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$25,000 (HK$20,000 prior to June 2012). During the years ended 31 December 2012 and 2011, the employer and employee do not make contributions in accordance with the MPF Scheme. Under the Mandatory Provident Scheme Ordinance, the Group may be charged at penalty of the higher of HK$5,000 or 10% of the under-payment. The Group may also be prosecuted. However, the directors of the Company consider that the chance of being prosecuted or charged with penalty is low and are seeking remedial actions.

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. As at 31 December 2012, the carrying amount of property, plant and equipment was approximately RMB111,432,000 (2011: RMB114,668,000). No impairment was provided during the year ended 31 December 2012 (2011: nil).

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

Key sources of estimation uncertainty (Continued)

Write down of inventories

The management of the Group reviews an aging analysis at the end of the reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sale. The management estimates the net realisable value for inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of the reporting period and makes allowance for obsolete items. As at 31 December 2012, the carrying amount of inventories was approximately RMB83,679,000 (2011: RMB67,957,000). No impairment loss was recognised during the year ended 31 December 2012 (2011: nil).

Impairment loss recognised in respect of trade receivables

The Group performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience. Credit losses have historically been within the Group's expectations and the Group will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses. As at 31 December 2012, the carrying amount of trade receivables was approximately RMB654,923,000 (net of accumulated impairment loss of RMB60,933,000) (2011: carrying amount of RMB493,849,000, net of accumulated impairment loss of 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.

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2012 RMB'000	2011 RMB'000
Loans and receivables (including cash and cash equivalents)	**944,032**	808,195
Financial liabilities at amortised cost	**312,386**	173,173

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amounts 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	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
HK$	**2,434**	18,668	**1,538**	1,014

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% (2011: 5%) increase and decrease in RMB against HK$. 5% (2011: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for 5% (2011: 5%) change in foreign currency rates. A positive number below indicates an increase in post-tax profit for the year when RMB weakens 5% (2011: 5%) against HK$. For a 5% (2011: 5%) strengthening of RMB against HK$, there would be an equal but opposite impact on the post-tax profit for the year.

	2012 **RMB'000**	2011 RMB'000
Profit for the year	**35**	735

Interest rate risk

At 31 December 2012, the Group is exposure to fair value interest rate risk in relation to fixed-rate bank borrowings (see Note 24 for details of these borrowings). The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

At 31 December 2011, the Group is exposed to cash flow interest rate risk in relation to variable-rate bank borrowings and bank balances carried at prevailing market rate. The Group's exposure on the variable-rate bank balances is minimal as the bank balances are all short-term in nature.

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

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of reporting period. For variable-rate bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. At 31 December 2011, a 50 (2012: nil) 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 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 (2012: nil). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings at 31 December 2011.

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk

As at 31 December 2012, 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 may extend repayment term or credit period to its customers, after taken into account factors including the credit history, estimated purchases for the current year, funding need to expand the retail network of a distributor and market conditions. 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 31% (2011: 24%) and 56% (2011: 43%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively. They have good historical repayment records and low default rates. Other trade receivables consist of a large number of customers. In the opinion of the directors of the Group, the Group does not have any significant concentration of credit risk.

The Group has concentration of credit risk by geographical location, as all the trade receivables are located in the People's Republic of China (the "**PRC**") as at 31 December 2012 and 2011.

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 2012 and 2011. Details of which are set out in Note 24.

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

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

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk

Liquidity tables

	Carrying amounts RMB'000	Total undiscounted cash flows and due within one year RMB'000
As at 31 December 2012		
Non-derivative financial liabilities		
Trade and other payables	73,774	73,774
Amount due to the controlling shareholder	6,540	6,540
Amount due to a director	72	72
Bank borrowings	232,000	240,286
	312,386	320,672
As at 31 December 2011		
Non-derivative financial liabilities		
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

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:

	2012 RMB'000	2011 RMB'000
Footwear	**668,870**	907,481
Apparels and accessories	**382,351**	585,429
Soles	**41,174**	50,186
	1,092,395	1,543,096

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 2012, the Group has only one (2011: one) customer with whom transactions have exceeded 10% of the Group's aggregate turnover. The sales revenue from this customer amounted to approximately RMB308,109,000 (2011: RMB355,502,000) for the year.

9. OTHER INCOME

	2012 **RMB'000**	2011 RMB'000
Bank interest income	**1,046**	1,325
Government grants (Note)	**-**	440
	1,046	1,765

Note: For the year ended 31 December 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.

10. FINANCE COSTS

	2012 **RMB'000**	2011 RMB'000
Interest on bank borrowings wholly repayable within five years	**8,483**	9,067
Interest on factoring loans	**877**	-
	9,360	9,067

11. PROFIT BEFORE TAX

	2012 **RMB'000**	2011 RMB'000
Profit before tax has been arrived at after charging:		
Directors' emoluments (Note 13)	**2,377**	11,278
Salaries and other allowances	**136,471**	137,384
Post-employment benefits (excluding directors)	**9,360**	7,691
Equity-settled share-based payments (excluding directors)	**2,635**	12,111
Total staff costs	**150,843**	168,464
Amortisation of prepaid lease payments	**513**	513
Auditors' remuneration	**813**	831
Cost of inventories recognised as an expense	**811,943**	1,097,766
Depreciation of property, plant and equipment	**9,816**	9,163
Operating lease paid in respect of rented premises	**149**	67
Research and development costs (included in other operating expenses)*	**32,012**	38,722
Net foreign exchange loss	**83**	1,914

* Research and development costs included staff costs of approximately RMB9,352,000 (2011: RMB8,930,000) and depreciation of property, plant and equipment of approximately RMB336,000 (2011: RMB380,000) in research and development activities.

12. INCOME TAX EXPENSE

	2012 **RMB'000**	2011 RMB'000
The charge comprises:		
PRC Enterprise Income Tax ("EIT") - Current year	**17,857**	47,210
Deferred tax (Note 26)	**(9,374)**	8,151
	8,483	55,361

(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 2012 and 2011.

12. INCOME TAX EXPENSE (Continued)

(iii) Under the Law of the People's Republic of China 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. Flyke (China) is exempted from EIT from 1 January 2008 to 31 December 2009 and is entitled to a 50% exemption of income tax from 1 January 2010 to 31 December 2012.

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

	2012 **RMB'000**	2011 RMB'000
Profit before tax	**39,786**	269,434
Tax expenses at rates applicable to profits in the jurisdictions concerns (Note)	**10,545**	69,621
Tax effect of income not taxable for tax purpose	**-**	(10)
Tax effect of expenses not deductible for tax purpose	**2,131**	4,928
Effect of Tax Exemption granted to a PRC subsidiary	**(8,892)**	(29,823)
Withholding tax on undistributed profits of subsidiaries	**4,699**	10,645
Income tax expense for the year	**8,483**	55,361

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

* *English name is for identification purpose only.*

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors and Chief Executive

Details of emoluments paid and payable to each of the seven (2011: seven) directors and the chief executive of the Company for the years ended 31 December 2012 and 2011 are as follows:

	Fees	Salaries and other allowances	Post-employment benefits	Equity-settled share-based payments	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the year ended 31 December 2012					
Executive directors:					
Mr. LIN (Note i)	-	595	3	-	598
Mr. LIN Wenzu	-	307	3	-	310
Mr. LIN Mingxu	-	307	3	-	310
Mr. LI Yong	-	307	3	552	862
Independent non-executive directors:					
Mr. CHU Kin Wang, Peleus	98	-	-	-	98
Mr. HUANG Shanhe (Note ii)	17	-	-	-	17
Mr. WANG Dong (Note ii)	83	-	-	-	83
Mr. ZHU Guohe	99	-	-	-	99
Total	297	1,516	12	552	2,377
For the year ended 31 December 2011					
Executive directors:					
Mr. LIN (Note i)	-	588	5	1,018	1,611
Mr. LIN Wenzu	-	300	5	3,912	4,217
Mr. LIN Mingxu	-	300	5	3,912	4,217
Mr. LI Yong	-	300	5	626	931
Independent non-executive directors:					
Mr. CHU Kin Wang, Peleus	100	-	-	-	100
Mr. HUANG Shanhe	101	-	-	-	101
Mr. ZHU Guohe	101	-	-	-	101
Total	302	1,488	20	9,468	11,278

Notes:

(i) Mr. LIN is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

(ii) Mr. HUANG Shanhe resigned and Mr. WANG Dong was appointed as an independent non-executive director on 24 February 2012.

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(b) Employees

Of the five individuals with the highest emoluments in the Group, four (2011: four) were directors of the Company whose emoluments are included in Note 13(a) above. The emoluments of the remaining one (2011: one) highest paid individual were as follows:

	2012 RMB'000	2011 RMB'000
Salaries and other allowances and benefits-in-kind	**467**	324
Post-employment benefits	**-**	10
Equity-settled share-based payments	**-**	156
	467	490

Note:

The emolument of the above employee is below RMB813,000 (2011: RMB831,000) (approximately HK$1,000,000).

During the two years ended 31 December 2012 and 2011, no emolument was paid by the Group to any of the directors, or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the director waived or agreed to waive any emoluments paid by the Group during the two years ended 31 December 2012 and 2011.

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:

	2012 RMB'000	2011 RMB'000
Earnings		
Profit for the year attributable to owners of the Company for the purposes of basic and diluted earnings per share	**31,303**	214,073

	2012 '000	2011 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**812,795**	811,896

14. EARNINGS PER SHARE (Continued)

	2012	2011
Earnings per share (in RMB)		
Basic and diluted	**0.039**	0.264

For the years ended 31 December 2012 and 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 years ended 31 December 2012 and 2011.

15. DIVIDENDS

	2012 RMB'000	2011 RMB'000
Dividends recognised as distribution during the year:		
2011 final dividend – RMB0.0249 (2011: 2010 final dividend of 0.0400) per share (Note)	**20,277**	32,000
Proposed final dividend – RMB0.008 (2011: RMB0.0249) per share (Note)	**6,501**	20,277

Note:

The directors of the Company recommended the payment of a final dividend of HK$0.01 (equivalent to approximately RMB0.008) (2011: HK$0.0300 (equivalent to approximately RMB0.0249)) per share amounting to approximately HK$8,126,000 (equivalent to approximately RMB6,501,000) (2011: approximately HK$24,406,000 (equivalent to approximately RMB20,277,000)) for the year ended 31 December 2012, 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
COST						
At 1 January 2011	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
Additions	-	1,256	2,275	529	2,520	6,580
Transfer	6,520	-	-	-	(6,520)	-
At 31 December 2012	89,301	68,302	3,646	4,354	-	165,603
DEPRECIATION						
At 1 January 2011	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
Provided for the year	3,684	5,374	257	501	-	9,816
At 31 December 2012	16,797	34,823	1,193	1,358	-	54,171
CARRYING VALUES						
At 31 December 2012	72,504	33,479	2,453	2,996	-	111,432
At 31 December 2011	69,668	37,597	435	2,968	4,000	114,668

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 2012, the Group has not yet obtained the legal title of the buildings with an aggregate carrying value of approximately RMB19,974,000 (2011: RMB13,522,000).

As at 31 December 2012, the Group has pledged buildings with carrying value of approximately RMB15,349,000 (2011: nil) to secure general banking facilities granted to the Group.

17. PREPAID LEASE PAYMENTS

	2012 RMB'000	2011 RMB'000
Analysed for reporting purposes as:		
Current asset	**513**	513
Non-current asset	**22,982**	23,495
	23,495	24,008

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 2012, the Group has not yet obtained the legal title of land use rights with an aggregate carrying amount of approximately RMB620,000 (2011: RMB634,000).

18. INVENTORIES

	2012 RMB'000	2011 RMB'000
Raw materials	**18,936**	15,097
Work-in-progress	**18,029**	10,990
Finished goods	**46,714**	41,870
	83,679	67,957

19. TRADE AND OTHER RECEIVABLES

	2012 RMB'000	2011 RMB'000
Trade receivables (Note a)	**715,856**	493,849
Less: Impairment loss recognised in respect of trade receivables	**(60,933)**	-
	654,923	493,849
Prepayments	**14,127**	32,984
Other receivables	**31**	424
	669,081	527,257

Note:

(a) As at 31 December 2012, included in trade receivables was an amount of approximately RMB64,122,000 transferred to banks on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as a secured borrowing (see Note 24). These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

19. TRADE AND OTHER RECEIVABLES (Continued)

The Group normally allows a credit period of 120 to 150 (2011: 90 to 120) days to its trade customers. The Group does not hold any collateral over these balances.

The ageing analysis of the Group's trade receivables (net of impairment loss recognised) presented based on the invoice date at the end of the reporting period is as follows:

	2012 **RMB'000**	2011 RMB'000
Within 60 days	**196,789**	334,223
More than 60 days but less than 180 days	**352,280**	159,626
More than 180 days but less than 360 days	**105,854**	-
Total	**654,923**	493,849

The movements in impairment loss recognised of trade receivables are as follows,

	2012 **RMB'000**	2011 RMB'000
At 1 January	**-**	-
Recognised during the year	**60,933**	-
At 31 December	**60,933**	-

As at 31 December 2012, the Group has assessed the recoverability of the receivables past due and established a provision for impairment loss. The impairment loss is recorded using an allowance account unless the Group is satisfied that recovery is remote, in which case the unrecovered loss is written off against trade receivables and the impairment loss directly.

The ageing analysis of trade receivables (net of impairment loss) which are neither individually nor collectively considered to be impaired are as follows :

	2012 **RMB'000**	2011 RMB'000
Current	**397,107**	493,849
Less than 3 months past due	**257,816**	-
	654,923	493,849

Receivables that were neither past due nor impaired relate to diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record and continuous settlement are received by the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

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 prevailing market rate ranging from 0.35% to 0.50% during the year ended 31 December 2012 (2011: 0.50%) 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:

	2012 **RMB'000**	2011 RMB'000
HK$	**2,434**	18,668

21. TRADE AND OTHER PAYABLES

	2012 **RMB'000**	2011 RMB'000
Trade payables	**57,956**	55,473
Other payables and accruals	**15,818**	21,565
Valued added tax payables	**17,343**	6,518
	91,117	83,556

At 31 December 2012, included in the other payables and accruals was directors' fee payable of approximately RMB80,000 (2011: nil).

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

	2012 **RMB'000**	2011 RMB'000
Within 90 days	**57,956**	55,473

The average credit period on purchases of goods is 30 to 90 days (2011: 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 2012, approximately RMB1,538,000 (2011: RMB1,014,000) 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**"), the then 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.

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 ended 31 December 2011 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$1.70
Expected volatility	42.4%
Expected life	3 years
Risk-free rate	0.83%
Expected dividend yield	2.97%
Fair value of option (HK$'000)	HK$33,797
Equivalent to (RMB'000)	RMB28,346

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.

24. BANK BORROWINGS

	Notes	2012 RMB'000	2011 RMB'000
Secured	(a)	77,000	-
Unsecured:			
Guaranteed	(b)	155,000	84,000
Non-guaranteed		-	12,000
		232,000	96,000

Notes:

(a) As at 31 December 2012, bank borrowings of approximately RMB77,000,000 (2011: nil) was secured by buildings with carrying value of approximately RMB15,349,000 (2011: nil) and trade receivables of approximately RMB64,122,000 (2011: nil) transferred to the banks (Note 19(a)).

(b) As at 31 December 2012, bank borrowings of approximately RMB155,000,000 (2011: nil) were guaranteed by three directors of the Company, Mr. LIN, Mr. LIN Mingxu and Mr. LIN Wenzu and/or an independent third party, 福建鑫威汽車部件有限公司 ("鑫威汽車"). In February 2013, the business registration certificate of 鑫威汽車 was revoked. The directors of the Company are in the opinion that the bank borrowings guaranteed by 鑫威汽車 of approximately RMB88,000,000 will not be recalled by the bank as the loan was also jointly guaranteed by the three directors of the Company.

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

	2012 RMB'000	2011 RMB'000
Fixed-rate borrowings	232,000	-
Variable-rate borrowings	-	96,000
	232,000	96,000

During the year ended 31 December 2012, the Group's fixed-rate borrowings carry interests at 90% to 130% of The People's Bank of China Base Lending Rate. During the year ended 31 December 2011, the Group's variable-rate borrowings carry interests at 100% to 130% of the People's Bank of China Base Lending Rate.

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

	2012	2011
Effective interest rate:		
Fixed-rate borrowings	5.40% to 8.528%	-
Variable-rate borrowings	-	5.350% to 8.528%

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

25. SHARE CAPITAL

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

	Number of shares	Amount HK$	Amount as presented RMB'000
Ordinary share of HK$0.10 each			
Authorised:			
At 1 January 2011, 31 December 2011 and 31 December 2012	2,000,000,000	200,000,000	
Issued and fully paid:			
At 31 December 2010 and 1 January 2011	800,000,000	80,000,000	70,483
Issue 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 and 1 January 2012	813,544,000	81,354,400	71,627
Repurchased during the year (Note b)	(944,000)	(94,400)	(76)
At 31 December 2012	812,600,000	81,260,000	71,551

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. All the new ordinary shares issued during the year ended 31 December 2011 rank pari passu with the existing ordinary shares in all respects.

25. SHARE CAPITAL (Continued)

Notes: (Continued)

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

During the years ended 31 December 2012 and 2011, the Company repurchased its own ordinary shares on the Stock Exchange as follows:

Period	Number of shares repurchased	Highest price paid per share	Lowest price paid per share	Aggregate amount paid	Amount as presented
	'000	HK$	HK$	HK$'000	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	362
February 2012	460	1.00	0.92	448	363
	944			893	725

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$94,400 (equivalent to approximately RMB76,000) 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 RMB649,000) was charged to share premium.

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	Impairment loss recognised RMB'000	Undistributed profits of subsidiaries RMB'000	Total RMB'000
At 1 January 2011	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)
Credited (charged) to consolidated statement of comprehensive income for the year	(1,161)	15,234	(4,699)	9,374
At 31 December 2012	3,903	15,234	(26,539)	(7,402)

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 withholding tax. 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

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 2012, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 49,160,000 (2011: 49,160,000), representing 6% (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.

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

27. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

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

Option type	Outstanding at 1/1/2012	Granted during the year	Exercised during the year	Forfeited during the year	Lapsed during the year	Outstanding at 31/12/2012
Option 2010	16,160,000	-	-	-	-	16,160,000
Option 2011	33,000,000	-	-	-	-	33,000,000
	49,160,000	-	-	-	-	49,160,000
Weighted average exercise price	HK$1.655	N/A	N/A	N/A	N/A	HK$1.655

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

Option type	Outstanding at 1/1/2011	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

As at 31 December 2012, 37,848,000 share options were exercisable (31 December 2011: 33,000,000).

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.

27. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

These fair values were calculated using the Binomial 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.

The Group recognised total expenses of approximately RMB3,187,000 for the year ended 31 December 2012 (2011: RMB21,579,000) in relation to the fair value of the share options granted by the Company and vested during the year.

28. CAPITAL COMMITMENTS

	2012 **RMB'000**	2011 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

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:

	2012 **RMB'000**	2011 RMB'000
Within one year	**29**	12

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, subject to a cap of monthly relevant income of HK$25,000 (HK$20,000 prior to June 2012).

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 RMB9,372,000 (2011: RMB7,711,000) 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 21, 22 and 24 respectively, the Group entered into the following significant transactions with related parties during the years ended 31 December 2012 and 2011.

(a) Compensation of key management personnel

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

	2012 RMB'000	2011 RMB'000
Short-term benefits	**3,487**	3,070
Post-employment benefits	**32**	43
Equity-settled share-based payments	**1,221**	11,378
	4,740	14,491

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. PLEDGE OF ASSETS

At the end of the reporting period, certain assets of the Group were pledged to secure banking facilities granted to the Group as follows,

	2012 RMB'000	2011 RMB'000
Property, plant and equipment	**15,349**	-

33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2012 RMB'000	2011 RMB'000
Non-current asset			
Investment in a subsidiary	35	-	-
Current assets			
Other receivables		12	2,027
Amount due from the controlling shareholder	(a)	-	27
Amounts due from subsidiaries	(a)	388,715	380,916
Bank balances		1,703	17,444
		390,430	400,414
Current liabilities			
Other payables		1,538	1,426
Amount due to a subsidiary	(a)	5,735	6,227
Amount due to the controlling shareholder	(a)	6,378	-
		13,651	7,653
Net current assets		376,779	392,761
		376,779	392,761
Capital and reserve			
Share capital	25	71,551	71,627
Reserves	34	305,228	321,134
		376,779	392,761

Note

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

34. 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 2011	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 attributed 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
Profit and total comprehensive income for the year	-	-	-	1,833	-	1,833
Recognition of equity settled share-based payments	-	-	3,187	-	-	3,187
Shares repurchased and cancelled	(649)	76	-	(76)	-	(649)
Dividend paid during the year	-	-	-	-	(20,277)	(20,277)
Proposed final dividend	-	-	-	(6,501)	6,501	-
At 31 December 2012	272,419	945	24,766	597	6,501	305,228

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

35. PARTICULARS OF SUBSIDIARIES

Details of all subsidiaries held by the Company at 31 December 2012 and 2011 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	BVI	Ordinary	US$1	100%	-	Investment holding
Xin Wei (Fujian) Light Industry Co., Ltd.* (鑫威(福建)輕工有限公司) # (Note)	The PRC	Contributed Capital	RMB102,039,950	-	100%	Design, production and sales of shoes soles, sport shoes, sportswear and accessories
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.*

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