ANNUAL REPORT

2011

美克國際控股有限公司

# MEIKE INTERNATIONAL HOLDINGS LIMITED

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

*Stock Code : 00953*

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### EXECUTIVE DIRECTORS

Mr. Ding Siqiang *(Chairman and President)*
Ms. Ding Xueleng
Mr. Sun Keqian (resigned on 25 July 2011)
Ms. Ding Jinzhu
Mr. Lin Yangshan
Mr. Li Dongxing
Mr. Ding Minglang (appointed on 25 July 2011)

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Xiang Shimin (resigned on 25 July 2011)
Mr. Yang Chengjie
Mr. Xie Weichun
Mr. Lin Jiwu (appointed on 25 July 2011)

## BOARD COMMITTEES

### AUDIT COMMITTEE

Mr. Xie Weichun *(Chairman)*
Mr. Xiang Shimin (resigned on 25 July 2011)
Mr. Yang Chengjie
Mr. Lin Jiwu (appointed on 25 July 2011)

### NOMINATION COMMITTEE

Mr. Ding Siqiang *(Chairman)*
Mr. Xiang Shimin (resigned on 25 July 2011)
Mr. Yang Chengjie
Mr. Lin Jiwu (appointed on 25 July 2011)

### REMUNERATION COMMITTEE

Mr. Lin Jiwu *(Chairman)* (appointed on 25 July 2011)
Mr. Ding Siqiang
Mr. Xie Weichun
Mr. Xiang Shimin (resigned on 25 July 2011)

## COMPANY SECRETARY

Mr. Li Yik Sang

## AUTHORISED REPRESENTATIVES

Mr. Li Dongxing
Mr. Li Yik Sang

## REGISTERED OFFICE

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

## HEAD OFFICE IN THE PRC

Meike Industrial Park
Xibian Village, Chendai Town
Jinjiang City, Fujian Province, The PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1602, 16/F
Harcourt House
39 Gloucester Road
Wanchai, Hong Kong

### STOCK CODE

00953

## CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

## HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited
26/F, Tesbury Centre
28 Queen's Road East
Hong Kong

## AUDITOR

SHINEWING (HK) CPA Limited

## LEGAL ADVISERS

## AS TO HONG KONG LAW

Loong & Yeung

## COMPLIANCE ADVISER

China Merchants Securities (HK) Co., Limited

## PRINCIPAL BANKERS

Industrial and Commercial Bank of China Limited
Agricultural Bank of China

## COMPANY WEBSITE

www.meike.cn

# CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Meike International Holdings Limited (the "Company"), I hereby present the audited annual results of the Company and its subsidiaries (collectively, the "Group") for the year ended December 31, 2011 (the "Year").

## RESULTS HIGHLIGHTS

During the Year, the turnover of the Group amounted to RMB633,385,000 (2010: RMB712,864,000), representing a year-on-year decrease of 11.1% or RMB79,479,000. Profit for the Year dropped by 51.8% from RMB116,452,000 in the same period of 2010 to RMB56,118,000. Earnings per share amounted to RMB0.047 (2010: RMB0.122).

During the Year, the domestic sales of the Group had decreased from RMB601,137,000 for the year ended December 31, 2010 to RMB521,379,000 for the Year. This is mainly due to a slowdown in the demand in the sportswear industry and the intensifying competition pressure, like deeper discounting or intensive promotional sales, from the major local brands. Besides, the increase in the operational cost, like cost of human resources and rent also hindered the development of our distribution network. Certain outlets of our distribution network had been closed due to low efficiency. The total number of outlets of the Group had decreased from 1,865 outlets as at December 31, 2010 to 1,859 outlets as at December 31, 2011. At the same time, due to the slow recovery and uncertainty of the global economy, the export business of the Group had only grown by 0.25% as compared to the year of 2010.

## FUTURE PROSPECTS

The Board believes that the pace of development of the sportswear industry in the coming year would still be slow due to the pressure from the high operating costs and intensive competition from the major brands as they offer deeper discount to clear the excessive inventory level. In order to cope with the challenges, the Group will devote more resources to our distribution channels, continue to implement the integration plan on those outlets with low efficiency and closely monitor orders from our distributors and timely response to any changes in the markets. On the other hand, the Group will continue to enhance our product design and development and deliver greater value to the customers.

Finally, on behalf of the Board, I would like to thank the management and all the staff for their hard work and dedication to the Group, as well as the shareholders and customers for their support to the Group over the years.

**Ding Siqiang**
*Chairman*

Hong Kong, March 29, 2012

# MANAGEMENT DISCUSSION AND ANALYSIS

## INDUSTRY OVERVIEW

Due to the tightening of the monetary policy by the Chinese Government to restrain the inflation from the second half of 2011 and the slow recovery and uncertainty in the global economy, the country's economic growth has been experiencing a slowdown since the second half of 2011. Besides, the unstable and uncertainty in the global economy has hindered the export business of the local enterprises, including the sportswear industry.

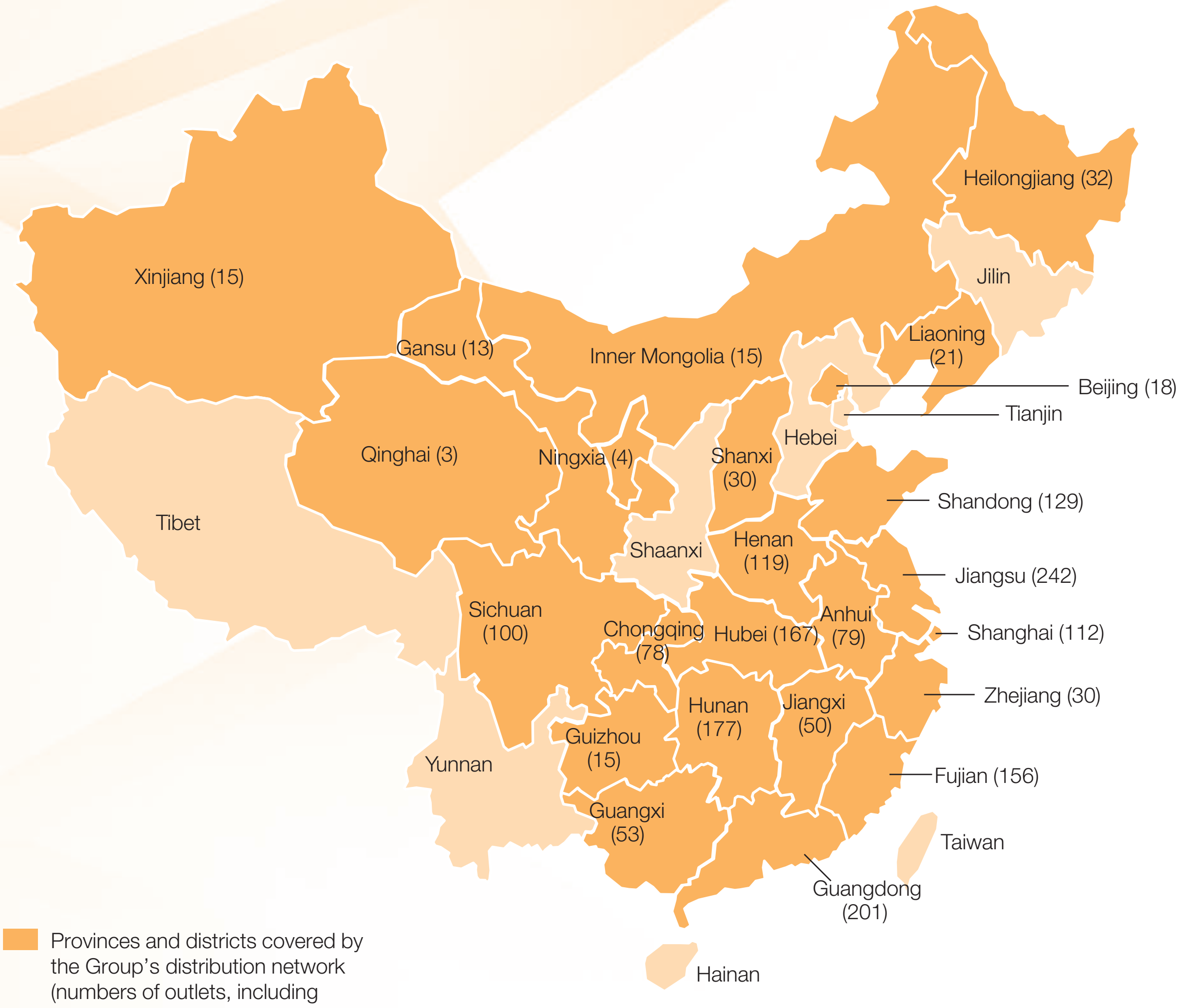
Starting from the second half of 2011, the competition of the sportswear brands has intensified and at the same time, the demand for sportswear has slowed down. Also, the sportswear brands and their distribution channels are facing significant uncertainties brought about by the increase in cost of materials, rents, human resources cost and excessive build-up of inventory has been building up in the distribution channels. In order to reduce the excessive inventory, each brand has implemented different measures, such as inventory buyback from distributors, deep discounts or restructuring of the distribution channels.

Although the industry is undergoing transformation and consolidation, we believe that the sportswear industry will grow steadily, driven by the expanding domestic demand and the monitoring of the inflation by the Chinese Government.

## BUSINESS REVIEW

During the Year, the Group had terminated the distributorship with 5 individual distributors and engaged 1 new corporate distributor. As at December 31, 2011, the Group had 20 distributors, overseeing 1,859 outlets which comprised 902 Meike distributor outlets and 957 Meike retailer outlets. These outlets are located across 25 provinces, autonomous regions and municipalities and more than 521 districts, counties and county-level cities in the PRC. During the Year, the number of outlets of the Group decreased by 6 outlets to 1,859 outlets as at December 31, 2011. This was mainly because the Group had implemented an integration programme with our distributors to integrate outlets with relatively small floor area, high costs and low efficiency to larger floor area and higher efficiency in order to enhance the competitiveness of the brand and deliver greater value to the customers.

The following diagram map sets out the Group's distribution network in China as at December 31, 2011.




Provinces and districts covered by the Group's distribution network (numbers of outlets, including Meike distributor outlets, Meike retailer outlets and Self-operated Meike Outlets)

The following table sets out the total number of the Group's distributors and outlets (including Meike distributor outlets and Meike retailer outlets) in China as at December 31, 2010 and December 31, 2011, respectively by geographical location:

| | As at December 31 | | | |
|---|---|---|---|---|
| | **2011** | | 2010 | |
| | **Distributors** | **Outlets** | Distributors | Outlets |
| Central South China[1] | **6** | **747** | 6 | 719 |
| East China[2] | **8** | **798** | 10 | 788 |
| Southwest China[3] | **2** | **193** | 4 | 239 |
| Northwest China[4] | **2** | **35** | 2 | 35 |
| North China[5] | **2** | **86** | 2 | 84 |
| Total | **20** | **1,859[7]** | 24 | 1,865[6] |

Notes:

(1) Central South China includes Hunan, Hubei, Henan, Guangdong, Guangxi and Shanxi;

(2) East China includes Shanghai, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi and Shandong;

(3) Southwest China includes Chongqing, Sichuan, Guizhou and Yunnan;

(4) Northwest China includes Gansu, Qinghai, Ningxia and Xinjiang;

(5) North China includes Liaoning, Beijing, Heilongjiang and Inner Mongolia;

(6) 771 were Meike distributor outlets and 1,094 were Meike retailer outlets;

(7) 902 were Meike distributor outlets and 957 were Meike retailer outlets.

For export products, the Group mainly sells footwear products through export companies or directly to overseas customers. Before 2007, export products were a major source of the Group's revenue. In 2006, as the Group adjusted its strategy to further develop the "Meike" branded products, the Group changed its focus of operation from export products to the "Meike" branded products.

Through the export companies and overseas customers, the Group's export products were ultimately sold to 38 overseas countries, including Germany, Netherlands, the United States, Switzerland, Turkey, Argentina, France, South Africa and Poland. As many of the local export company customers and overseas customers have long term relationship with the Group, the Group believes that such customers have been and will continue to be loyal to it. The Group will continue to enhance its product design capacity, better control its product costs and maintain the high quality of its products to meet the requirements of the export company customers and overseas customers.

# MANAGEMENT DISCUSSION AND ANALYSIS

## PRODUCT DEVELOPMENT AND DESIGN

Currently, each of the footwear and apparel segments has its own dedicated in-house design team to design products that meet the tastes and preferences of the Group's target consumers. The core members of the Group's design teams have extensive experience in the design industry and graduated from design or art schools in the PRC. Substantially all of the Group's design team members graduated from college in the PRC and have design or art related diploma and have more than 6 years design related experience after joining the Group. To maintain an international perspective to the Group's designs, each product design team from time to time visits the leading fashion stores, shopping centers and attends fashion shows in South Korea, North America and Europe, which in the Group's belief, have been, and will continue to be, influential in setting the fashion trends in the PRC. The Group believes that this practice enables the design teams to cater to the latest fashion trends while echoing thematic elements from the Group's integrated marketing campaigns to establish a consistent image for the Group's brand and products.

As at December 31, 2011, the Group had a total of 47 full-time employees in its design and development department.

## FINANCIAL REVIEW

### REVENUE BY PRODUCT CATEGORY

| | **2011 RMB'000** | 2010 RMB'000 | Change (%) | **2011 % of total revenue** | 2010 % of total revenue |
|---|---|---|---|---|---|
| Domestic | | | | | |
| Footwear | **268,492** | 345,308 | -22.2 | **42.4** | 48.4 |
| Apparel | **230,060** | 204,165 | 12.7 | **36.3** | 28.6 |
| Accessories and shoe soles | **22,827** | 51,664 | -55.8 | **3.6** | 7.3 |
| | **521,379** | 601,137 | -13.3 | **82.3** | 84.3 |
| Export | | | | | |
| Footwear | **111,523** | 110,237 | 1.2 | **17.6** | 15.5 |
| Shoe uppers | **483** | 1,490 | -67.6 | **0.1** | 0.2 |
| | **112,006** | 111,727 | 0.25 | **17.7** | 15.7 |
| Total | **633,385** | 712,864 | -11.1 | **100** | 100 |
| Gross profit margin (%) | **33.3** | 34.8 | | | |

For the Year, the revenue of the Group decreased by 11.1% to RMB633,385,000 (for the year ended December 31, 2010: RMB712,864,000) and the gross profit margin dropped by 1.5% to 33.3% (for the year ended December 31, 2010: 34.8%).

Revenue from domestic sales of footwear products decreased by 22.2% from RMB345,308,000 for the year ended December 31, 2010 to RMB268,492,000 for the Year, mainly as a result of the intensified competition, like deeper discounting, intensive promotional sales from the major local brands and the reduced demand for our "Meike" brand products.

Revenue from the sales of the Group's apparel products increased by 12.7% from RMB204,165,000 for the year ended December 31, 2010 to RMB230,060,000 for the Year, primarily as a result of the increase in the average selling price from RMB60 for the year of 2010 to RMB68 for the Year.

Revenue from sales of accessories and shoe soles decreased by 55.8% from RMB51,664,000 for the year ended December 31, 2010 to RMB22,827,000 for the Year, predominantly due to the decrease in demand in the market.

Revenue from export sales increased by 0.25% from RMB111,727,000 for the year ended December 31, 2010 to RMB112,006,000 for the Year, predominantly due to the increase in the average selling price from RMB38 for the year of 2010 to RMB47 for the Year. Except the increase in the average selling price, the sale volume was decrease by 17.9% which was mainly due to the slow recovery and uncertainly in the global eoncomy.

The following table sets out the revenue from the sales of the Group's products in China by geographical location:

| | **2011** | | 2010 | |
|---|---|---|---|---|
| | **RMB'000** | **%** | RMB'000 | % |
| Central South China | **220,358** | **42.3** | 259,002 | 43.1 |
| East China | **222,040** | **42.6** | 240,684 | 40.0 |
| Southwest China | **65,931** | **12.6** | 79,866 | 13.3 |
| Northeast China | **11,950** | **2.3** | 8,772 | 1.5 |
| Northwest China | **1,100** | **0.2** | 12,813 | 2.1 |
| Total | **521,379** | **100** | 601,137 | 100 |

The following table sets out the number of units and average selling price of products sold to the customers:

| | **2011** | | 2010 | |
|---|---|---|---|---|
| | **Total units sold '000** | **Average selling price RMB** | Total units sold '000 | Average selling price RMB |
| Sales to distributors | | | | |
| Footwear (pairs) | **3,407** | **79** | 4,722 | 73 |
| Apparel (pieces) | **3,391** | **68** | 3,433 | 60 |
| Accessories (pieces) | **329** | **9** | 355 | 9 |
| Shoe soles (pairs) | **1,094** | **18** | 2,695 | 18 |
| Sales to export companies and overseas customers | | | | |
| Footwear (pairs) | **2,357** | **47** | 2,870 | 38 |

Revenue from domestic sales of footwear products of the Group decreased by 22.2% to RMB268,492,000 in the Year (2010: RMB345,308,000), mainly attributable to the decrease in the sales volume of footwear products by 27.8% to 3.41 million pairs (2010: 4.72 million pairs).

# MANAGEMENT DISCUSSION AND ANALYSIS

Revenue from export sales of footwear products of the Group increased by 0.25% to RMB112,006,000 in the Year (2010: RMB111,727,000), primarily as a result of the reduction in the sales volume of footwear products by 17.8% to 2.36 million pairs (2010: 2.87 million pairs) being netted off by the increase in the average selling price by 23.7% to RMB47 (2010: RMB38).

Revenue from the sales of apparel products of the Group increased by 12.7% to RMB230,060,000 in the Year (2010: RMB204,165,000), mainly attributable to the decrease in the sales volume of apparel products by 0.87% to 3.40 million pieces (2010: 3.43 million pieces) which was partially offset by the increase in the average selling price of 13.3% to RMB68 (2010: RMB60).

## COST OF SALES

Cost of sales decreased by 9.1% to RMB422,213,000 in 2011 (2010: RMB464,611,000), primarily as a result of the decrease in sales of the Group's products which was partially offset by an allowance for inventory of RMB17,970,000 for slow moving inventory provided at the end of the Year.

## SELLING AND DISTRIBUTION COSTS

Selling and distribution costs increased by 73.1% from RMB42,812,000 in 2010 to RMB74,085,000 in the Year, primarily as a result of a subsidy of RMB35,151,000 being granted to the distributors of the Group at the end of the Year.

## ADMINISTRATIVE EXPENSES

Administrative expenses increased by 20.6% from RMB34,964,000 in 2010 to RMB42,156,000 in the Year, primarily due to the combined effect of the increase in staff salary and welfare payment and depreciation charges for the Year.

## INCOME TAX EXPENSE

The income tax expense of the Group for the Year was RMB18,985,000 (2010: RMB24,994,000) at the effective tax rate of 25.3%.

## TOP FIVE SUPPLIERS

For the Year, the purchases from the Group's top five suppliers accounted for approximately 19.1% of the total purchases from all of the Group's suppliers.

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| **Top five suppliers** | **Number of suppliers** | **RMB million** | **%** | Number of suppliers | RMB million | % |
| Raw materials suppliers | **3** | **78.4** | **11.4** | 3 | 80.3 | 18.2 |
| Apparel contract manufacturers | **2** | **53.1** | **7.7** | 2 | 29.9 | 6.7 |
| Total | **5** | **131.5** | **19.1** | 5 | 110.2 | 24.9 |

## INVENTORY AND PROVISION FOR INVENTORIES

The following table sets out the aging analysis of inventory:

| | As at 31 December 2011 | | | | | As at 31 December 2010 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Raw Materials | Work-in-progress | Finished Goods | | | Raw Materials | Work-in-progress | Finished Goods | | |
| | | | Apparel | Footwear | Total | | | Apparel | Footwear | Total |
| 0-90 days | 3,023 | 5,003 | 10,501 | 32,595 | 51,122 | 15,232 | 4,123 | 7,601 | 38,118 | 65,074 |
| 91-180 days | 29,184 | – | 7,217 | 31,261 | 67,662 | 8,253 | 222 | – | 613 | 9,088 |
| 181-365 days | 13,697 | – | 2,396 | 18,564 | 34,657 | 3,541 | – | – | 10 | 3,551 |
| Over 365 days | 651 | – | – | – | 651 | – | – | – | – | – |
| Provision | – | – | (1,710) | (16,260) | (17,970) | – | – | – | – | – |
| | 46,555 | 5,003 | 18,404 | 66,160 | 136,122 | 27,026 | 4,345 | 7,601 | 38,741 | 77,713 |

The Group generally procures raw materials and commences production after having confirmed purchase orders with our distributors after our sales fairs in order to control the levels of raw materials and keep finished goods inventories at an optimal level to meet our production and sales needs.

Inventories increased by 75.2% from RMB 77.7 million as at December 31, 2010 to RMB136.1 million as at December 31, 2011 and number of days of inventory turnover increased from 51.3 days for the year ended December 31, 2010 to 92.4 days for the year ended December 31, 2011, which were mainly due to the sales of our distributors have been greatly affected by the slowdown in the demand of sportswear and the intensifying competition from the major local brands through substantial discount to clear their excessive inventory level since the second half of 2011. In order to avoid the piling up of inventory in our distributors' sales network and give them a chance to digest the 2011 autumn and winter products and avoid accumulating the trade receivables of our distributors, we have slowed down the delivery of the inventory or even postponed certain orders of the distributors and, thus, increased the inventory level and inventory turnover days of the Group.

The Group only adopted the accounting policy for specific provision of inventories. The Group has conducted physical counts from time to time to identify obsolete, damaged or slow moving inventory. Specific provision will be made on an item of inventory if the carrying amount is lower than the net realizable value.

The Group had made an allowance of RMB17,970,000 on apparel with aging over 90 days and footwear with aging over 180 days as at 31 December 2011 that recorded no movement or only slight movement from January 1, 2012 up to the date of this report. The Board considered that the provision for slowing-moving finished goods was adequate for the year ended 31 December 2011.

No provision was made for raw materials and work-in-progress as those raw materials were general materials that are not specific for any unique products and the work-in-progress was still in processing and for orders in early 2012.

## TRADE RECEIVABLES AMD PROVISION FOR DOUBTFUL DEBTS

The Group generally granted each of our distributors a credit period of no more than 180 days. However, when we believe that extending the credit period to the distributors will allow them with more flexibility and working capital, which in turn may encourage the distributors to sustain their development of our brand or enhance their sales under competitive market, a credit period of more than 180 days may be grant to the distributors.

Trade receivables increased by 22.5% from RMB470.3 million as at December 31, 2010 to RMB575.9 million as at December 31, 2011 with a balance of RMB330.0 million which were past due. Besides, trade receivable days increased from 180.7 days for the year ended December 31, 2010 to 301.5 days for the year ended December 31, 2011. The reasons for the significant increase in the Group's trade and numbers of days of receivables when there was a decline in revenue was because starting from the second half of 2011, there has been a slowdown in the demand of the sportswear but at the same time the sportswear industry experienced intensive competition through substantial discount from major brands to clear the excessive inventory level, sales of our distributors have been greatly affected and deteriorated significantly. In order to motivate our distributors in the development of our brand and to retain our market share, we have extended their credit period and let the distributors have sufficient working capital to promote sales at the Chinese Lunar New Year in order to digest 2011 autumn and winter products and thus, they will have sufficient fund to settle our trade receivables after the Chinese Lunar New Year. Such has been reflected in our receipt of RMB198.6 million from the distributors after the Chinese Lunar New Year and up to the date of this annual report.

Moreover, significant increase in other receivables was mainly due to the prepayment to our suppliers as the Group had to retain sufficient materials to cope with our sales orders received from our distributors in the sales fairs.

The Group only adopted the accounting policy for specific provision of doubtful trade receivables. Specific provision will be made on trade receivables from customers that are unable to make the required payments based on various parameters including the aging of the trade receivables balance, customers' credit-worthiness and historical write-offs records to determine the provision.

The Board has conducted meetings and assessment with each distributor of the Group after the end of 2011 and believed that no provision for trade receivables was necessary to be made for the year ended 31 December 2011 because:

(i) there had not been a significant change in the credit quality of the distributors;

(ii) among the past due balance of RMB330 million, RMB198.6 million of which had been received by the Group up to the date of this report; and

(iii) repayment schedules have been agreed upon with each of the distributor and will closely monitor the collection of the receivables from each of the distributors.

Details of trade, bills and other receivables as at December 31, 2011 are set out in note 21 to the consolidated financial statement in this annual report.

## LIQUIDITY AND FINANCIAL RESOURCES

During the Year, net cash outflow from operating activities of the Group amounted to RMB204.1 million (2010: net cash outflow of RMB78.4 million). As at December 31, 2011, cash and cash equivalents, including bank deposits and cash in hand, and short-term bank deposits with original maturities not exceeding three months, amounted to RMB121.0 million, representing a net decrease of RMB316.4 million as compared to the position as at December 31, 2010. As at December 31, 2011, the Group's cash balances were denominated in Renminbi and Hong Kong Dollars only.

## PLEDGE OF ASSETS

As at December 31, 2011, the Group secured its bank borrowings by prepaid land lease payments and building held for own uses with a carrying amount of RMB53.8 million (2010: RMB62.6 million), bank deposit of RMB51.4 million (2010: RMB54.0 million) and trade receivables of RMB67.0 million (2010: RMB30.7 million).

## CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

Details of the capital commitments of the Group as at December 31, 2011 are set out in note 30 to the consolidated financial statements in this annual report. As at December 31, 2011, the Group did not have any material contingent liabilities.

## PROFIT ATTRIBUTABLE TO SHAREHOLDERS AND NET PROFIT MARGIN

For the Year, profit attributable to the owners of the Company amounted to RMB56,118,000, representing a decrease of 51.8% over that in the same period of 2010 (2010: RMB116,452,000). Net profit margin of the Group dropped to 8.9% (2010: 16.3%).

## FOREIGN EXCHANGE RISK

The Group mainly operates in the PRC with most of the transactions settled in Renminbi. Part of the Group's cash and bank deposits are denominated in Hong Kong Dollars.

During the Year, the Group did not hedge any exposure in foreign currency risk. Any substantial exchange rate fluctuation of foreign currencies against Renminbi may cause financial impacts on the Group.

## GEARING RATIO

As at December 31, 2011, the gearing ratio of the Group was approximately 18.2% (2010: 17.9%), which was derived by dividing interest-bearing debt incurred in the ordinary course of business by total assets.

## INTEREST-BEARING BANK LOANS

As at December 31, 2011, the Group's bank loans balance amounted to RMB220,450,000, bearing interest rates from 6.56% to 7.87%, which were all due within one year.

## HUMAN RESOURCES

As at December 31, 2011, the Group had a total of 2,018 employees (as at December 31, 2010: 2,372 employees).

The basic remunerations of the employees are determined with reference to the industry's remuneration benchmark, the employees' experience and their performance, and equal opportunities will be offered to all staff. Salaries of employees are maintained at a competitive level and are reviewed annually, with close reference to the relevant labour market and economic situation. Directors' remuneration is determined based on a variety of factors such as market conditions and responsibilities assumed by each Director. Apart from the basic remuneration and statutory benefits required by laws, the Group also provides discretionary bonuses based upon the Group's results and the individual performance of the staff.

The Group adopted a share option scheme as incentive for its employees, further details of which are set out in the paragraph headed "Share Option Scheme" above.

## MATERIAL ACQUISITION AND DISPOSAL

The Group did not have any material acquisition and disposal during the Year.

# MANAGEMENT DISCUSSION AND ANALYSIS

## USE OF NET PROCEEDS FROM THE SHARE OFFER

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on February 1, 2010 with net proceeds from the Share Offer and exercise of the over-allotment option received by the Company of approximately HK$335.4 million (approximately RMB295.2 million), and HK$46.3 million (approximately RMB40.7 million) respectively (after deducting underwriting commission and related expenses). The following table sets out the status of the use of net proceeds as at December 31, 2011:

| Use of Net Proceeds (RMB million) | Available to utilise | Utilised (as at December 31, 2011) | Unutilised (as at December 31, 2011) |
|---|---|---|---|
| Expansion of production capacity | 102.1 | 73.2 | 28.9 |
| Expansion of the sales network and market penetration | 102.4 | 93.2 | 9.2 |
| Develop and increase brand awareness | 80.0 | 41.6 | 38.4 |
| Enhancement of research and development capabilities | 26.9 | 25.2 | 1.7 |
| Working capital | 24.5 | 24.5 | – |
| | 335.9 | 257.7 | 78.2 |

## FUTURE PROSPECTS

The pace of growth of China's economy has slowed down due to the increasing rate of inflation and the high volatility of the global economy. At the same time, the competition within the sportswear industry is intensifying and some of the other major brands are conducting restructure on their distribution channels and brand revitalization.

As a domestic brand targeting on the third-tier and fourth-tier cities in China, facing the intensive competition pressure from the major brands, the Group will focus on the development of the "Meike" brand by continuing to enhance the research and development capabilities and the product diversification. On the other hand, the Group will devote more resources to its distributors to implement an integration programme to integrate outlets with relatively small floor area (i.e. less than $80m^2$), high costs but low-efficiency with outlets with relatively large floor area and higher efficiency.

Besides, the Group will continue to enhance the brand recognition and awareness. On July 14, 2011, Quanzhou Meike Sports Goods Co., Ltd. (泉州市美克體育用品有限公司)("Quanzhou Meike"), a wholly-owned subsidiary of the Company, entered into an agreement (the "Agreement") with International Weightlifting Federation (Beijing Office) ("IWF") pursuant to which, Quanzhou Meike agreed to construct a base (the "Base") at the production base of the Group at Shanxia Town, Huian, Fujian, the PRC, which would comprise a stadium, a four-stars hotel and a swimming pool for holding tournaments, training and rehabilitation activities, and meetings of IWF.

According to the Agreement, the Group would be responsible for the construction fees of the Base in the amount of RMB36 million and the relevant expenses of IWF in respect of the activities to be held at the Base. The funding for the aforesaid fees and expenses would be from the fund generated from operation of the Group. In return, IWF had agreed, among other matters, to grant the Group full on-site promotion and advertisement rights in any tournaments or training activities organized by IWF at the Base.

It is expected that the long term co-operation with IWF will enhance the Group's brand image by the on-site promotion and advertisements through the international weightlifting tournaments to be held at the Base or any tournament to be held by IWF in the PRC, which is expected to capture enormous worldwide attention and thus increase the Group's media exposure and hence enhance the brand recognition and awareness.

# CORPORATE GOVERNANCE REPORT

The Directors recognize the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of the Group so as to achieve effective accountability. The Directors continuously observe the principles of good corporate governance in the interests of shareholders and devote considerable effort to identifying and formalizing best practice.

The Group's corporate governance practices are based on the principles and the code provisions as set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The Board considered that the Company had complied with the code provisions of the Code from the date of listing of the Company on February 1, 2010 (the "Listing Date") up to the date of this annual report, except for the deviation from code provision A.2.1 of the Code as stated below.

## CODE PROVISION A.2.1

Under code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company does not have any officer with the title of "chief executive officer". This deviated from code provision A.2.1 of the Code.

Mr. Ding Siqiang, who acts as the chairman and the president of the Company, is also responsible for overseeing the general operations of the Group. The Board will meet regularly to consider major matters affecting the operations of the Group. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Group. The roles of the respective executive Directors and senior management who are in charge of different functions complement the role of the chairman and chief executive officer. The Board believes that this structure is conducive to strong and consistent leadership enabling the Group to operate efficiently.

The Company understands the importance to comply with code provision A.2.1 of the Code and will continue to consider the feasibility to comply. If compliance is determined, appropriate persons will be nominated to assume the different roles of the chairman and chief executive officer.

## APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

Each of Mr. Ding Siqiang, Ms. Ding Xueleng, Ms. Ding Jinzhu, Mr. Lin Yangshan and Mr. Li Dongxing, all being executive Directors has entered into a service contract with the Company for an initial term of three years commencing from the Listing Date and may be terminated by either party by giving not less than three months' prior written notice.

Each of Mr. Yang Chengjie and Mr. Xie Weichun, all being independent non-executive Directors has entered into a service contract with the Company for a term of two years commencing from 1 February 2012 and may be terminated by either party by giving at least three months' written notice.

Each of Mr. Ding Minglang, an executive Director and Mr. Lin Jiwu, an independent non-executive Director has entered into a service contract with the Company for a term of two years commencing from 25 July 2011 and may be terminated by either party by giving at least three months' written notice.

In accordance with Article 84 of the Articles of Association of the Company, at each annual general meeting, at least one third of the Directors are required to retire from office by rotation. Each Director shall retire from office at least once every three years and shall include those who have been longest in office since their last election or re-election.

In accordance with Article 83 of the Articles of Association of the Company, new Directors appointed by the Board during the year shall retire and submit themselves for re-election at the annual general meeting immediately following their appointments.

Mr. Ding Siqiang, Ms. Ding Xueleng, Ms. Ding Jinzhu, Mr. Lin Yangshan, Mr. Li Dongxing, Mr. Ding Minglang and Mr. Lin Jiwu will retire as Directors at the forthcoming annual general meeting of the Company and being eligible, will offer themselves for re-election at the annual general meeting.

## MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as the required standard for securities transactions by Directors. The Company has made specific enquiries of all Directors and all Directors confirmed that they have complied with the required standards set out in the Model Code and its code of conduct regarding Directors' securities transactions from the Listing Date and up to the date of this annual report.

## BOARD OF DIRECTORS

### COMPOSITION OF THE BOARD

The Board members are:
*Executive Directors:*
Mr. Ding Siqiang *(Chairman and President)*
Ms. Ding Xueleng
Mr. Sun Keqian (resigned on July 25, 2011)
Ms. Ding Jinzhu
Mr. Lin Yangshan
Mr. Li Dongxing
Mr. Ding Minglang (appointed on July 25, 2011)

*Independent non-executive Directors:*
Mr. Xiang Shimin (resigned on July 25, 2011)
Mr. Yang Chengjie
Mr. Xie Weichun
Mr. Lin Jiwu (appointed on July 25, 2011)

The biographical details of the Directors and other senior management are disclosed in the section headed "Biographical Details of Directors and Senior Management" on pages 21 to 25 of this annual report. The composition of the Board is well balanced. Each of the Directors has relevant expertise and extensive corporate and strategic planning experiences that may contribute to the business of the Group. The Company has complied with the requirements under Rule 3.10(1) and (2) of the Listing Rules since the Listing Date. All independent non-executive Directors also meet the guidelines for assessment of their independence as set out in Rule 3.13 of the Listing Rules.

Mr. Ding Siqiang is the spouse of Ms. Ding Xueleng. Mr. Ding Minglang is the elder brother of Ms. Ding Xueleng and the father of Ms. Ding Jinzhu. Mr. Lin Yangshan is the son of the younger sister of Mr. Ding Siqiang. Save as disclosed above, there are no other relationship (including financial, business, family or other material/relevant relationship(s)) among members of the Board.

## FUNCTIONS OF THE BOARD

The Board supervises the management of the business and affairs of the Company. The Board's primary duty is to ensure the viability of the Company and to ensure that it is managed in the best interests of the shareholders as a whole while taking into account the interests of other stakeholders. The Group has adopted internal guidelines in setting forth matters that require the Board's approval. Apart from its statutory responsibilities, the Board approves the Group's strategic plan, key operational initiatives, major investments and funding decisions. It also reviews the Group's financial performance, identifies principal risks of the Group's business and ensures implementation of appropriate systems to manage these risks. Daily business operations and administrative functions of the Group are delegated to the management.

## BOARD MEETINGS AND PROCEDURES

Board members were provided with complete, adequate and timely information to allow them to fulfill their duties properly. In compliance with code provision A.1.3 of the Code, at least 14 days' notice has been given for a regular Board meeting to give all Directors an opportunity to attend. Notice, agenda and board papers of regular Board meetings are sent to all Directors within reasonable time and at least 3 days prior to the meetings. Directors are free to contribute and share their views at meetings and major decisions will only be taken after deliberation at Board meetings. Directors who are considered having conflict of interests or material interests in the proposed transactions or issues to be discussed will not be counted in the quorum of meeting and will abstain from voting on the relevant resolutions. Full minutes are prepared after the meetings and the draft minutes are sent to all Directors for their comment on the final version of which are endorsed in the subsequent Board meeting.

All independent non-executive Directors have been appointed for a fixed term. Every Director is subject to re-election on retirement by rotation in accordance with the Articles of Association of the Company. The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and still considers the independent non-executive Directors to be independent as at the date of this annual report.

Details of the attendance of the Board meetings held during the Year are summarized as follows:

| | Board meeting | Audit committee | Remuneration Committee | Nomination Committee |
|---|---|---|---|---|
| **Executive Directors** | | | | |
| Mr. Ding Siqiang *(Chairman and President)* | 3/3 | N/A | 2/2 | 2/2 |
| Ms. Ding Xueleng | 3/3 | N/A | N/A | N/A |
| Mr. Sun Keqian (resigned on July 25, 2011) | 1/1 | N/A | N/A | N/A |
| Ms. Ding Jinzhu | 3/3 | N/A | N/A | N/A |
| Mr. Lin Yangshan | 3/3 | N/A | N/A | N/A |
| Mr. Li Dongxing | 3/3 | N/A | N/A | N/A |
| Mr. Ding Minglang (appointed on July 25, 2011) | 1/1 | N/A | N/A | N/A |
| **Independent Non-executive Directors** | | | | |
| Mr. Xiang Shimin (resigned on July 25, 2011) | 1/1 | 1/1 | 1/1 | 1/1 |
| Mr. Yang Chengjie | 3/3 | 2/2 | N/A | 2/2 |
| Mr. Xie Weichun | 3/3 | 2/2 | 2/2 | N/A |
| Mr. Lin Jiwu (appointed on July 25, 2011) | 1/1 | 1/1 | N/A | N/A |

## BOARD COMMITTEES

The Board has established specific committees, namely the Company's audit committee (the "Audit Committee"), remuneration committee (the "Remuneration Committee") and nomination committee (the "Nomination Committee"), with written terms of reference which are available for viewing on the website of the Company to assist them in the efficient implementation of their functions. Specific responsibilities have been delegated to the above committees.

## AUDIT COMMITTEE

The Company established the Audit Committee on January 6, 2010 with written terms of reference which are in compliance with the code provisions of the Code. The primary duties of the Audit Committee are mainly to review the material investment, capital operation and material financial system of the Company; to review the accounting policy, financial position and financial reporting procedures of the Company; to communicate with external audit firms; to assess the performance of internal financial and audit personnel; and to assess the internal control of the Company. The Audit Committee currently has three members comprising Mr. Xie Weichun (Chairman), Mr. Yang Chengjie and Mr. Lin Jiwu, all being independent non-executive Directors.

During the Year, the Audit Committee had reviewed the final results of the Group for 2010, the 2010 annual report of the Company, and the 2011 interim results and report of the Company. The Audit Committee had reviewed the Group's internal controls for the Year. The Group's final results for the Year had been reviewed by the Audit Committee before submission to the Board for approval. The Audit Committee had also reviewed this annual report, and confirmed that this annual report complies with the Listing Rules. There is no disagreement between the Directors and the Audit Committee regarding the selection and appointment of the external auditors.

The Audit Committee held 2 meetings during the Year. Details of the attendance of the Audit Committee at the Audit Committee meetings are as follows:

| | Attendance/Meeting held |
|---|---|
| Mr. Xie Weichun *(Chairman)* | 2/2 |
| Mr. Yang Chengjie | 2/2 |
| Mr. Xiang Shimin (resigned on July 25, 2011) | 1/1 |
| Mr. Lin Jiwu (appointed on July 25, 2011) | 1/1 |

## REMUNERATION COMMITTEE

The Company established the Remuneration Committee on January 6, 2010 with written terms of reference which are in compliance with the code provisions of the Code. The primary duties of the Remuneration Committee include mainly: (i) reviewing the terms of the remuneration package of each Director and member of senior management, and making recommendations to the Board regarding any adjustment thereof; and (ii) reviewing and evaluating the performance of individual executive Directors for determining the amount of bonus (if any) payable to them. No Director shall participate in any discussion about his or her own remuneration. The Remuneration Committee currently consists of three members, namely, Mr. Lin Jiwu (Chairman), Mr. Xie Weichun and Mr. Ding Siqiang, the majority of which are independent non-executive Directors. The remuneration of the Directors was determined with reference to their respective experience, responsibilities with the Group and general market conditions.

In order to comply with the amendments to the Listing Rules which became effective on 1 April 2012, Mr. Ding Siqiang ceased to be the chairman of the Remuneration Committee and Mr. Lin Jiwu had been appointed as the chairman with effect from 30 March 2012.

The Remuneration Committee held 2 meetings during the Year. Details of the attendance of the Remuneration Committee meeting are as follows:

| | Attendance/Meeting held |
|---|---|
| Mr. Ding Siqiang | 2/2 |
| Mr. Xiang Shimin (resigned on 25 July 2011) | 1/1 |
| Mr. Xie Weichun | 2/2 |
| Mr. Lin Jiwu *(Chairman)* (appointed on 25 July 2011) | N/A |

At the meetings, the Remuneration Committee had reviewed the remuneration policies of the Directors and the senior executives and reviewed the remuneration packages and performance of the Directors for the Year.

## NOMINATION COMMITTEE

The Company established the Nomination Committee on January 6, 2010 with written terms of reference which are in compliance with paragraph A.4.5 of the Code. The primary duties of the Nomination Committee include the review of the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and to make recommendations to the Board regarding any proposed change, identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships, assess the independence of independent non-executive Directors. The Nomination Committee consists of three members, namely, Mr. Ding Siqiang (Chairman), Mr. Lin Jiwu and Mr. Yang Chengjie, the majority of which are independent non-executive Directors.

The Nomination Committee held 2 meetings during the Year. Details of the attendance of the Nomination Committee meeting are as follows:

| | Attendance/Meeting held |
|---|---|
| Mr. Ding Siqiang *(Chairman)* | 2/2 |
| Mr. Xiang Shimin (resigned on July 25, 2011) | 1/1 |
| Mr. Yang Chengjie | 2/2 |
| Mr. Lin Jiwu (appointed on July 25, 2011) | N/A |

At the meetings, the Nomination Committee had reviewed the structure, size and composition of the Board, assessed the independence of the independent non-executive Directors and other related matters of the Company.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the independent non-executive Directors are independent to the Company.

# CORPORATE GOVERNANCE REPORT

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the financial statements which give a true and fair view of the state of affairs of the Group, in accordance with accounting principles generally accepted in Hong Kong. The statement by the auditors of the Company about their responsibilities for the financial statements is set out in the report of the independent auditor's report contained in this annual report. There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

## DIRECTORS' AND OFFICERS' INSURANCE

The Company has arranged appropriate insurance cover in respect of potential legal action against its Directors and officers before the date of this report.

## EXTERNAL AUDITOR'S REMUNERATION

The Company engaged SHINEWING (HK) CPA Limited as its external auditor for the Year. Analysis of the remuneration in respect of audit services provided by the external auditor is included in note 13 to the consolidated financial statements in this annual report. For the Year, the total fee paid to the external auditors in respect of the non-audit services such as review of the interim results and internal control system of the Group is RMB228,000.

## INTERNAL CONTROLS

The Board is responsible for ensuring the effectiveness of the Group's internal control systems. The internal control systems are designed to meet the Group's particular needs and the risks to which it is exposed.

Procedures have been set up for safeguarding assets against unauthorized use or disposition, controlling over capital expenditure, maintaining proper accounting records and ensuring the reliability of financial information used for business and publication. Qualified management of the Group maintains and monitors the internal control systems on an ongoing basis.

The Board and the Audit Committee have delegated an external independent professional body to conduct an annual review of the effectiveness of the internal control systems of the Group, covering all material controls, including financial, operation, compliance controls, etc. Based on the assessment made by the external independent professional body, the Board considers that the internal control systems of the Group are effective and the Audit Committee has found no material deficiencies on the internal control systems.

## COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

In order to keep shareholders well informed of the business activities and direction of the Group, information about the Group has been provided to the shareholders through financial reports and announcements. The Company has established its own corporate website www.meike.cn as a channel to facilitate effective communication with its shareholders and the public. The Company will continue to enhance communications and relationships with its shareholders and investors.

Shareholders, investors and interested parties can make enquiries directly to the Company through the following e-mail: ad@meike.cn.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## DIRECTORS

### EXECUTIVE DIRECTORS

**Mr. Ding Siqiang (丁思強)**, aged 49, is the Chairman and President of the Company. He was appointed as a Director on 25 June 2009 and redesignated as an executive Director on January 6, 2010. He is primarily responsible for making key decisions on the Group's overall strategies, plans and business development. Mr. Ding has 17 years of experience in the sportswear industry since he started to operate Fujian Jinjiang Hengqiang Shoes and Plastics Company (福建省晉江市恒強鞋塑有限公司) in 1993. He joined the Group in 1999 as the vice chairman of Fujian Meike Leisure Sports Goods Co., Ltd. (福建美克休閒體育用品有限公司) ("Fujian Meike"), one of the subsidiaries of the Company. He served as the legal representative and general manager of Fujian Meike since February 2003 and became the president of Fujian Meike since August 2007. He is a director of all the subsidiaries of the Company except Fuzhou Meikesen Sports Goods Co., Ltd. (福州美克森體育用品有限公司) ("Fuzhou Meikesen"). He has been a member of the Ninth and Tenth Fujian Provincial Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議福建省第九屆和第十屆委員) since December 2002. He was appointed as a Standing Director of the First Session of the Jinjiang City Overseas Friendship Association (晉江市海外聯誼會第一屆常務理事) in December 2002. He was appointed as a Honorary Chairman of the First Council of the Jinjiang City Charity Federation (晉江市慈善總會首屆理事會榮譽會長) in December 2002. He was appointed as a director of the Fifth Board of Directors of Huaqiao University (華僑大學第五屆董事會董事) in December 2002. He was appointed as a Honorary Chairman of the Third Council of the Quanzhou City Footwear Chamber of Commerce (泉州市鞋業商會第三屆理事會名譽會長) in January 2006. He was appointed as the Honorary Leader of Chinese Women Hockey Team (中國女子曲棍球隊榮譽領隊) by Chinese Hockey Association (中國曲棍球協會) in October 2007. He also received his diploma in a course for chief executive officer in China (中國企業總裁高級研修班) from Peking University (北京大學) in September 2003. Mr. Ding is Ms. Ding Xueleng's husband. Mr. Ding did not hold any directorship with any public companies whose securities are listed on a stock exchange during the three years prior to the date of this annual report. Mr. Ding is the sole director of Glory Hill Enterprises Limited ("Glory Hill") which is a controlling shareholder (as defined under the Listing Rules) of the Company.

**Ms. Ding Xueleng (丁雪冷)**, aged 47, was appointed as an executive Director on January 6, 2010 and is the Vice President of the Company. She is primarily responsible for the management of footwear and apparel operations, design, research and development, financial management and overall administration management of the Group. Ms. Ding has 17 years of experience in the sportswear industry since she became the director of Fujian Jinjiang Hengqiang Shoes and Plastics Company (福建省晉江市恒強鞋塑有限公司). Ms. Ding joined us in February 1999 and was appointed as a director of Fujian Meike in 1999. She has also been the manager of Fujian Meike starting from February 1999 and was then appointed as the deputy general manager since February 2003. In August 2007, Ms. Ding was appointed the general manager of Fujian Meike. Ms. Ding is a director of each of Fujian Meike and Quanzhou Meike Sports Goods Co., Ltd. (泉州市美克體育用品有限公司) ("Quanzhou Meike") which is a subsidiary of the Company. Ms. Ding did not hold any directorship with any public companies whose securities are listed on a stock exchange during the three years prior to the date of this annual report.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**Ms. Ding Jinzhu (丁錦珠)**, aged 34, was appointed as an executive Director on January 6, 2010 and is the assistant to Ms. Ding Xueleng, an executive Director. She is primarily responsible for the management of the accessory operation of the Company. Ms. Ding has 11 years of experience in the sportswear industry as she joined the Group in February 1999 as the deputy general manager of Fujian Meike. She served as the assistant to the deputy manager of Fujian Meike since February 2003 and as the assistant to the manager of Fujian Meike since October 2007. She became a director of Fujian Meike since October 2006. Ms. Ding's early responsibilities include communicating with government authorities and coordinating with administrative matters. Ms. Ding received her diploma in financial accounting (財務會計) from Jinjiang City Chendai Town Vocational Middle School (晉江市陳埭職業中學) in July 1995. Ms. Ding is the daughter of the elder brother of Ms. Ding Xueleng, an executive Director. Ms. Ding Jinzhu did not hold any directorship with any public companies whose securities are listed on a stock exchange during the three years prior to the date of this annual report.

**Mr. Lin Yangshan (林陽山)**, aged 32, was appointed as an executive Director on January 6, 2010 and is the head of the sales and marketing department of the Company. He is primarily responsible for the management of the marketing matters of the Company. Mr. Lin has 8 years of experience in sportswear industry as he joined the Group in 2002 as the sales manager of Fujian Meike. He is a director of Fujian Meike. He served as an executive director and manager of Jinhairuo (Fujian) Investment Industrial Co., Ltd. (金海若(福建)投資實業有限公司) since August 2007. Mr. Lin received his bachelor's degree in economics from Xiamen University (廈門大學) in July 2002. Mr. Lin is the son of the younger sister of Mr. Ding. Mr. Lin did not hold any directorship with any public companies whose securities are listed on a stock exchange during the three years prior to the date of this annual report.

**Mr. Li Dongxing (李東星)**, aged 37, was appointed as an executive Director of on January 6, 2010 and is the assistant to the chairman of the Company. He is primarily responsible for assisting the chairman in making decisions on overall strategies, planning and business development and he is responsible for the human resources of the Group. Mr. Li has 7 years of experience in the footwear industry. He served as a tax officer in Jinjiang City State Tax Bureau (晉江市國家稅務局) from November 1997 to August 2007. Starting from 2003, his tax practice has focused on footwear companies. He joined the Group in August 2007 and has served as the secretary of the board of directors of Fujian Meike since then. Mr. Li received his bachelor's degree in taxation from Xiamen University (廈門大學) in May 1997. He obtained a qualification certificate of taxation execution of the PRC issued by the State Administration of Taxation of the PRC in April 2003. Mr. Li did not hold any directorship with any public companies whose securities are listed on a stock exchange during the three years prior to the date of this annual report.

**Mr. Ding Minglang (丁明郎)**, aged 57, is currently the purchasing manager of Fujian Meike Leisure Sports Goods Co., Ltd. (福建美克休閒體育用品有限公司) ("Fujian Meike"), one of the subsidiaries of the Company. Prior to joining the Group as the purchasing manager of Fujian Meike in April 2010, Mr. Ding was the purchasing manager of Hengqiang (Fujian) Shoes and Plastics Development Company Limited (恆強(福建)鞋塑發展有限公司), the predecessor of Fujian Meike, from April 2005 to March 2010. Mr. Ding has more than 20 years of experience in purchasing and management. Mr. Ding is the elder brother of Ms. Ding Xueleng, an executive Director, and the father of Ms. Ding Jinzhu, an executive Director. Mr. Ding did not hold any directorship in any public companies the securities of whose securities are listed on a stock exchange during the three years prior to the date of this annual report.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Yang Chengjie (楊承傑)**, aged 54, was appointed as an independent non-executive Director on January 6, 2010. Mr. Yang was appointed as an independent director of Fujian Meike for the period from August 2007 to May 2009. Mr. Yang has 10 years of experience in the footwear industry. He obtained the title of Professor of Engineering (教授級高級工程師) from the Appraising and Approval Committee for Professional and Technical Competence of Sinolight Corporation (中國輕工集團公司專業技術資格評審委員會) in December 2002. He has been the director of China Leather and Footwear Industry Research Institute (中國皮革和制鞋工業研究所) since September 2000. He was appointed a part-time professor and a tutor to master degree students in Shaanxi University of Science and Technology (陝西科技大學) in May 2002. Mr. Yang received his bachelor's degree in leather from Shaanxi University of Science and Technology (陝西科技大學) (formerly known as Northwest Light Industry College (西北輕工業學院)) in July 1982. He received a certificate in a 4-day course for senior management of listed companies conducted by Shenzhen Stock Exchange in January 2008. Mr. Yang did not hold any directorship with any public companies whose securities are listed on a stock exchange during the three years prior to the date of this annual report.

**Mr. Xie Weichun (謝煒春)**, aged 49, was appointed as an independent non-executive Director on January 6, 2010. He served as an accountant, a manager and a partner of Fujian Lixin Mindu Certified Public Accountants Limited (福建立信閩都會計師事務所有限公司) (formerly known as Fuzhou Accounting Firm (福州會計師事務所)) since 1989. Mr. Xie received his diploma in industrial and enterprise financial accounting from Fuzhou Technical School (福州工業學校) in July 1983. He received his diploma in statistics from Xiamen University (廈門大學) in April 1988. He also received a certificate in a 4-day course for senior management of listed companies conducted by Shenzhen Stock Exchange (深圳股票交易所) in September 2007. Mr. Xie became a Certified Public Accountant in the PRC (中國註冊會計師) in December 1999. He received a qualification certificate for senior accountant (高級會計師職稱) by Fujian Provincial Personnel Department (福建省人事廳) in May 2007. Mr. Xie did not hold any directorship with any public companies whose securities are listed on a stock exchange during the three years prior to the date of this annual report.

**Mr. Lin Jiwu (林紀武)**, aged 41, was appointed as an independently non-executive Director on 25 July 2011. He served as a project manager and the deputy managing director of Xing Ye Securities Company Limited (興業證券股份有限公司) since 2000. Mr. Lin received a Master Degree in Laws from the University of Xiamen (廈門大學) and a Bachelor Degree in Laws from Zhongnan University of Politics and Law (中南政法學院). Mr. Lin obtained the qualification as a lawyer practicing securities law in July 1996 accredited by the Ministry of Judiciary, The People's Republic of China and the China Securities Regulatory Commission. Mr. Lin did not hold any directorship with any public companies whose securities are listed on a stock exchange during the three year prior to the date of this annual report.

## SENIOR MANAGEMENT

**Mr. Li Yik Sang (李奕生)**, aged 37, joined the Group in August 2009 and is the chief financial officer, authorized representative and company secretary of the Company. Mr. Li served as an audit assistant and a semi-senior auditor in Grant Thornton from November 2000 to December 2002. He served as a staff accountant, senior accountant and manager in Ernst & Young from January 2003 to January 2007. He had been the chief financial officer of China Packaging Group Company Limited (stock code: 572) from January 2007 to July 2009. Mr. Li has approximately 11 years of experience in auditing, finance and accounting. He received his bachelor's degree in commerce from the University of Queensland, Australia in December 1998. He received his master's degree in commerce (information systems) from the University of Queensland, Australia in August 2000. Mr. Li has been a member of CPA Australia since April 1999 and was granted a certificate of certified practicing accountant of CPA Australia in November 2006 and he has been a member of HKICPA since February 2007.

**Mr. Luo Zhenye (羅振業)**, aged 36, is the head of the marketing department of the Company. He joined the Group as the marketing manager of Fujian Meike since March 2006. Mr. Luo has about 13 years of experience in the marketing industry. From March 1997 to January 2000, he served as an operating officer in Guangzhou New Era Exhibition Co., Ltd. (廣州市新紀元展覽有限公司). From March 2000 to December 2002, he served as a customer manager in Guangzhou Jindi Cultural Propagation Advertisement Co., Ltd. (廣州金蒂文化傳播廣告有限公司). From March 2003 to December 2005, he served as a customer manager in Longjuanfeng Film and Television Advertisement Planning Co., Ltd. (龍卷風影視廣告策劃有限公司). Mr. Luo received his diploma in mechanical and electrical engineering (機電工程專科學位) from Nanchang Higher Junior College (南昌高等專科學校) in June 1996.

**Mr. Lin Kongfeng (林孔鳳)**, aged 40, is the head of the accounting department of the Company. He joined the Group in March 2006 as a manager of Fujian Meike's accounting department. From August 1991 to December 2003, he worked in the finance department in Fujian Provincial Datian Taoyuan State-owned Forest Farm (福建省大田桃源國有林場). From April 2005 to February 2006, he served as an accounting manager in K-boxing Men's Wear Stock Limited Company (勁霸男裝股份有限公司). Mr. Lin received his diploma in accounting from Xiamen University (廈門大學) in June 1999. He obtained the qualification certificate of middle level of accountant issued by the Ministry of Finance of the PRC in December 2000.

**Mr. Chen Shuzhun (陳曙準)**, aged 35, is the head of the export department of the Company. Mr. Chen has 12 years of experience in the sportswear industry in the PRC as he joined the Group in September 1999 as a manager for the export department of Fujian Meike. Mr. Chen received his diploma in business management from Liming Vocational University (黎明職業大學) in June 1999. He received the title of outstanding employer by the Chentai Town Commission of the Chinese Communist Party and Chentai Town People's Government in December 2004 and the title of outstanding talented manager by the Chentai Town Commission of the Chinese Communist Party and Chentai Town People's Government in May 2006.

**Mr. Wang Dongrong (王東榮)**, aged 34, is the head of the apparel research and development department of the Company. Mr. Wang joined the Group in November 2003 as the manager for the apparel department of Fujian Meike. Mr. Wang has 13 years of experience in the sportswear design industry. From October 1997 to November 2000, he served as a designer of apparel in Quanzhou City Kipone Apparel Co., Ltd. (泉州市棋牌王服飾有限公司). From December 2000 to November 2003, he served as the manager of the production department in Quanzhou City Huangxing Apparel Co., Ltd. (泉州市煌興製衣有限公司). Mr. Wang received his diploma in apparel design from Fujian Textile Light Industry College (福建紡織輕工業學校) in September 1996.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**Mr. Liu Xiaohong (劉曉紅)**, aged 42, is the head of research and development department for footwear of the Company. He joined the Group in March 2005 as the manager for design and research department for Fujian Meike. Mr. Liu has 18 years of experience in the sportswear design industry. From October 1992 to December 1996, he served as a designer of footwear in Fujian Qinglu Footwear Co., Ltd. (福建清祿鞋業有限公司). From March 1997 to January 2000, he served as a manager of the design department in Daoqi (Fujian) Footwear Co., Ltd. (道崎(福建)制鞋有限公司). From February 2000 to February 2005, he served as the manager of the design department in Fujian Jinjiang City Canhuang Footwear and Apparel Co., Ltd. (福建晉江市燦煌鞋服有限公司). He received the award of national sports footwear design (全國運動鞋設計獎) by the China Leather Industry Association (中國皮革工業協會) in April 2003. Mr. Liu received his diploma in art from Sichuan University (四川大學) in July 1992.

## COMPANY SECRETARY

Mr. Li Yik Sang is the Company Secretary of the Company and please refer to his biography in the paragraphs headed "Senior Management" above for details.

# DIRECTORS' REPORT

The Directors are pleased to present to the shareholders this annual report and the audited consolidated financial statements for the Year.

## GROUP REORGANIZATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands on June 25, 2009. Pursuant to a reorganization scheme to rationalize the structure of the Group in preparation for the listing of the Company's shares on the Stock Exchange, the Company became the holding company of the companies now comprising the Group on September 10, 2009.

The shares of the Company have been listed on the Main Board of the Stock Exchange since February 1, 2010.

## USE OF PROCEEDS

As part of the preparation for listing of the shares of the Company, the Company implemented a capitalization issue of 749,000,000 shares and an issue of 250,000,000 new shares during the Share Offer in 2010. All such shares issued were ordinary shares and the 250,000,000 new shares were issued at HK$1.43 per share. On February 17, 2010, the lead manager of the Share Offer fully exercised the over-allotment option and the Company issued an additional 37,500,000 new shares at HK$1.43 per share. The net proceeds of the Share Offer and from the exercise of the over-allotment option received by the Company were approximately HK$335.4 million and HK$46.3 million respectively. For detailed use of the aforesaid proceeds, please refer to the paragraph headed "Use of Net Proceeds from the Share Offer" under the section headed "Management Discussion and Analysis" in this annual report.

## PRINCIPAL ACTIVITIES

The principal business activity of the Company is investment holding. The principal activities and other particulars of the Company's subsidiaries are set out in note 37 to the consolidated financial statements in this annual report.

## RESULTS

The results of the Group for the Year are set out in the consolidated statement of comprehensive income on page 37 of this annual report.

## FINAL DIVIDENDS

The Board did not recommend the payment of final dividend for the year ended December 31, 2011 (2010: HK$0.03 per Share).

## CLOSURE OF THE REGISTER OF MEMBERS

The Register of Members of the Company will be closed from May 17, 2012 to May 21, 2012, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending the forthcoming annual general meeting, all transfers of shares of the Company accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong before 4:30 p.m. on May 16, 2012.

# DIRECTORS' REPORT

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Year are set out in note 18 to the consolidated financial statements in this annual report.

## BANK BORROWINGS

Details of bank borrowings of the Group as at December 31, 2011 are set out in note 25 to the consolidated financial statements in this annual report.

## SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements in this annual report and the prospectus of the Company dated January 19, 2010 (the "Prospectus"), is set out on pages 95 to 96. This summary does not form part of the consolidated financial statements in this annual report.

## SHARE CAPITAL

Details of the Company's paid up capital for the Year are set out in note 27 to the consolidated financial statements in this annual report.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## PURCHASE, SALE OR REDEMPTION OF SHARES

Save as disclosed below, there were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries during the Year.

## PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

On July 8, 13, 14, 15, 18, 19 and 20, 2011, the Company repurchased 10,390,000 Shares on the Stock Exchange. On July 27, 2011, the Company cancelled 10,390,000 repurchased Shares. For further details, please refer to the next day disclosure returns of the Company dated July 8, 13, 14, 15, 18, 19, 20 and 27, 2011, respectively.

## TRANSFER TO RESERVES

Profit attributable to equity shareholders, before dividends, of RMB56,118,000 (2010: RMB116,452,000) have been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity in this annual report. An interim dividend of HK$0.025 per share was paid on October 17, 2011, (2010: Hk$0.03 per share) for the Year.

## RELATED PARTIES TRANSACTIONS

On January 6, 2010, Hengqiang (China) Co., Ltd. (恒強(中國)有限公司) (the "Lessor") and Fujian Meike, a subsidiary of the Company, entered into a property lease agreement pursuant to which Fujian Meike agreed to lease from the Lessor premises of a gross floor area of approximately 10,172.50 square meters situated at Xibian Village, Chendai Town, Jinjiang City, Fujian Province, the PRC for use as warehouse and workshop for a term commencing on January 6, 2010 and ending on December 31, 2012 at an aggregate rental of approximately RMB610,350, RMB610,350 and RMB610,350 for the three years ending December 31, 2010, 2011 and 2012, respectively.

On January 6, 2010, the Lessor and Fujian Meisike Sports Goods Co., Ltd. (福建省美斯克體育用品有限公司) ("Fujian Meisike"), a subsidiary of the Company, entered into a property lease agreement pursuant to which Fujian Meisike agreed to lease from the Lessor premises of a gross floor area of approximately 3,001.25 square meters situated at Xibian Village, Chendai Town, Jinjiang City, Fujian Province, the PRC for use as warehouse and workshop for a term commencing on January 6, 2010 and ending on December 31, 2012 at an aggregate rental of approximately RMB180,075, RMB180,075 and RMB180,075 for the three years ending December 31, 2010, 2011 and 2012, respectively.

The Lessor is wholly-owned by Heng Qiang (International) Limited (恒強(國際)有限公司), which is owned as to 80% and 20% by Mr. Ding Siqiang ("Mr. Ding") and Mr. Huang Tzu Jan (黃自然), respectively. Mr. Ding is the Chairman of the Company, an executive Director and one of the Company's substantial shareholders, and is therefore a connected person of the Company for the purpose of the Listing Rules. Mr. Huang Tzu Jan is the brother-in-law of Mr. Ding. The transactions contemplated under the aforesaid property lease agreements constituted continuing connected transactions for the Company under Chapter 14A of the Listing Rules but are exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Rule 14A.33 of the Listing Rules.

Save as disclosed above, the Directors consider that those material related party transactions disclosed in note 35 to the consolidated financial statements in this annual report did not fall under the definition of "connected transactions" or "continuing connected transactions" (as the case may be) in Chapter 14A of the Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements under the Listing Rules.

## MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for approximately 39.3% of the total sales for the Year and sales to the largest customer included therein amounted to 11.0% of the total sales for the Year. Purchases from the Group's five largest suppliers accounted for approximately 19.1% of the total purchases for the Year and purchase from the Group's largest supplier included therein amounted to 5.4% of the total purchases for the Year.

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

## DIRECTORS

The Directors are:

### EXECUTIVE DIRECTORS:

| | |
|---|---|
| Mr. Ding Siqiang *(Chairman)* | |
| Ms. Ding Xueleng | |
| Mr. Sun Keqian | (resigned on July 25, 2011) |
| Ms. Ding Jinzhu | |
| Mr. Lin Yangshan | |
| Mr. Li Dongxing | |
| Mr. Ding Minglang | (appointed on July 25, 2011) |

### INDEPENDENT NON-EXECUTIVE DIRECTORS:

| | |
|---|---|
| Mr. Xiang Shimin | (resigned on July 25, 2011) |
| Mr. Yang Chengjie | |
| Mr. Xie Weichun | |
| Mr. Lin Jiwu | (appointed on July 25, 2011) |

In accordance with Article 83 of the Company's Article of Association, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting after his/her appointment and any Director appointed by the Board as an additional Director shall hold office only until the next following annual general meeting of the Company.

# DIRECTORS' REPORT

Pursuant to Article 84 of the Articles of the Association of the Company, at each annual general meeting, one-third of the Directors for the time being shall retire from office by rotation.

Mr. Ding Siqiang, Ms. Ding Xueleng, Ms. Ding Jinzhu, Mr. Lin Yangshan, Mr. Li Dongxing, Mr. Ding Minglang and Mr. Lin Jiwu will retire as Directors at the forthcoming annual general meeting, and being eligible, will offer themselves for re-election at the annual general meeting.

Each of Mr. Ding Siqiang, Ms. Ding Xueleng, Ms. Ding Jinzhu, Mr. Lin Yangshan and Mr. Li Dongxing, all being executive Directors has entered into a service contract with the Company for an initial term of three years commencing from the Listing Date and may be terminated by either party by giving not less than three months' prior written notice.

Each of Mr. Yang Chengjie and Mr. Xie Weichun, all being independent non-executive Directors has entered into a service contract with the Company for a term of two years commencing from 1 February 2012 and may be terminated by either party by giving at least three months' written notice.

Each of Mr. Ding Minglang, an executive Director and Mr. Lin Jiwu, an independent non-executive Director has entered into a service contract with the Company for a term of two years commencing from 25 July 2011 and may be terminated by either party by giving at least three months' written notice.

Apart from the foregoing, no Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## BIOGRAPHIES OF DIRECTORS AND OTHER SENIOR MANAGEMENT

The biographical details of Directors and other senior management are disclosed in the section headed "Biographical Details of Directors and Senior Management" on pages 21 to 25 of this annual report.

## DIRECTORS EMOLUMENTS

Details of the Directors Emoluments are set out in note 14 to the consolidated financial statements in this annual report. The Directors remuneration are determined with reference to his duties and responsibilities within the Company.

## INTERESTS OF DIRECTORS IN CONTRACTS

During the Year, none of the Directors had a material interest, whether directly or indirectly, in any contract of significance to which the Company or any of its subsidiaries or affiliates was a party.

## DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors or any of their respective associates had any interest in a business which competes or likely to compete, either directly or indirectly, with the business of the Group.

The Board has established a committee (the "Committee") comprising all the independent non-executive Directors which was delegated with the authority to review the non-competition undertakings (the "Non-competition Undertakings") given by Glory Hill Enterprises Limited ("Glory Hill") and Mr. Ding Siqiang in two deeds of non-competition respectively entered into by Glory Hill and Mr. Ding Siqiang, all dated January 6, 2010. The Committee was not aware of any non-compliance of the Non-competition Undertakings given by Glory Hill and Mr. Ding Siqiang since the date of the aforesaid deeds of non-competition and up to the date of this annual report.

## RETIREMENT SCHEMES

The Group participates in several defined contribution retirement plans which cover the Group's eligible employees in the PRC and a Mandatary Provident Fund Scheme for the employee in Hong Kong. Particulars of these retirement plans are set out in note 34 to the consolidated financial statements in this annual report.

## DISTRIBUTABLE RESERVES

Pursuant to the relevant rules of the Cayman Islands, the Company's distributable reserves as at December 31, 2011 amounted to RMB570.6 million.

## DIRECTORS' INTERESTS OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

(a) As at December 31, 2011 the interests and short positions of the Directors or chief executive of the Company in the shares, underlying shares and debentures of the Company or any of the associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) 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 any interests which they are taken or deemed to have under such provisions of the SFO) or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

### (1) LONG POSITION IN THE SHARES AND IN THE UNDERLYING SHARES

| Name of Director | Capacity/Nature | No. of shares/underlying shares interested | Approximate percentage of shareholding |
|---|---|---|---|
| Mr. Ding Siqiang ("Mr. Ding") | Interest in controlled corporation/ Beneficial owner/ Interest of spouse (Note 1) | 569,934,000 | 48.11% |
| Ms. Ding Xueleng ("Ms. Ding") | Beneficial owner/ Interest of spouse (Note 2) | 569,934,000 | 48.11% |
| Ms. Ding Jinzhu | Beneficial owner (Note 3) | 300,000 | 0.03% |
| Mr. Li Dongxing | Beneficial owner (Note 3) | 300,000 | 0.03% |
| Mr. Lin Yangshan | Beneficial owner (Note 3) | 300,000 | 0.03% |
| Mr. Ding Minglang | Beneficial owner (Note 3) | 300,000 | 0.03% |

### (2) LONG POSITION IN THE ORDINARY SHARES OF ASSOCIATED CORPORATION

| Name of Director | Name of associated corporation | Capacity/Nature | No. of shares held | Approximate percentage of shareholding |
|---|---|---|---|---|
| Mr. Ding | Glory Hill | Beneficial owner (Note 1) | 1 | 100% |
| Ms. Ding | Glory Hill | Interest of spouse (Note 2) | 1 | 100% |

Note 1: Mr. Ding owns the entire issued share capital of Glory Hill Enterprises Limited ("Glory Hill"), which owns 47.48% equity interest in the Company. Therefore, Mr. Ding is deemed or taken to be interested in all the Shares which are beneficially owned by Glory Hill for the purpose of the SFO. Mr. Ding is the sole director of Glory Hill. Mr. Ding beneficially owns 4,034,000 Shares and 1,700,000 share options (each option shall entitle the holder thereof to subscribe for one Share). Ms. Ding owns 1,700,000 share options (each option shall entitle the holder thereof to subscribe for one Share). Mr. Ding is the spouse of Ms. Ding, and therefore, he is deemed or taken to be interest in all the Shares which are deemed or taken to be interested by Ms. Ding. On July 8, 13, 14, 15, 18, 19 and 20, 2011, the Company repurchased 10,390,000 Shares and on July 27, 2011, the Company cancelled 10,390,000 repurchased Shares. Therefore, as at the date of this report, the approximate percentage of shareholding of Mr. Ding was 48.11%.

Note 2: Ms. Ding owns 1,700,000 share options (each option shall entitle the holder thereof to subscribe for one Share). Ms. Ding is the spouse of Mr. Ding, and therefore, she is deemed or taken to be interested in all the Shares and the share of Glory Hill which are deemed or taken to be interested by Mr. Ding. On July 8, 13, 14, 15, 18, 19 and 20, 2011, the Company repurchased 10,390,000 Shares and on July 27, 2011, the Company cancelled 10,390,000 repurchased Shares. Therefore, as at the date of this report, the approximate percentage of shareholding of Ms. Ding was 48.11%.

Note 3: Each of Ms. Ding Jinzhu, Mr. Li Dongxing, Mr. Lin Yangshan and Mr. Ding Minglang was granted 300,000 share options (each option shall entitle the holder thereof to subscribe for one Share) under the share option scheme of the Company on August 27, 2010.

(b) So far as is known to the Directors, as at June 30, 2011, the following persons (not being a Director or chief executive of the Company as disclosed in paragraph (a) above) had interests or short positions in Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

### LONG POSITION IN THE SHARES

| Name | Nature of Interest | No. of Shares held | Approximate percentage of shareholding |
|---|---|---|---|
| Glory Hill | Beneficial owner (Note 4) | 562,500,000 | 47.48% |

Note 4: On July 8, 13, 14, 15, 18, 19 and 20, 2011, the Company repurchased 10,390,000 Shares and on July 27, 2011, the Company cancelled 10,390,000 repurchased Shares. Therefore, as at the date of this report, the approximate percentage of shareholding of Glory Hill was 47.48%.

Save as disclosed above, as at June 30, 2011 the Company had not been notified by any persons (other than Directors or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provision 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 pursuant to Section 336 of the SFO.

## DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the paragraph headed "Directors' interests and short positions in shares, underlying shares and debentures" above, at no time during the Year was the Company, its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors or the chief executive of the Company or their associates to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## SHARE OPTION SCHEME

As to attract and retain the eligible persons, to provide additional incentive to them and to promote the success of the business of the Group, the Company conditionally adopted a share option scheme (hereinafter in this paragraph, the "Scheme") on January 6, 2010 whereby the Board are authorised, at their absolute discretion and subject to the terms of the Scheme, to grant options to subscribe the shares of the Company (the "Shares") to, inter alia, any employees (full-time or part-time), directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners or service providers of the Group. The Scheme became unconditional on the Listing Date and shall be valid and effective for a period of ten years commencing on January 6, 2010, subject to the early termination provisions contained in the Scheme.

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to the Company on acceptance of the offer for the grant of an option is HK$1. The exercise price of a Share in respect of any particular option granted under the Scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option.

The Company shall be entitled to issue options, provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Scheme does not exceed 10% of the shares in issue on the Listing Date. The Company may at any time refresh such limit, subject to the shareholders' approval and issue of a circular in compliance with the Listing Rules, provided that the total number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under all the share option schemes of the Company does not exceed 30% of the Shares in issue at the time.

The total number of options available for issue under the Scheme as at the date of this annual report was 75,450,000 entitling the issue of 75,450,000 Shares upon full exercise which represented approximately 6.3% of the issued share capital of the Company as at the date of this annual report. The total number of Shares issued and to be issued upon exercise of options granted to any grantee (including both exercised and outstanding options) under the Scheme, in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue.

An option may be exercised in accordance with the terms of the Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

The following table disclosed movements in the Company's share options during the Year:

| Grantee | Date of grant | Exercise period | Exercise price## HK$ | Outstanding at 1.1.2011 | Granted during the Year | Cancelled/ lapsed during the Year | Exercise during the Year | Outstanding at 31.12.2011 |
|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | |
| Mr. Ding* | 27.8.2010 | 27.8.2010 to 26.8.2020 | 1.56 | 1,700,000 | – | – | – | 1,700,000 |
| Ms Ding** | 27.8.2010 | 27.8.2010 to 26.8.2020 | 1.56 | 1,700,000 | – | – | – | 1,700,000 |
| Ms. Ding Jinzhu | 27.8.2010 | 27.8.2010 to 26.8.2020 | 1.56 | 300,000 | – | – | – | 300,000 |
| Mr. Lin Yangshan | 27.8.2010 | 27.8.2010 to 26.8.2020 | 1.56 | 300,000 | – | – | – | 300,000 |
| Mr. Li Dongxing | 27.8.2010 | 27.8.2010 to 26.8.2020 | 1.56 | 300,000 | – | – | – | 300,000 |
| Mr. Ding Minglang# | 27.8.2010 | 27.8.2010 to 26.8.2020 | 1.56 | 300,000 | – | – | – | 300,000 |
| **Senior Management** | 27.8.2010 | 27.8.2010 to 26.8.2020 | 1.56 | 1,800,000 | – | – | – | 1,800,000 |
| **Employees##** | 27.8.2010 | 27.8.2010 to 26.8.2020 | 1.56 | 18,150,000 | – | 1,950,000 | – | 16,200,000 |
| | | | | 24,550,000 | – | – | – | 22,600,000 |

# Mr. Ding Minglang was appointed as an Executive Director of the Company on July 25, 2011 and his share option has transferred from the category of "Employees" to "Directors".

## Among those grantees, One individual, who has been granted 200,000 share options, is a nephew of Ms. Ding and a cousin of Ms. Ding Jinzhu.

### All the share options granted during the Year were granted on August 27, 2010. The closing price of the Shares immediately before the date of granting the share options i.e. August 26, 2010 was HK$1.52.

#### 30% of all the share options granted during the Year will be vested on the date which is 18 months after the date on which the respective grantees accepted the grant of the share options (the "Acceptance Date"); another 30% of the share options granted will be vested on the date which is 30 months after the Acceptance Date; and the remaining 40% will be vested on the date which is 42 months after the Acceptance Date.

* Mr. Ding is also a President and a controlling shareholder of the Company as defined by the Listing Rules.

** Ms. Ding is also a controlling shareholder of the Company as defined by the Listing Rules.

## EMPLOYEES AND REMUNERATION POLICY

As at December 31, 2011, the Group employed approximately 2,018 full-time staff members. The basic remunerations of the employees are determined with reference to the industry's remuneration benchmark, the employees' experience and their performance, and equal opportunities will be offered to all staff. Salaries of employees are maintained at a competitive level and are reviewed annually, with close reference to the relevant labour market and economic situation. Directors' remuneration is determined based on a variety of factors such as market conditions and responsibilities assumed by each Director. Apart from the basic remuneration and statutory benefits required by laws, the Group also provides discretionary bonuses based upon the Group's results and the individual performance of the staff.

The Group maintains a good relationship with its employees. Most members of senior management have been working for the Group for many years.

The Group adopted a share option scheme as incentive for its employees, further details of which are set out in the paragraph headed "Share Option Scheme" above.

### CORPORATE GOVERNANCE

The Company is committed to maintaining the highest standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 15 to 20 of this annual report.

### CONFIRMATION OF INDEPENDENCE

The Company has received from the independent non-executive Directors confirmations of independence (including an annual confirmation from each of the independent non-executive Directors and the confirmation by Mr. Lin Jiwu during his appointment) pursuant to Rule 3.13 of the Listing Rules and considers that all the independent non-executive Directors are independent of the Company.

## PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this annual report, the Company has maintained sufficient public float since the Listing Date as required under the Listing Rules.

## POST BALANCE SHEET EVENT

There are no material post balance sheet events as at the date of this annual report.

## AUDITOR

SHINEWING (HK) CPA Limited will retire and being eligible, offer themselves for reappointment at the forthcoming annual general meeting. A resolution for the reappointment of SHINEWING (HK) CPA Limited as auditor of the Company is to be proposed at the forthcoming annual general meeting. There has been no change in the auditors of Company in any of the preceding three years.

By Order of the Board of

**Ding Siqiang**
*Chairman*
Hong Kong, March 29, 2012

# INDEPENDENT AUDITOR'S REPORT

信永中和
ShineWing

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

**TO THE SHAREHOLDERS OF MEIKE INTERNATIONAL HOLDINGS LIMITED**
**(incorporated in Cayman Islands with limited liability)**

We have audited the consolidated financial statements of Meike International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 39 to 94, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory 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 as to whether the consolidated financial statements are free from material misstatement.

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

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

# INDEPENDENT AUDITOR'S REPORT

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHINEWING (HK) CPA Limited
*Certified Public Accountants*
Wong Chuen Fai
Practising Certificate Number: P05589

Hong Kong
March 29, 2012

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2011

| | Notes | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|---|
| Revenue | 7 | **633,385** | 712,864 |
| Cost of sales | | **(422,213)** | (464,611) |
| Gross profit | | **211,172** | 248,253 |
| Other income | 9 | **3,952** | 7,624 |
| Other gains and losses, net | 10 | **7,698** | (7,726) |
| Selling and distribution expenses | | **(74,085)** | (42,812) |
| Administrative expenses | | **(42,156)** | (34,964) |
| Other operating expenses | | **(18,383)** | (16,923) |
| Finance costs | 11 | **(13,105)** | (12,006) |
| Gain on disposal of a subsidiary | 33 | **10** | – |
| Profit before tax | | **75,103** | 141,446 |
| Income tax expense | 12 | **(18,985)** | (24,994) |
| Profit for the year | 13 | **56,118** | 116,452 |
| **Other comprehensive income:** | | | |
| Exchange differences arising on translation | | **–** | 18 |
| Total comprehensive income for the year | | **56,118** | 116,470 |
| Earnings per share | 17 | | |
| Basic and diluted (RMB) | | **0.047** | 0.122 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

| | Notes | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 18 | **163,927** | 140,492 |
| Prepaid lease payments | 19 | **48,163** | 49,260 |
| Deferred tax assets | 28 | **2,246** | – |
| | | **214,336** | 189,752 |
| Current assets | | | |
| Inventories | 20 | **136,122** | 77,713 |
| Trade, bills and other receivables | 21 | **689,222** | 510,678 |
| Prepaid lease payments | 19 | **1,097** | 1,097 |
| Pledged bank deposit | 22 | **51,449** | 53,906 |
| Short-term bank deposit | 22 | **35,000** | 35,000 |
| Bank balances and cash | 22 | **86,022** | 402,439 |
| | | **998,912** | 1,080,833 |
| Current liabilities | | | |
| Trade and other payables | 23 | **59,419** | 93,121 |
| Amount due to a related company | 24 | **562** | 535 |
| Bank borrowings | 25 | **220,450** | 227,900 |
| Derivative financial instruments | 26 | **139** | 7,837 |
| Income tax payable | | **4,525** | 12,401 |
| | | **285,095** | 341,794 |
| Net current assets | | **713,817** | 739,039 |
| Total assets less current liabilities | | **928,153** | 928,791 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

| | Notes | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|---|
| Capital and reserves | | | |
| Share capital | 27 | **10,355** | 10,446 |
| Reserves | | **911,289** | 916,152 |
| Total equity | | **921,644** | 926,598 |
| Non-current liability | | | |
| Deferred tax liabilities | 28 | **6,509** | 2,193 |
| | | **6,509** | 2,193 |
| | | **928,153** | 928,791 |

The consolidated financial statements on pages 39 to 94 were approved and authorised for issue by the board of directors on 29 March 2012 and are signed on its behalf by:

**Ding Siqiang**
*Director*

**Ding Xueleng**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

| | Notes | Share capital RMB'000 | Share premium RMB'000 | Statutory reserve RMB'000 (Note a) | Other reserves RMB'000 (Note b) | Translation reserve RMB'000 | Share options reserve RMB'000 | Retained earnings RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2010 | | 9 | – | 22,279 | 136,801 | (18) | – | 132,835 | 291,906 |
| Total comprehensive income for the year | | – | – | – | – | 18 | – | 116,452 | 116,470 |
| Issue of new shares by placing and public offer | 27 (iii) & (iv) | 2,520 | 357,786 | – | – | – | – | – | 360,306 |
| Transaction costs attributable to placing and public offer | | – | (26,029) | – | – | – | – | – | (26,029) |
| Capitalisation of share premium | 27 (ii) | 6,564 | (6,564) | – | – | – | – | – | – |
| Issue of new shares by placing | 27 (v) | 1,353 | 254,371 | – | – | – | – | – | 255,724 |
| Transaction costs attributable to placing | | – | (6,670) | – | – | – | – | – | (6,670) |
| Recognition of equity-settled share-based payments | 32 | – | – | – | – | – | 1,395 | – | 1,395 |
| Appropriations to statutory reserve funds | | – | – | 14,320 | – | – | – | (14,320) | – |
| Dividends recognised as distribution | 16 | – | – | – | – | – | – | (66,504) | (66,504) |
| At 31 December 2010 | | 10,446 | 572,894 | 36,599 | 136,801 | – | 1,395 | 168,463 | 926,598 |
| At 1 January 2011 | | 10,446 | 572,894 | 36,599 | 136,801 | – | 1,395 | 168,463 | 926,598 |
| Total comprehensive income for the year | | – | – | – | – | – | – | 56,118 | 56,118 |
| Shares repurchased and cancelled | 27(vi) | (91) | (11,642) | – | – | – | – | – | (11,733) |
| Recognition of equity-settled share-based payments | 32 | – | – | – | – | – | 4,093 | – | 4,093 |
| Share options forfeited | | – | – | – | – | – | (695) | 695 | – |
| Appropriations to statutory reserve funds | | – | – | 10,783 | – | – | – | (10,783) | – |
| Dividends recognised as distribution | 16 | – | – | – | – | – | – | (53,432) | (53,432) |
| At 31 December 2011 | | 10,355 | 561,252 | 47,382 | 136,801 | – | 4,793 | 161,061 | 921,644 |

Notes:

**(a) Statutory reserve**

The statutory reserve fund is non-distributable and the transfer to this reserve is determined by the board of directors in accordance with the relevant laws and regulations of the People's Republic of China (the "PRC"). This reserve can be used to offset accumulated losses and increase capital upon approval from the relevant authorities.

**(b) Other reserves**

The other reserves comprise the cumulative net non-controlling interests upon the transfer of interests and the reserves arising from corporate reorganisation.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

| | Notes | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|---|
| OPERATING ACTIVITIES | | | |
| Profit before tax | | **75,103** | 141,446 |
| Adjustments for: | | | |
| Allowance for inventories | | **17,970** | – |
| Amortisation of prepaid lease payments | | **1,097** | 1,098 |
| Depreciation of property, plant and equipment | | **8,380** | 7,692 |
| Fair value adjustment on warrants classified as derivative financial instruments at issue date | | **–** | 9,521 |
| Finance costs | | **13,105** | 12,006 |
| Gain from changes in fair value of derivative financial instruments | | **(7,698)** | (1,795) |
| Gain on disposal of a subsidiary | | **(10)** | – |
| Interest income | | **(1,783)** | (1,151) |
| Loss on disposal of property, plant and equipment | | **485** | 1,413 |
| Share-based payments | | **4,093** | 1,395 |
| Operating cash flows before movements in working capital | | **110,742** | 171,625 |
| Increase in inventories | | **(78,331)** | (24,707) |
| Increase in trade, bills and other receivables | | **(179,510)** | (247,319) |
| (Decrease) increase in trade and other payables | | **(32,135)** | 40,312 |
| Cash used in operations | | **(179,234)** | (60,089) |
| Income taxes paid | | **(24,883)** | (18,300) |
| NET CASH USED IN OPERATING ACTIVITIES | | **(204,117)** | (78,389) |
| INVESTING ACTIVITIES | | | |
| Purchases of property, plant and equipment | | **(32,739)** | (52,359) |
| Withdrawal of pledged bank deposits | | **2,457** | – |
| Interest received | | **1,783** | 1,151 |
| Net cash inflow from disposal of a subsidiary | 33 | **1,672** | – |
| Proceeds on disposal of property, plant and equipment | | **220** | 583 |
| Placement of pledged bank deposits | | **–** | (53,906) |
| NET CASH USED IN INVESTING ACTIVITIES | | **(26,607)** | (104,531) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

| | Notes | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|---|
| FINANCING ACTIVITIES | | | |
| Repayments of bank borrowings | | **(277,900)** | (187,500) |
| Dividends paid | | **(53,432)** | (66,504) |
| Interest paid | | **(13,105)** | (12,006) |
| Payment for repurchase and cancellation of shares | | **(11,733)** | – |
| New bank borrowings raised | | **270,450** | 223,900 |
| Advances from a related company | | **27** | 535 |
| Proceeds from issue of shares by placing and public offer, net of share issue expenses | | **–** | 293,654 |
| Proceeds from issue of new shares by placing, net of share issue expenses | | **–** | 249,054 |
| Proceeds from issue of new shares upon over-allotment option | | **–** | 40,623 |
| Proceeds from issue of warrants | | **–** | 261 |
| Repayment to advances from a director | | **–** | (204) |
| Payment for warrants issue costs | | **–** | (150) |
| NET CASH (USED IN) FROM FINANCING ACTIVITIES | | **(85,693)** | 541,663 |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | | **(316,417)** | 358,743 |
| CASH AND CASH EQUIVALENTS AT 1 JANUARY | | **437,439** | 78,678 |
| Effect of foreign exchange rate changes | | **–** | 18 |
| CASH AND CASH EQUIVALENTS AT 31 DECEMBER | | **121,022** | 437,439 |
| Represented by: | | | |
| Short-term bank deposit | | **35,000** | 35,000 |
| Bank balances and cash | | **86,022** | 402,439 |
| | | **121,022** | 437,439 |

## 1. GENERAL

Meike International Holdings Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability on 25 June 2009. The shares of the Company have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 1 February 2010. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information to the annual report. In the opinion of the directors of the Company, the parent and the ultimate holding company of the Company is Glory Hill Enterprises Limited ("Glory Hill"), a limited company incorporated in the British Virgin Islands ("BVI").

The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the manufacturing and trading of sporting goods. The Company acts as an investment holding company and provides corporate management services. The principal activities of its subsidiaries are set out in Note 37.

The consolidated financial statements are presented in thousands of units of Renminbi ("RMB"), which is the same as 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").

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

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

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

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

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

1 Effective for annual periods beginning on or after 1 July 2011.
2 Effective for annual periods beginning on or after 1 January 2013.
3 Effective for annual periods beginning on or after 1 January 2015.
4 Effective for annual periods beginning on or after 1 January 2012.
5 Effective for annual periods beginning on or after 1 July 2012.
6 Effective for annual periods beginning on or after 1 January 2014.

### AMENDMENTS TO HKFRS 7 DISCLOSURES – TRANSFERS OF FINANCIAL ASSETS

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

The directors of the Company do not anticipate that these amendments to HKFRS 7 will have a significant effect on the Group's disclosures regarding transfers of trade receivables previously effected. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

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

### HKFRS 9 – FINANCIAL INSTRUMENTS

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

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

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

The directors of the Company anticipate that the adoption of HKFRS 9 in the future will have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

## 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 "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

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

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

**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 fives standards are described below.

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and HK(SIC)-INT 12 Consolidation – Special Purpose Entities. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the invests 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 and HK (SIC) – Int 13 Jointly Controlled Entities – Non-Monetary Contributions by Ventures. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joints arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

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

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

### NEW AND REVISED STANDARDS ON CONSOLIDATION, JOINT ARRANGEMENTS, ASSOCIATES AND DISCLOSURES *(continued)*

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

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

The directors of the Company anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The application of these five standards may have significant impact on amounts reported in the consolidated financial statements. The application of HKFRS 10 may result in the Group no longer consolidating some of its investees, and consolidating investees that were not previously consolidated (e.g. the Group's investment in associates may become the Group's subsidiaries based on the new definition of control and the related guidance in HKFRS 10). However, the directors have not yet performed a detailed analysis of the impact of the application of these standards and hence have not yet quantified the extent of the impact.

### HKFRS 13 – FAIR VALUE MEASUREMENT

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial 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 HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

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

### AMENDMENTS TO HKAS 1 PRESENTATION OF ITEMS OF OTHER COMPREHENSIVE INCOME

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

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

The directors of the Company anticipate that the application of other new and revised HKFRSs 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.

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### CHANGES IN THE GROUP'S OWNERSHIP INTERESTS IN EXISTING SUBSIDIARIES

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognise as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs).

### PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment including buildings held for own use in the production or supply of goods, or for administrative purposes (other than construction in progress as described below), are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress includes property, plant and equipment in the course of construction for production or for administrative purposes. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate categories 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### PREPAID LEASE PAYMENTS ON LAND USE RIGHT

Payment for obtaining land use right is considered as prepaid operating lease payment. Land use rights are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is charged to consolidated statement of comprehensive income over the period of the rights or the term of the respective enterprise to which the land use rights are granted, whichever is the shorter, using the straight-line method.

Prepaid lease payments represented land use rights held for use in the production or supply of goods, or for administrative purposes.

### 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

Short-term bank deposit and bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposit 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 deposit 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 (other than financial assets or financial liabilities at fair value through profit or loss) 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 classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

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

## 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, bills and other receivables, pledged bank deposit, short-term bank deposit 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 of financial assets below).

*Impairment of 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 or 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 average credit period of 90 to 180 days, as well as 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 or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### FINANCIAL INSTRUMENTS *(continued)*

***Financial assets*** *(continued)*

*Impairment of financial assets (continued)*

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

***Financial liabilities and equity instruments***

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

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 paid or received that form an integral part of the effective interest rate, transaction costs and other premium 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, amount due to a related company and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

*Warrants*

Warrants issued by the Company that will be settled by other than a fixed amount of cash for a fixed number of the Company's own equity instruments are derivative financial instruments. Warrants classified as a derivative financial instrument are initially recognised at their fair values at the date of issue. Changes in fair values in subsequent periods are recognised in profit or loss.

*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 Company are recorded 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### FINANCIAL INSTRUMENTS *(continued)*

***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.

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.

The Group derecognise financial liability when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

### 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 sales related taxes.

Revenue from 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 risk 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 from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

### BORROWING COSTS

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### FOREIGN CURRENCIES

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

### IMPAIRMENT LOSSES ON TANGIBLE ASSETS

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When 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 flow have not been adjusted.

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

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

### 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### LEASING *(continued)*

***The Group as lessee***

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

***The Group as lessor***

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

### LEASEHOLD LAND AND BUILDING

When a lease includes both land and buildings 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. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element of the lease at the inception of the 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.

### RETIREMENT BENEFIT COSTS

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

### RESEARCH AND DEVELOPMENT COSTS

Expenditure on research activities is recognised as an expense in the period in which it is 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)*

### 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 differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

The carrying amount of deferred tax assets is reviewed at end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### SHARE-BASED PAYMENT TRANSACTIONS

***Equity-settled share-based payment transactions***

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

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

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

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

### CRITICAL JUDGEMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES

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

***Ownership of the buildings***

Despite the Group has paid the full purchase consideration as detailed in Note 18, formal titles of certain of the Group's rights to the use of the buildings were not yet granted from 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 on the ground that they expect the legal titles being obtained in the future should have no major difficulties and the Group is in substance controlling these buildings. In the opinion of the directors of the Company, the absence of formal title to these buildings does not impair the value of the relevant assets to the Group.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

### KEY SOURCES OF ESTIMATION UNCERTAINTY

The following 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 values. 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 estimates, 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 impairment loss for property, plant and equipment are recognised for the amounts by which the carrying amounts exceed their recoverable amounts, in accordance with the Group's accounting policy. The recoverable amounts of property, plant and equipment have been determined based on value-in-use calculations. These calculations require the use of estimates such as the future revenue and discount rates. No impairment was recognised during both years.

***Write down of inventories***

As explained in Note 3, the Group's inventories are stated at the lower of cost and net realisable value. The directors of the Company reviews an ageing analysis at the end of the reporting period, and makes provision for obsolete and slow-moving inventory items identified that are no longer suitable for sale. Such provision requires the use of judgment and estimates. Where the expectation is different from the original estimate, the carrying value and provision for inventories in the periods in which such estimate is changed will be adjusted accordingly.

The Group carries out an inventory review on a product-by-product basis at the end of the reporting period and makes allowance for obsolete items. As at 31 December 2011, the carrying amounts of inventories was approximately RMB136,122,000, net of accumulated allowance of RMB17,970,000. (2010: Carrying amount of approximately RMB77,713,000 net of accumulated allowance of Nil).

***Estimated impairment loss on trade and other receivables***

The Group estimates impairment losses on trade receivables and other receivables resulting from the inability of customers to make the required payments. The Group bases the estimates on the payment history, customers' credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated. As at 31 December 2011, the carrying amount of the trade receivables and other receivables are approximately RMB575,908,000 and RMB12,904,000 (2010: RMB470,304,000 and RMB1,779,000) respectively. No impairment was recognised during both years.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

### KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

***Fair value of derivative financial instruments***

The directors of the Company use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. The fair values of derivative financial instruments are valued using Black-Scholes model that incorporated market data and involved uncertainty in estimates used by management in the assumptions. Because the Black-Scholes model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate. Details of the assumptions used are disclosed in Note 26.

## 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 debt, which includes bank borrowings disclosed in Note 25, net of cash and cash equivalents and equity attributable to 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 share issues as well as the issue of new debts or repayment of existing debts.

## 6. FINANCIAL INSTRUMENTS

### (A) CATEGORIES OF FINANCIAL INSTRUMENTS

| | **2011**<br>**RMB'000** | 2010<br>RMB'000 |
|---|---|---|
| **Financial assets** | | |
| Loans and receivables | | |
| (including cash and cash equivalents) | **784,483** | 963,428 |
| **Financial liabilities** | | |
| Amortised cost | **272,906** | 319,660 |
| Derivative financial instruments | **139** | 7,837 |

## 6. FINANCIAL INSTRUMENTS *(continued)*

### (B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade, bills and other receivables, pledged bank deposit, short-term bank deposit, bank balances and cash, trade and other payables, amount due to a related company, bank borrowings and derivative financial instruments. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (foreign 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.

***Market risk***

*(i)* *Foreign currency risk*

The Group mainly operates in Mainland China with most of the transactions settled in RMB. Other than certain bank balances and deposits, most of the Group's financial instruments such as trade, bills and other receivables are denominated in RMB.

Certain bank balances and deposits are denominated in Hong Kong dollars ("HK$") which are currencies other than functional currency of the relevant group entities.

The Group currently does not have a foreign currency hedging policy. However, the directors of the Company continuously monitor the related foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Sensitivity analysis

The Group entities are mainly exposed to the fluctuation of HK$ against RMB.

If RMB increase/decrease by 50 basis points (2010: 50 basis points) against HK$ and all other variables were held constant, the Group's profit after tax for the year would increase/decrease by approximately RMB297,000 (2010: RMB1,341,000). 50 basis points (2010: 50 basis points) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items. The sensitivity analysis includes bank balances and deposits where the denomination is in HK$, a currency other than the functional currency.

*(ii)* *Interest rate risk*

The Group is exposed to fair value interest rate risk in relation to fixed-rate pledged bank deposit, short-term bank deposit and bank borrowings (see Notes 22 and 25 for details respectively). The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary action when significant interest rate exposure is anticipated.

## 6. FINANCIAL INSTRUMENTS *(continued)*

### (B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

***Market risk*** *(continued)*

*(ii) Interest rate risk (continued)*

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see Note 25 for details of these borrowings). It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances (see Note 22 for details of these bank deposit and balances) carried at prevailing market rate. The Group's exposure on the variable-rate bank deposit balances is minimal as the bank deposit and 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 RMB base lending rate stipulated by the People's Bank of China arising from the Group's RMB denominated bank borrowings and HK$ deposit rate arising from the Group's HK$ denominated bank balances.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis points (2010: 100 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 100 basis points (2010: 100 basis points) higher/lower and all other variables were held constant, the Group's profit after tax for the year ended 31 December 2011 would decrease/increase by approximately RMB185,000 (2010: decrease/increase by RMB390,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank balances and bank borrowings.

***Credit risk***

As at 31 December 2011, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

## 6. FINANCIAL INSTRUMENTS *(continued)*

### (B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

***Credit risk (Continued)***

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group has concentration of credit risk as 13% (2010: 13%) and 39% (2010: 45%) of the total trade and bills receivables was due from the Group's largest customer and the five largest customers respectively.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 100% (2010: 100%) of the total trade and bills receivables as at 31 December 2011.

***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. The Group has no covenants with banks for the banking facilities granted.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. 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 tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period.

The amounts included below for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

## 6. FINANCIAL INSTRUMENTS *(continued)*

### (B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

***Liquidity risk*** *(continued)*

| | Total undiscounted cash flows due on demand or within one year RMB'000 | Carrying amount RMB'000 |
|---|---|---|
| At 31 December 2011 | | |
| **Non-derivative financial liabilities** | | |
| Trade and other payables | **51,894** | **51,894** |
| Amount due to a related company | **562** | **562** |
| Bank borrowings | **230,887** | **220,450** |
| | **283,343** | **272,906** |
| At 31 December 2010 | | |
| **Non-derivative financial liabilities** | | |
| Trade and other payables | 91,225 | 91,225 |
| Amount due to a related company | 535 | 535 |
| Bank borrowings | 234,032 | 227,900 |
| | 325,792 | 319,660 |

### (C) FAIR VALUE

The fair value of financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using the relevant prevailing market rates.

The fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using option pricing models for optional derivatives.

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

***Fair value measurements recognised in the consolidated statement of financial position***

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

## 6. FINANCIAL INSTRUMENTS *(continued)*

### (C) FAIR VALUE *(continued)*

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| | | **2011** | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** |
| **Financial liabilities at fair value through profit or loss** | | | | |
| Derivative financial instruments | – | 139 | – | 139 |

| | | 2010 | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Financial liabilities at fair value through profit or loss** | | | | |
| Derivative financial instruments | – | 7,837 | – | 7,837 |

## 7. REVENUE

Revenue represents the amount received and receivable for sales of sporting goods, including footwear, apparel and accessories, net of sales related taxes. Revenue is analysed as follows:

| | **2011** | 2010 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Footwear | **380,015** | 455,545 |
| Apparel | **230,060** | 204,165 |
| Accessories and shoe sole | **23,310** | 53,154 |
| | **633,385** | 712,864 |

## 8. SEGMENT INFORMATION

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

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

The Group is organised into a single operating segment as selling sporting goods products primarily in the PRC and all revenue, expenses, results, assets and liabilities and capital expenditures are predominantly attributable to this single segment. Accordingly, no segment analysis by business and geographical information is presented.

Revenue from customers of the corresponding year contributing over 10% of the total sales of the Group are as follows:

| | **2011**<br>**RMB'000** | 2010<br>RMB'000 |
|---|---|---|
| Customer A | **77,589** | N/A* |
| Customer B | **73,236** | N/A* |
| Customer C | **69,789** | N/A* |

* The corresponding revenue did not contribute over 10% of the total sales of the Group.

There were no customers contributing over 10% of the total revenue of the Group for the year ended 31 December 2010.

## 9. OTHER INCOME

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| Government grants (Note) | 2,040 | 6,066 |
| Interest income | 1,783 | 1,151 |
| Gain from sale of materials | 100 | 407 |
| Others | 29 | – |
| | 3,952 | 7,624 |

Note:

Government grants were received from several local government authorities for the Group's contribution to growth of the local economies, of which the entitlement was unconditional and under the discretion of the relevant authorities.

## 10. OTHER GAINS AND LOSSES, NET

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| Fair value adjustment on warrants classified as derivative financial instruments at issue date | – | (9,521) |
| Gain from changes in fair value of derivative financial instruments | 7,698 | 1,795 |
| | 7,698 | (7,726) |

## 11. FINANCE COSTS

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| Interest on bank borrowings wholly repayable within five years | 13,105 | 12,006 |

## 12. INCOME TAX EXPENSE

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| Current tax: | | |
| PRC Enterprise Income Tax ("EIT") | 16,915 | 26,744 |
| Deferred tax (Note 28) | 2,070 | (1,750) |
| | 18,985 | 24,994 |

## 12. INCOME TAX EXPENSE *(continued)*

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

No provision for Hong Kong Profits Tax has been made as the Group did not generate any assessable profits in Hong Kong during two the years ended 31 December 2011 and 2010.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years, except for entities that are entitled to different concessionary tax rates as disclosed below.

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries are exempted from EIT for two years starting from their first profit-making year followed by a 50% reduction for the next three years.

Pursuant to the new tax law passed on 16 March 2007, a 10% withholding tax was levied on dividends declared to foreign enterprise investors from the PRC effective from 1 January 2008. A lower withholding tax rate may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign enterprise investors. On 22 February 2008, Caishui (2008) No.1 was promulgated by the tax authorities to specify that dividends declared and remitted out of the PRC from the retained earnings as at 1 January 2008 are exempted from the withholding tax.

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

| | **2011**<br>**RMB'000** | 2010<br>RMB'000 |
|---|---|---|
| Profit before tax | **75,103** | 141,446 |
| Tax at the domestic income tax rate of 25% (2010: 25%) | **18,776** | 35,361 |
| Tax effect of expenses not deductible for tax purpose | **5,084** | 8,695 |
| Tax effect of profits entitled to tax exemption | **(9,191)** | (17,312) |
| Withholding tax on undistributed profits of subsidiaries | **4,316** | (1,750) |
| Income tax expense for the year | **18,985** | 24,994 |

Details of the deferred tax liabilities are set out in Note 28.

## 13. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging (crediting):

| | **2011 RMB'000** | 2010 RMB'000 |
|---|---|---|
| Salaries and allowances | **88,447** | 77,062 |
| Contributions to retirement benefits scheme | **9,857** | 6,121 |
| Share-based payments | **4,093** | 1,395 |
| Total staff costs (including directors' emoluments) | **102,397** | 84,578 |
| Auditors' remuneration | **690** | 726 |
| Cost of inventories recognised as an expense | **404,243** | 464,611 |
| Allowance for inventories (included in cost of sales) | **17,970** | – |
| Amortisation of prepaid lease payments | **1,097** | 1,098 |
| Depreciation for property, plant and equipment | **8,380** | 7,692 |
| Research and development costs (included in other operating expenses) (Note) | **10,317** | 10,255 |
| Loss on disposal of property, plant and equipment | **485** | 1,413 |
| Net foreign exchange losses | **7,233** | 12,675 |
| Operating lease rentals in respect of rented premises | **1,310** | 1,758 |
| Rental income | **(6)** | – |

Note:

Research and development costs included staff costs of employees and depreciation of property, plant and equipment for the purpose of research and development activities.

## 14. DIRECTORS' EMOLUMENTS

The details of directors' emoluments of each of the directors during the two years ended 31 December 2011 and 2010 are set out below:

| | Fees RMB'000 | Salaries and other benefits RMB'000 | Contributions to retirement benefits scheme RMB'000 | Share-based payments RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **For the year ended 31 December 2011** | | | | | |
| *Executive directors:* | | | | | |
| Mr. Ding Siqiang | – | 403 | 3 | 264 | 670 |
| Ms. Ding Xueleng | – | 238 | 3 | 264 | 505 |
| Mr. Sun Keqian (resigned on 25 July 2011) | – | 12 | – | – | 12 |
| Mr. Li Dongxing | – | 192 | 3 | 47 | 242 |
| Ms. Ding Jinzhu | – | 72 | 3 | 47 | 122 |
| Mr. Lin Yangshan | – | 100 | 3 | 47 | 150 |
| Mr. Ding Minglang (appointed on 25 July 2011) | – | 73 | 3 | 47 | 123 |
| | – | 1,090 | 18 | 716 | 1,824 |
| *Independent non-executive directors:* | | | | | |
| Mr. Xiang Shimin (resigned on 25 July 2011) | – | – | – | – | – |
| Mr. Yang Chengjie | 35 | – | – | – | 35 |
| Mr. Xie Weichun | 35 | – | – | – | 35 |
| Mr. Lin Jiwu (appointed on 25 July 2011) | 35 | – | – | – | 35 |
| | 105 | – | – | – | 105 |
| | 105 | 1,090 | 18 | 716 | 1,929 |

## 14. DIRECTORS' EMOLUMENTS *(continued)*

| | Fees RMB'000 | Salaries and other benefits RMB'000 | Contributions to retirement benefits scheme RMB'000 | Share-based payments RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **For the year ended 31 December 2010** | | | | | |
| *Executive directors:* | | | | | |
| Mr. Ding Siqiang | – | 403 | 2 | 97 | 502 |
| Ms. Ding Xueleng | – | 216 | 2 | 97 | 315 |
| Mr. Sun Keqian | – | 144 | – | – | 144 |
| Mr. Li Dongxing | – | 144 | 2 | 17 | 163 |
| Ms. Ding Jinzhu | – | 72 | 2 | 17 | 91 |
| Mr. Lin Yangshan | – | 86 | 2 | 17 | 105 |
| | – | 1,065 | 10 | 245 | 1,320 |
| *Independent non-executive directors:* | | | | | |
| Mr. Xiang Shimin | 35 | – | – | – | 35 |
| Mr. Yang Chengjie (resigned on 27 May 2009 and reappointed on 6 January 2010) | 35 | – | – | – | 35 |
| Mr. Xie Weichun (appointed on 6 January 2010) | 35 | – | – | – | 35 |
| | 105 | – | – | – | 105 |
| | 105 | 1,065 | 10 | 245 | 1,425 |

No directors waived or agreed to waive any emoluments paid by the Group for the two years ended 31 December 2011 and 2010. No emoluments have been paid to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office during the two years ended 31 December 2011 and 2010.

## 15. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2010: four) were directors of the Company whose emoluments are included in the disclosures in Note 14 above. The emoluments of the remaining one (2010: one) individual was as follows:

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Salaries and other benefits | **549** | 577 |
| Contributions to retirement benefits scheme | **10** | 10 |
| Share-based payments | **45** | 17 |
| | **604** | 604 |

The emolument was within the following band:

| | 2011 Number of employees | 2010 Number of employees |
|---|---|---|
| Nil to HK$1,000,000 (equivalent to approximately RMB831,000 (2010: RMB850,000)) | **1** | 1 |

No emoluments have been paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office during the two years ended 31 December 2011 and 2010.

## 16. DIVIDENDS

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Interim dividend paid during the year | **24,264** | 30,915 |
| Final dividend paid during the year | **29,168** | 19,969 |
| Special dividend paid during the year | **–** | 15,620 |
| | **53,432** | 66,504 |

## 16. DIVIDENDS *(continued)*

During the year ended 31 December 2011, dividends of approximately RMB53,432,000 was declared to the equity holders of the Company. Details of which are as follows:

1. A final dividend in respect of the year ended 31 December 2010 of HK$0.03 per share totaling approximately HK$35,850,000 (equivalent to approximately RMB29,168,000) was approved and paid during the year.

2. In addition, an interim dividend in respect of the six months ended 30 June 2011 of HK$0.025 per share totaling approximately HK$29,615,250 (equivalent to approximately RMB24,264,000) was approved and paid during the year to the owners of the Company whose name appear in the register of members on 20 September 2011.

No dividend had been proposed since the end of the reporting period.

During the year ended 31 December 2010, dividends of approximately RMB66,504,000 was declared to the equity holders of the Company. Details of which are as follows:

1. On 4 January 2010, the Company declared and paid dividends of approximately RMB15,620,000. The dividend was declared prior to the listing of the Company and the rate of dividend per share is not presented as it is not indicative of the rate at which future dividends will be declared.

2. A final dividend in respect of the year ended 31 December 2009 of HK$0.034 per share totaling approximately HK$35,275,000 (equivalent to approximately RMB30,915,000) was approved and paid during the year.

3. In addition, an interim dividend in respect of the six months ended 30 June 2010 of HK$0.022 per share totaling approximately HK$22,825,000 (equivalent to approximately RMB19,969,000) was approved and paid during the year.

## 17. EARNINGS PER SHARE

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

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| **Earnings** | | |
| Earnings for the purpose of basic and diluted earnings per share (Profit for the year attributable to the owners of the Company) | **56,118** | 116,452 |

| | 2011<br>'000 | 2010<br>'000 |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share | **1,190,502** | 958,407 |

The computation of diluted earnings per share does not assume the exercise of the Company's options and warrants because the exercise prices of those options and warrants were higher than the average market price for shares for the years ended 31 December 2011 and 2010.

The diluted earnings per share for the years ended 31 December 2011 and 2010 is the same as the basic earnings per share as there were no dilutive potential ordinary shares outstanding during both years.

## 18. PROPERTY, PLANT AND EQUIPMENT

| | Buildings held for own use RMB'000 | Leasehold improvement RMB'000 | Machineries RMB'000 | Office equipment RMB'000 | Motor vehicles RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| COST | | | | | | | |
| At 1 January 2010 | 78,034 | 415 | 46,083 | 4,030 | 1,153 | 7,971 | 137,686 |
| Additions | 67 | – | 6,542 | 916 | 965 | 43,869 | 52,359 |
| Disposals | (861) | – | (3,743) | – | – | – | (4,604) |
| Transfer from construction in progress | 5,538 | – | 51 | – | – | (5,589) | – |
| At 31 December 2010 | 82,778 | 415 | 48,933 | 4,946 | 2,118 | 46,251 | 185,441 |
| Additions | 211 | – | 6,181 | 2,239 | 1,400 | 22,708 | 32,739 |
| Disposals | – | – | (2,060) | – | – | – | (2,060) |
| Transfer from construction in progress | 46,283 | – | 243 | 27 | – | (46,553) | – |
| Derecognised on disposal of a subsidiary | – | (415) | – | (229) | (136) | – | (780) |
| At 31 December 2011 | **129,272** | **–** | **53,297** | **6,983** | **3,382** | **22,406** | **215,340** |
| DEPRECIATION | | | | | | | |
| At 1 January 2010 | 13,691 | 291 | 23,908 | 1,731 | 244 | – | 39,865 |
| Provided for the year | 2,836 | 94 | 4,026 | 578 | 158 | – | 7,692 |
| Eliminated on disposals | (232) | – | (2,376) | – | – | – | (2,608) |
| At 31 December 2010 | 16,295 | 385 | 25,558 | 2,309 | 402 | – | 44,949 |
| Provided for the year | 2,981 | 30 | 4,269 | 871 | 229 | – | 8,380 |
| Eliminated on disposals | – | – | (1,355) | – | – | – | (1,355) |
| Eliminated on disposal of a subsidiary | – | (415) | – | (123) | (23) | – | (561) |
| At 31 December 2011 | **19,276** | **–** | **28,472** | **3,057** | **608** | **–** | **51,413** |
| CARRYING VALUES | | | | | | | |
| At 31 December 2011 | **109,996** | **–** | **24,825** | **3,926** | **2,774** | **22,406** | **163,927** |
| At 31 December 2010 | 66,483 | 30 | 23,375 | 2,637 | 1,716 | 46,251 | 140,492 |

## 18. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The above items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, taking into account their estimated residual values, as follows:

| | |
|---|---|
| Buildings held for own use | 25 years |
| Leasehold improvement | 2.75 years |
| Machineries | 10 years |
| Office equipment | 5 to 9 years |
| Motor vehicles | 10 years |

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

As at 31 December 2011, the Group was applying for certificates of ownership for buildings with carrying values of approximately RMB46,944,000 (2010: RMB2,854,000) from the relevant PRC government authorities. In the opinion of the directors of the Company, the absence of formal title to these properties does not impair their values to the Group as the Group has paid in full purchase consideration of these buildings and the probability of being evicted on the ground of an absence of formal title is remote.

## 19. PREPAID LEASE PAYMENTS

| | **2011<br>RMB'000** | 2010<br>RMB'000 |
|---|---|---|
| Analysed for reporting purposes as: | | |
| Non-current asset | **48,163** | 49,260 |
| Current asset | **1,097** | 1,097 |
| | **49,260** | 50,357 |

The Group's prepaid lease payments comprise land use rights in the PRC which are held under medium-term leases. The prepaid lease payments are amortised over a period of 50 years on a straight-line basis.

## 20. INVENTORIES

| | **2011<br>RMB'000** | 2010<br>RMB'000 |
|---|---|---|
| Raw materials | **38,295** | 27,026 |
| Work-in-progress | **5,003** | 4,345 |
| Finished goods | **92,824** | 46,342 |
| | **136,122** | 77,713 |

## 21. TRADE, BILLS AND OTHER RECEIVABLES

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| Trade receivables | **575,908** | 470,304 |
| Bills receivable | **23,200** | – |
| Trade and bills receivables | **599,108** | 470,304 |
| Other receivables | **12,904** | 1,779 |
| Prepayment to suppliers | **70,845** | 23,130 |
| Prepayment for advertising | **3,525** | 12,824 |
| Other prepayments | **2,840** | 2,641 |
| Other receivables and prepayments | **90,114** | 40,374 |
| Trade, bills and other receivables | **689,222** | 510,678 |

The Group generally allows a credit period ranging from 90 days to 180 days to its trade customers. Payment in advance is normally required for new customers. The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period.

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| Within 90 days | **129,981** | 251,212 |
| 91 to 180 days | **115,938** | 165,564 |
| 181 to 365 days | **328,321** | 53,528 |
| Over 365 days | **1,668** | – |
| Total | **575,908** | 470,304 |

Bills receivable were aged within 30 days from the invoice date.

The Group does not hold any collateral over these balances.

Trade receivables that were neither past due nor impaired are related to a wide range of customers for whom there was no recent history of default.

## 21. TRADE, BILLS AND OTHER RECEIVABLES *(continued)*

As at 31 December 2011, included in the Group's trade receivables balances are debtors with aggregate carrying amount of approximately RMB329,989,000 (2010: RMB62,143,000) which were past due as at the reporting date for which the Group has not provided for impairment loss. Trade receivables that were past due but not impaired related to a number of customers that have a good track record with the Group. Based on past experience, the management believes that no impairment loss 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.

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

| | **2011** **RMB'000** | 2010 RMB'000 |
|---|---|---|
| Within 90 days | **188,988** | 8,615 |
| 91 to 180 days | **139,333** | 53,528 |
| Over 180 days | **1,668** | – |
| Total | **329,989** | 62,143 |

As at 31 December 2011, certain trade receivables with aggregate carrying amount of approximately RMB66,994,000 (2010: RMB30,695,000) were pledged to banks to secure certain bank borrowings of the Group as disclosed in Note 25.

## 22. PLEDGED BANK DEPOSIT/SHORT-TERM BANK DEPOSIT/BANK BALANCES AND CASH

Pledged bank deposit represented deposit pledged to a bank to secure a bank borrowing granted to the Group and carried fixed interest rate of 3.50% (2010: 2.75%) per annum. The pledged bank deposit will be released upon the settlement of relevant bank borrowing.

Short-term bank deposit represented term deposit within three months and carried interest at a fixed rate of 3.10% (2010: 2.50% to 2.75%) per annum. Bank balances carried interest at market rates which ranged from 0.001% to 0.50% (2010: 0.001% to 0.36%) per annum.

As at 31 December 2011, approximately RMB59,329,000 (2010: RMB268,137,000) of the pledged bank deposits and bank balances and cash of the Group were denominated in HK$ while the remaining balances and short-term bank deposit were denominated in RMB.

## 23. TRADE AND OTHER PAYABLES

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Trade payables | **22,129** | 50,105 |
| Other payables | **22,375** | 27,083 |
| Receipts in advance | **7,525** | 1,896 |
| Accrued payroll and staff welfare | **7,390** | 14,037 |
| | **37,290** | 43,016 |
| Trade and other payables | **59,419** | 93,121 |

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period.

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Within 90 days | **4,370** | 26,804 |
| 91 to 180 days | **7,412** | 19,512 |
| 181 to 365 days | **7,195** | 949 |
| Over 365 days | **3,152** | 2,840 |
| Total | **22,129** | 50,105 |

The average credit period on purchases of goods is ranged from 60 days to 180 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

## 24. AMOUNT DUE TO A RELATED COMPANY

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Amount due to – Hengqiang (China) Co., Ltd. ("Hengqiang") | **562** | 535 |

Mr. Ding Siqiang, a director of the Company, holds 80% equity interests of 恆強（國際）有限公司, which is the ultimate holding company of Hengqiang.

The amount due to a related company is unsecured, interest-free and repayable on demand.

## 25. BANK BORROWINGS

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Bank borrowings repayable within one year: | | |
| Unsecured | 67,000 | 60,500 |
| Secured | 153,450 | 167,400 |
| | 220,450 | 227,900 |

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

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Fixed-rate borrowings | 81,300 | 124,500 |
| Variable-rate borrowings | 139,150 | 103,400 |
| | 220,450 | 227,900 |

The ranges of effective interest rates per annum (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

| | 2011 | 2010 |
|---|---|---|
| Effective interest rate: | | |
| Fixed-rate borrowings | 6.89% | 4.78% to 5.31% |
| Variable-rate borrowings | 6.56% to 7.87% | 4.86% to 6.12% |

All bank loans in the consolidated statement of financial position are denominated in RMB.

During the year ended 31 December 2011, the Group obtained new borrowings in the amount of approximately RMB270,450,000 (2010: RMB223,900,000). The proceeds were used to finance the general working capital of the Group.

As at 31 December 2011, secured bank borrowings with aggregate carrying values of approximately RMB97,300,000 (2010: RMB140,700,000) were secured by prepaid lease payments and buildings held for own use of the Group. As at 31 December 2011, secured bank borrowings with aggregate carrying values of approximately RMB56,150,000 (2010: RMB26,700,000) were secured by certain trade receivables of the Group. Details are disclosed in Note 31.

## 26. DERIVATIVE FINANCIAL INSTRUMENTS

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| Warrants | 139 | 7,837 |

On 26 August 2010, the Company and the placing agent entered into a placing agreement in respect of the placement of 30,000,000 warrants of the Company to not less than six independent investors at a price of HK$0.01 per warrants. Each warrant confers the right to subscribe for one ordinary share of the Company of HK$0.01 each at a subscription price of HK$1.60, subject to adjustment upon occurrence of certain events. The placement was completed on 13 September 2010. Details of the above are set out in the Company's announcement dated 13 September 2010.

The fair value of the warrants as at 31 December 2011 of approximately HK$172,000, equivalent to approximately RMB139,000 (2010: approximately HK$9,210,000, equivalent to approximately RMB7,837,000) had been arrived at on the basis of a valuation carried out by Ample Appraisal Limited, an independent qualified professional valuer not connected to the Group.

The fair value of the warrants was calculated using the Black-Scholes model. The inputs into the model were as follows:

| | 2011 | 2010 |
|---|---|---|
| Share price of the underlying shares | HK$0.695 | HK$1.650 |
| Exercise price | HK$1.600 | HK$1.600 |
| Expected volatility | 56.83% | 41.36% |
| Expected life | 0.7 years | 1.7 years |
| Risk-free rate | 0.24% | 0.513% |
| Expected dividend yield | 7.48% | 4.24% |

## 27. SHARE CAPITAL

| | Notes | Number of shares | Nominal value of ordinary shares HK$'000 | RMB'000 |
|---|---|---|---|---|
| Ordinary shares of HK$0.01 each | | | | |
| Authorised: | | | | |
| At 1 January 2010 | | 38,000,000 | 380 | |
| Increase in authorised capital | (i) | 9,962,000,000 | 99,620 | |
| At 31 December 2010 and 31 December 2011 | | **10,000,000,000** | **100,000** | |
| Issued and fully paid: | | | | |
| At 1 January 2010 | | 1,000,000 | 10 | 9 |
| Allotment upon capitalisation | (ii) | 749,000,000 | 7,490 | 6,564 |
| Issue by placing and public offer | (iii) | 250,000,000 | 2,500 | 2,191 |
| Issue upon over-allotment option | (iv) | 37,500,000 | 375 | 329 |
| Issue by placing | (v) | 157,500,000 | 1,575 | 1,353 |
| At 31 December 2010 | | 1,195,000,000 | 11,950 | 10,446 |
| Repurchase of ordinary shares | (vi) | (10,390,000) | (104) | (91) |
| At 31 December 2011 | | **1,184,610,000** | **11,846** | **10,355** |

Notes:

(i) Pursuant to a board resolution dated 6 January 2010, the authorised share capital of the Company was increased from HK$380,000 to HK$100,000,000 by the creation of an additional of 9,962,000,000 shares of HK$0.01 each, each ranking pari passu with the shares then in issue in all aspects.

(ii) On 1 February 2010, the Company allotted and issued 749,000,000 ordinary shares of HK$0.01 each as fully paid to the then existing shareholders by the capitalisation of an amount of HK$7,490,000 (equivalent to approximately RMB6,564,000) in the share premium of the Company. The new shares rank pari passu with other shares in issue in all aspects.

(iii) On 1 February 2010, the Company issued 250,000,000 new ordinary shares of HK$0.01 each for cash pursuant to the Company's initial public offering and placing at a price of HK$1.43 per share to the public for listing of those shares on the Stock Exchange. The new shares rank pari passu with other shares in issue in all aspects.

(iv) On 19 February 2010, the Company issued 37,500,000 new ordinary shares of HK$0.01 each for cash pursuant to the full exercise of the over-allotment option in connection with the global initial public offering at a price of HK$1.43 per share. The new shares rank pari passu with other shares in issue in all aspects.

## 27. SHARE CAPITAL

Notes: *(continued)*

(v) On 24 November 2010, arrangements were made for a private placement to independent private investors of 157,500,000 shares of HK$0.01 each in the Company at a price of HK$1.89 per share representing a discount of approximately 9.13% to the closing market price of the Company's shares on 24 November 2010.

Pursuant to a subscription agreement of the same date, 157,500,000 new shares of HK$0.01 each in the Company at a price of HK$1.89 per share were subscribed. The proceeds were used to provide additional working capital for the Company. These new shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on 3 June 2010 and rank pari passu with other shares in issue in all respects.

(vi) During the year ended 31 December 2011, the Company repurchased its own ordinary shares through the Stock Exchange as follows:

| Month of repurchases | Number of ordinary shares repurchased | Price per share Highest | Price per share Lowest | Aggregate consideration and transaction cost paid equivalent to | |
|---|---|---|---|---|---|
| | | HK$ | HK$ | HK$000 | RMB'000 |
| July 2011 | 10,390,000 | 1.42 | 1.28 | 14,156 | 11,733 |

The above shares were cancelled on 27 July 2011.

None of the Company's subsidiaries purchase, sold or redeemed any of the Company's listed securities during the year.

## 28. DEFERRED TAX LIABILITIES (ASSETS)

The movement in deferred tax liabilities is as follows:

| | Withholding tax on dividends RMB'000 |
|---|---|
| At 1 January 2010 | 3,943 |
| Credited to consolidated statement of comprehensive income | (1,750) |
| At 31 December 2010 | 2,193 |
| Charged to consolidated statement of comprehensive income | 4,316 |
| At 31 December 2011 | **6,509** |

## 28. DEFERRED TAX LIABILITIES (ASSETS) *(continued)*

The movement in deferred tax assets is as follows:

| | Allowance for inventories RMB'000 |
|---|---|
| At 1 January 2010 and 2011 | – |
| Credited to consolidated statement of comprehensive income | 2,246 |
| At 31 December 2011 | 2,246 |

## 29. OPERATING LEASES

### THE GROUP AS LESSEE

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises, warehouses and staff quarters which fall due as follows:

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Within one year | 994 | 1,468 |
| In the second to fifth years inclusive | 128 | 1,600 |
| | 1,122 | 3,068 |

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average of 2.75 years with fixed rentals.

## 30. CAPITAL COMMITMENTS

Capital commitments in respect of construction in progress at the end of the reporting period were as follows:

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Contracted for but not provided in the consolidated financial statements | 38,103 | 4,347 |

## 31. PLEDGE OF ASSETS

The Group had pledged the following assets to secure bank borrowings of the Group at the end of the reporting period. The carrying values of the assets pledged are as follows:

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| Buildings held for own use | 18,998 | 27,039 |
| Prepaid lease payments | 34,810 | 35,572 |
| Trade receivables | 66,994 | 30,695 |
| Pledged bank deposit | 51,449 | 53,906 |
| | 172,251 | 147,212 |

## 32. SHARE-BASED PAYMENT TRANSACTIONS

### EQUITY-SETTLED SHARE OPTION SCHEME OF THE COMPANY

The Company's share option scheme (the Scheme), was adopted pursuant to a resolution passed on 6 January 2010 for the primary purpose of providing incentives to directors and eligible employees, and will expire ten years after grant date. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

At 31 December 2011, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 22,600,000 (2010: 24,550,000), representing 1.91% (2010: 2.05%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 30% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Options granted may be exercised at any time in accordance with the terms of the Scheme. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

## 32. SHARE-BASED PAYMENT TRANSACTIONS *(continued)*

### EQUITY-SETTLED SHARE OPTION SCHEME OF THE COMPANY *(continued)*

Details of specific categories of options are as follows:

| Date of grant | Exercise price | Vesting period | Exercise period | Maximum % of share options exercisable |
|---|---|---|---|---|
| 27 August 2010 | HK$1.56 | 27 August 2010 to 26 February 2012 | 27 February 2012 to 26 August 2020 | Up to 30% |
| | | 27 August 2010 to 26 February 2013 | 27 February 2013 to 26 August 2020 | Up to 60% (to the extent not already exercised) |
| | | 27 August 2010 to 26 February 2014 | 27 February 2014 to 26 August 2020 | Up to 100% (to the extent not already exercised) |

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

**For the year ended 31 December 2011**

| Option type | Outstanding at 1 January | Granted during the year | Forfeited during the year | Outstanding at 31 December |
|---|---|---|---|---|
| 2010 | 24,550,000 | – | 1,950,000 | 22,600,000 |
| Exercisable at the end of the year | | | | – |
| Weighted average exercise price | HK$1.56 | N/A | HK$1.56 | HK$1.56 |

**For the year ended 31 December 2010**

| Option type | Outstanding at 1 January | Granted during the year | Forfeited during the year | Outstanding at 31 December |
|---|---|---|---|---|
| 2010 | – | 24,550,000 | – | 24,550,000 |
| Exercisable at the end of the year | | | | – |
| Weighted average exercise price | N/A | HK$1.56 | N/A | HK$1.56 |

## 32. SHARE-BASED PAYMENT TRANSACTIONS *(continued)*

### EQUITY-SETTLED SHARE OPTION SCHEME OF THE COMPANY *(continued)*

During the year ended 31 December 2011, 1,950,000 share options were automatically forfeited upon the resignation of a director and certain employees.

No share options have been exercised during both years.

During the year ended 31 December 2010, options were granted on 27 August 2010. The estimated fair values of the options granted on that date are HK$10,442,000 (equivalent to approximately RMB9,135,000).

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

| | 2010 |
|---|---|
| Share price on the date of grant | HK$1.56 |
| Exercise price | HK$1.56 |
| Expected volatility | 43.763% |
| Expected life | 10 years |
| Risk-free rate | 1.91% |
| Expected dividend yield | 3.21% |

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

The Group recognised the total expense of approximately RMB4,093,000 (equivalent to approximately HK$4,923,000) for the year ended 31 December 2011 (2010: RMB1,395,000 equivalent to approximately HK$1,595,000) in relation to share options granted by the Company.

## 33. DISPOSAL OF A SUBSIDIARY

On 30 September 2011, the Group disposed of its entire 100% equity interest in Fuzhou Meikesen Sports Goods Co., Ltd.* (福州美克森體育用品有限公司), which was engaged in the retail distribution of sportswear products manufactured by the Group to an independent third party at a consideration of approximately RMB2,552,000.

| | RMB'000 |
|---|---|
| Consideration received in cash and cash equivalents | 2,552 |
| **Analysis of asset and liabilities over which control was lost** | |
| Non-Current assets | |
| Property, plant and equipment | 219 |
| Current assets | |
| Inventories | 1,952 |
| Trade, bills and other receivables | 966 |
| Income tax recoverable | 92 |
| Bank balances and cash | 880 |
| Current liability | |
| Trade and other payables | (1,567) |
| Net assets disposed of | 2,542 |
| **Gain on disposal of a subsidiary** | |
| Consideration received and receivable | 2,552 |
| Net assets disposed of | (2,542) |
| Gain on disposal | 10 |

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

| | |
|---|---|
| Consideration received in cash and cash equivalents | 2,552 |
| Less: cash and cash equivalent balances disposed of | (880) |
| Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary | 1,672 |

* *English name is for identification purpose only*

## 34. RETIREMENT BENEFITS SCHEMES

As stipulated by the rules and regulations in the PRC, the Group contributes to the retirement funds scheme managed by local social security bureau in the PRC. The Group contributes a certain percentage of the basic salaries of its employees to the retirement plan to fund the benefits.

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group and its Hong Kong employees makes monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. Both the Group's and the employees' contributions are subject to a cap of HK$1,000 per month.

The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions. During the year ended 31 December 2011, the total retirement benefit scheme contributions charged to the consolidated statement of comprehensive income amounted to approximately RMB9,857,000 (2010: RMB6,121,000).

## 35. RELATED PARTY TRANSACTIONS

(a) In addition to balances disclosed in Note 24, the Group entered into the following related party transactions:

During the year ended 31 December 2011, the Group leased certain interest in leasehold land held for own use under operating leases and buildings in respect of office premises from a related company, Hengqiang at total rental expenses of approximately RMB790,000 (2010: RMB790,000). Leases are negotiated for an average term of 2 years.

As at 31 December 2011, a guarantee of RMB46,000,000 (2010: nil) was jointly provided by Mr. Ding Siqiang and Ms. Ding Xueleng to secure certain banking facilities of the Group. Mr. Ding Siqiang and Ms. Ding Xueleng are directors of the Group.

(b) Compensation of key management personnel

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

| | **2011**<br>**RMB'000** | 2010<br>RMB'000 |
|---|---|---|
| Short-term benefits | **2,370** | 2,266 |
| Post-employment benefits | **46** | 36 |
| Share-based payments | **994** | 364 |
| | **3,410** | 2,666 |

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

## 36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | Notes | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | 10 | 10 |
| Investment in subsidiaries | | 9 | 9 |
| | | 19 | 19 |
| **Current assets** | | | |
| Other receivables | | 190 | 2,032 |
| Dividend receivables | | 165,592 | 67,260 |
| Amounts due from subsidiaries | (a) | 361,558 | 244,415 |
| Bank balances and cash | | 57,873 | 266,054 |
| | | 585,213 | 579,761 |
| **Current liabilities** | | | |
| Other payables | | 930 | 811 |
| Amounts due to subsidiaries | (a) | 3,066 | 3,154 |
| Amount due to a director | (a) | 182 | 191 |
| Derivative financial instruments | | 139 | 7,837 |
| | | 4,317 | 11,993 |
| **Net current assets** | | 580,896 | 567,768 |
| **Total assets less current liabilities** | | 580,915 | 567,787 |
| **Capital and reserves** | | | |
| Share capital | | 10,355 | 10,446 |
| Reserves | (b) | 570,560 | 557,341 |
| **Total equity** | | 580,915 | 567,787 |

Notes:

(a) Amounts due from (to) subsidiaries/a director

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

## 36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

Notes: *(continued)*

(b) Reserves

| | Notes | Share premium RMB'000 | Share option reserve RMB'000 | (Accumulated losses) retained earnings RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| At 1 January 2010 | | – | – | 32,005 | 32,005 |
| Total comprehensive income for the year | | – | – | 17,551 | 17,551 |
| Issue of new shares by placing and public offer | 27 (iii) & (iv) | 357,786 | – | – | 357,786 |
| Transaction costs attributable to placing and public offer | | (26,029) | – | – | (26,029) |
| Capitalisation of share premium | 27 (ii) | (6,564) | – | – | (6,564) |
| Issue of new shares by placing | 27 (v) | 254,371 | – | – | 254,371 |
| Transaction costs attributable to placing | | (6,670) | – | – | (6,670) |
| Recognition of equity-settled share-based payments | | – | 1,395 | – | 1,395 |
| Dividends recognised as distribution | 16 | – | – | (66,504) | (66,504) |
| At 31 December 2010 | | 572,894 | 1,395 | (16,948) | 557,341 |
| Total comprehensive income for the year | | – | – | 74,200 | 74,200 |
| Repurchase of shares | 27(vi) | (11,642) | – | – | (11,642) |
| Recognition of equity-settled share-based payments | 32 | – | 4,093 | – | 4,093 |
| Share options forfeited | | – | (695) | 695 | – |
| Dividends recognised as distribution | 16 | – | – | (53,432) | (53,432) |
| At 31 December 2011 | | 561,252 | 4,793 | 4,515 | 570,560 |

## 37. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2011 and 31 December 2010 are as follows:

| Name of subsidiary | Place/Country of incorporation or registration/ operations | Class of shares held | Paid up issued/registered ordinary share capital | Proportion ownership interest held by the Company Direct % | Proportion ownership interest held by the Company Indirect % | Proportion of voting power held by the Company | Principal activities |
|---|---|---|---|---|---|---|---|
| Amber Jungle Limited 珀森有限公司 | BVI 12 March 2009 | Ordinary | US$2/ US$50,000 (2010: US$2/US$50,000) | 100% (2010: 100%) | – | 100% (2010: 100%) | Investment holding |
| Mega Pacific Enterprises Limited 太平洋企業有限公司 | Hong Kong 30 March 2009 | Ordinary | HK$1/HK$10,000 (2010: HK$1/HK$10,000) | – | 100% (2010: 100%) | 100% (2010: 100%) | Investment holding |
| Meike (H.K.) Trade Company Limited 美克(香港)貿易投資有限公司 | Hong Kong 31 August 2007 | Ordinary | HK$42,488,800/ HK$42,488,800 (2010: HK$42,488,800/ HK$42,488,800) | – | 100% (2010: 100%) | 100% (2010: 100%) | Investment holding |
| Meike (Fujian) Sports Leisure Co., Limited 福建美克休閑體育用品有限公司 (Notes (i) and (iv)) | The PRC 12 February 1999 | Ordinary | RMB160,223,525/ RMB200,000,000 (2010: RMB100,000,000/ RMB100,000,000) | – | 100% (2010: 100%) | 100% (2010: 100%) | Manufacturing and trading of sporting goods |
| Fujian Meisike Sports Goods Co., Limited 福建省美斯克體育用品有限公司 (Notes (ii) and (iv)) | The PRC 15 March 2007 | Ordinary | HK$200,000,000/ HK$200,000,000 (2010: HK$183,999,480/ HK$20,000,000) | – | 100% (2010: 100%) | 100% (2010: 100%) | Manufacturing and trading of sporting goods |
| Quanzhou Meike Sports Goods Co., Limited 泉州市美克體育用品有限公司 (Notes (ii) and (iv)) | The PRC 30 January 2007 | Ordinary | RMB 261,063,840/ RMB 300,000,000 (2010: RMB200,000,000/ RMB200,000,000) | – | 100% (2010: 100%) | 100% (2010: 100%) | Manufacturing and trading of sporting goods |
| Fuzhou Meikesen Sports Goods Co., Ltd. 福州美克森體育用品有限公司 (Notes (iii), (iv) and (v)) | The PRC 23 May 2007 | Ordinary | RMB500,000/ RMB500,000 (2010: RMB500,000/ RMB500,000) | – | – (2010: 100%) | – (2010: 100%) | Trading of sporting goods |

None of the subsidiaries had issued any debt securities during both years and at the end of both years.

All of the above subsidiaries operate principally in their respective place of incorporation/establishment.

## 37. PARTICULARS OF SUBSIDIARIES *(continued)*

Notes:

(i) The entity is wholly foreign owned enterprise established in the PRC.

(ii) The entities are sino-foreign joint venture established in the PRC.

(iii) The entity is limited liability company established in the PRC.

(iv) The English translation of the company names is for reference only. The official names of these companies are in Chinese.

(v) The subsidiary was disposed during the year ended 31 December 2011, details as set out in Note 33.

# FINANCIAL SUMMARY

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007<br>RMB'000 | 2008<br>RMB'000 | 2009<br>RMB'000 | 2010<br>RMB'000 | **2011**<br>**RMB'000** |
| Revenue | 328,728 | 365,631 | 499,420 | 712,864 | **633,385** |
| Cost of sales | (226,951) | (246,480) | (328,483) | (464,611) | **422,213** |
| Gross profit | 101,777 | 119,151 | 170,937 | 248,253 | **211,172** |
| Other income | 1,255 | 3,411 | 2,265 | 7,624 | **3,952** |
| Other losses, net | – | – | – | (7,726) | **7,698** |
| Selling and distribution costs | (17,602) | (29,721) | (21,089) | (42,812) | **(74,085)** |
| Administrative expenses | (11,312) | (18,471) | (22,096) | (34,964) | **(42,156)** |
| Other operating expenses | (5,961) | (6,624) | (9,121) | (16,923) | **(18,383)** |
| Finance costs | (5,029) | (9,460) | (10,372) | (12,006) | **(13,105)** |
| Gain on disposal of a subsidiary | – | – | – | – | **10** |
| **Profit before tax** | 63,128 | 58,286 | 110,524 | 141,446 | **75,103** |
| Income tax expense | (5,709) | (1,829) | (15,170) | (24,994) | **(18,985)** |
| **Profit for the year** | 57,419 | 56,457 | 95,354 | 116,452 | **56,118** |
| **Other comprehensive income:** | | | | | |
| Exchange differences on translation | 13 | (29) | (5) | 18 | **–** |
| **Total comprehensive income for the year** | 57,432 | 56,428 | 95,349 | 116,470 | **56,118** |
| Profit for the year attributable to: | | | | | |
| Owners of the Company | 47,305 | 49,118 | 90,606 | 116,452 | **56,118** |
| Non-controlling interests | 10,114 | 7,339 | 4,748 | – | **–** |
| | 57,419 | 56,457 | 95,354 | 116,452 | **56,118** |
| Total comprehensive income for the year attributable to: | | | | | |
| Owners of the Company | 47,316 | 49,093 | 90,602 | 116,470 | **56,118** |
| Non-controlling interests | 10,116 | 7,335 | 4,747 | – | **–** |
| | 57,432 | 56,428 | 95,349 | 116,470 | **56,118** |
| Earnings per share — Basic and diluted (RMB) | 0.063 | 0.065 | 0.121 | 0.122 | **0.047** |

# FINANCIAL SUMMARY

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | As of December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | **2011** |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | **RMB'000** |
| **Assets** | | | | | |
| Current assets | 200,850 | 268,899 | 396,140 | 1,080,833 | **998,912** |
| Non-current assets | 115,126 | 152,245 | 148,179 | 189,752 | **214,336** |
| Total Assets | 315,976 | 421,144 | 544,319 | 1,270,585 | **1,213,248** |
| **Equity and Liabilities** | | | | | |
| Current liabilities | 143,595 | 173,039 | 231,470 | 341,794 | **285,095** |
| Non-current liabilities | — | 19,296 | 20,943 | 2,193 | **6,509** |
| Total Equity | 172,381 | 228,809 | 291,906 | 926,598 | **921,644** |
| Total Equity and Liabilities | 315,976 | 421,144 | 544,319 | 1,270,585 | **1,213,248** |