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

ANNUAL REPORT

2012

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CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Ding Siqiang *(Chairman and President)*
Ms. Ding Xueleng
Ms. Ding Jinzhu
Mr. Lin Yangshan
Mr. Li Dongxing
Mr. Ding Minglang

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Xie Weichun (resigned on 21 September 2012)
Mr. Yang Chengjie
Mr. Lin Jiwu
Ms. Qiu Qiuxing (appointed on 21 September 2012)

BOARD COMMITTEES

AUDIT COMMITTEE

Mr. Xie Weichun *(Chairman)*
(resigned on 21 September 2012)
Ms. Qiu Qiuxing *(Chairman)*
(appointed on 21 September 2012)
Mr. Yang Chengjie
Mr. Lin Jiwu

NOMINATION COMMITTEE

Mr. Ding Siqiang *(Chairman)*
Mr. Yang Chengjie
Mr. Lin Jiwu

REMUNERATION COMMITTEE

Mr. Lin Jiwu *(Chairman)*
Mr. Ding Siqiang
Mr. Xie Weichun (resigned on 21 September 2012)
Ms. Qiu Qiuxing (appointed on 21 September 2012)

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

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 31 December 2012 (the "Year").

RESULTS HIGHLIGHTS

During the Year, the turnover of the Group amounted to approximately RMB331,487,000 (2011: approximately RMB633,385,000), representing a year-on-year decrease of approximately 47.7% or approximately RMB301,898,000. Loss for the Year amounted to RMB150,897,000, approximately dropped by 368.9% as compared to profit of approximately RMB56,118,000 in the same period of 2011. This is mainly due to the inventories repurchase programme conducted by the Group from certain distributors and retailers and repurchased approximately RMB91,109,000 in the second half of the year, of which, all the repurchased inventories were resold through various independent third party export companies for an aggregate amount of approximately RMB25,706,000, resulted in a loss of approximately RMB65,403,000. Besides, an amount of approximately RMB85,247,000 of provision for impairment loss on trade receivables have been provided after considered the shrinkage in the domestic demand that affected the sales of our distributors and their deteriorating in cash flows who have delayed payment of their outstanding balance due to the Group. Loss per share amounted to approximately RMB0.127 (2011: Earnings per share approximately RMB0.047).

During the Year, the domestic sales of the Group had decreased from approximately RMB521,379,000 for the year ended 31 December 2011 to approximately RMB223,363,000 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 1,859 outlets as at 31 December 2011 to 1,197 outlets as at 31 December 2012. At the same time, due to the slow recovery and uncertainty of the global economy, the export business of the Group had dropped by approximately 3.5% as compared to the year of 2011.

FUTURE PROSPECTS

The Board believes that the growth of the sportswear industry would still be low due to the shrinkage of the domestic demand and volatility of global economy. At the same time, sportswear brands are still facing the difficulties from the over-expansion of distribution channels and excessive inventories, the competition of the sportswear industry will be getting intense due to measures like streamline and restructuring on distribution channels, inventory repurchase and re-sale with deeper discounting in their factory outlets or discount stores, reducing future order, etc., implemented by the industry players. In order to cope with the current unfavourable market condition, the Group will continue to focus on the development of the "Meike" brand by continuing to enhance the capabilities of product research and development. On the other hand, the Group will continue the integration programme with the distributors and if necessary, adopt more supportive measures to help the distributors to overcome the challenges in the industry.

CHAIRMAN'S STATEMENT

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, 27 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

Although China's GDP is growing steadily and the inflation is getting more stable resulting from the continuous tightening monetary policies established by the Chinese government. However, uncertainties in the global economy, especially the debt crisis in the Euro-zone, have greatly affected the demands from both the overseas and domestic markets.

Due to the shrinkage in domestic demand, sportswear industry is under pressure from the over-expansion of distribution channels and excessive inventories brought by the volume-driven growth before 2011. In order to cope with the difficulties, nearly all the industry players have implemented different measures by streamlining and restructuring of distribution channels, cancelling orders from distributors placed at trade fairs, repurchase of inventories and resale through factory outlets or discount stores with huge discounts. All such measures implemented by the industry players will take time to take effect, intensifying competition will remain for a period of time.

BUSINESS REVIEW

During the Year, the Group had conducted and completed an inventory repurchase arrangement and repurchased inventories from certain distributors and retailers in an amount of approximately RMB91,109,000 and those repurchased inventories were subsequently resold of an aggregated amount of approximately RMB25,706,000 to overseas customers through various independent third party export companies and resulted in a loss of approximately RMB65,403,000. This was mainly due to the sportswear industry in China is under intensive competition and excess inventories are piling-up due to the slowdown in demand since the second half of 2011. The Group, in response to the stagnant market condition, has decided to make an one-off voluntary offer to the distributors to repurchase their slow-moving inventories, as a demonstration of the Group's measures to strengthen the long-term relation with the business partners in tough economic times and such arrangement has greatly released the pressure of our distributors and helped them to overcome their difficulties and sustain in the market.

Besides, the Group had terminated the distributorship with 1 distributor during the Year. As at 31 December 2012, the Group had 19 distributors, overseeing 1,197 outlets which comprised 508 Meike distributor outlets and 689 Meike retailer outlets. These outlets are located across 21 provinces, autonomous regions and municipalities and more than 500 districts, counties and county-level cities in the PRC. During the Year, the number of outlets of the Group decreased by 662 outlets to 1,197 outlets as at 31 December 2012. 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 in response to the intensifying competition pressure in the industry.

MANAGEMENT DISCUSSION AND ANALYSIS

The following diagram map sets out the Group's distribution network in China as at 31 December 2012.

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 31 December 2012 and 31 December 2011, respectively by geographical locations:

	As at 31 December			
	2012		2011	
	Distributors	**Outlets**	Distributors	Outlets
East China[1]	**8**	**540**	8	798
Central South China[2]	**6**	**475**	6	747
Southwest China[3]	**2**	**98**	2	193
Northeast China[4]	**1**	**49**	2	86
Northwest China[5]	**2**	**35**	2	35
Total	**19**	**1,197[7]**	20	1,859[6]

Notes:

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

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

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

(4) Northeast China includes Liaoning and Heilongjiang;

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

(6) 902 were Meike distributor outlets and 957 were Meike retailer outlets;

(7) 508 were Meike distributor outlets and 689 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" products, the Group changed its focus of operation from export products to the "Meike" products.

Through the export companies and overseas customers, the Group's export products were ultimately sold to 20 overseas countries, including Germany, Finland, the United States, Turkey, South Africa and Russia. As many of the local export company customers and overseas customers have long term relationships 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, gain a better control of its production 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 institutes in the PRC. Substantially all of the Group's design team members graduated from colleges in the PRC and have design or art related diploma and have more than 7 years design related experience after joining the Group. To maintain an international perspective to the Group's designs, each product design team visits the leading fashion stores, shopping centres and attends fashion shows in South Korea, North America and Europe from time to time, 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 team 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 31 December 2012, the Group had a total of 50 full-time employees in its design and development department.

FINANCIAL REVIEW

REVENUE BY PRODUCT CATEGORY

	2012 RMB'000	2011 RMB'000	Change (%)	2012 % of total revenue	2011 % of total revenue
Domestic					
Footwear	120,426	268,492	(55.1)	36.3	42.4
Apparel	100,430	230,060	(56.3)	30.3	36.3
Accessories and shoe soles	2,507	22,827	(89.0)	0.8	3.6
	223,363	521,379	(57.2)	67.4	82.3
Export					
Footwear	82,418	111,523	(26.1)	24.9	17.6
Shoe uppers	–	483	(100.0)	–	0.1
Repurchased product sold to export companies					
Footwear	22,013	–	–	6.6	–
Apparel	3,693	–	–	1.1	–
	108,124	112,006	(3.5)	32.6	17.7
Total	331,487	633,385	(47.7)	100	100
Gross profit margin (%)	5.4	33.3			

For the Year, the revenue of the Group decreased by approximately 47.7% to approximately RMB331,487,000 (for the year ended 31 December 2011: approximately RMB633,385,000) and the gross profit margin dropped by approximately 83.8% to approximately 5.4% (for the year ended 31 December 2011: approximately 33.3%), this is mainly due to the inventories repurchased of approximately RMB91,109,000 in the second half of the Year, of which, all the repurchased inventories were resold through various independent third party export companies for an aggregate amount of approximately RMB25,706,000, assuming there was no loss from the inventories repurchased programme, gross profit margin for the Year should be approximately 27.2%, and dropped by approximately 18.3% as compared to the same period of 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue from domestic sales of footwear products decreased by approximately 55.1% from approximately RMB268,492,000 for the year ended 31 December 2011 to approximately RMB120,426,000 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" products.

Revenue from the sales of the Group's apparel products decreased by approximately 56.3% from approximately RMB230,060,000 for the year ended 31 December 2011 to approximately RMB100,430,000 for the Year, despite a result of the increase in the average selling price from approximately RMB68 for the year of 2011 to approximately RMB78 for the Year, the demand of the Group's apparel products decreased due to the intensified competition from local brands.

Revenue from sales of accessories and shoe soles decreased by approximately 89.0% from approximately RMB22,827,000 for the year ended 31 December 2011 to approximately RMB2,507,000 for the Year, predominantly due to the decrease in demand in the market.

Revenue from export sales decreased by approximately 3.5% from approximately RMB112,006,000 for the year ended 31 December 2011 to approximately RMB108,124,000 for the Year. Despite the repurchased inventories resold through various independent third party export companies, sales volume of export sales was decreased by approximately 26.4%, which was mainly due to the slow recovery and uncertainty in the global economy.

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

	2012		2011	
	RMB'000	**%**	RMB'000	%
Central South China	**95,134**	**42.6**	220,358	42.3
East China	**92,444**	**41.3**	222,040	42.6
Southwest China	**34,820**	**15.6**	65,931	12.6
Northeast China	**106**	**0.1**	11,950	2.3
Northwest China	**859**	**0.4**	1,100	0.2
Total	**223,363**	**100**	521,379	100

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

	2012		2011	
	Total units sold '000	**Average selling price RMB**	Total units sold '000	Average selling price RMB
Sales to distributors				
Footwear (pairs)	**1,630**	**75**	3,407	79
Apparel (pieces)	**1,302**	**78**	3,391	68
Accessories (pieces)	**289**	**8**	329	9
Shoe soles (pairs)	**15**	**17**	1,094	18
Sales to export companies and overseas customers				
Footwear (pairs)	**1,781**	**46**	2,357	47

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue from domestic sales of footwear products of the Group decreased by approximately 55.1% to approximately RMB120,426,000 in the Year (2011: approximately RMB268,492,000), mainly attributable to the decrease in the sales volume of footwear products by approximately 52.2% to approximately 1.63 million pairs (2011: approximately 3.41 million pairs).

Revenue from the sales of apparel products of the Group decreased by approximately 56.3% to approximately RMB100,430,000 in the Year (2011: approximately RMB230,060,000), mainly attributable to the decrease in the sales volume of apparel products by approximately 61.8% to approximately 1.30 million pieces (2011: approximately 3.39 million pieces) which was partially offset by the increase in the average selling price of approximately 14.7% to approximately RMB78 (2011: approximately RMB68).

COST OF SALES

Cost of sales decreased by approximately 25.7% to approximately RMB313,587,000 in 2012 (2011: approximately RMB422,213,000), primarily as a result of the decrease in sales of the Group's products.

SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses decreased by approximately 66.3% from approximately RMB74,085,000 in 2011 to approximately RMB24,936,000 in the Year, primarily as a result of decreased in sales in both domestic and overseas markets during the Year.

ADMINISTRATIVE EXPENSES

Administrative expenses decreased by approximately 10.8% from approximately RMB42,156,000 in 2011 to approximately RMB37,614,000 in the Year, primarily due to the combined effect of the decrease in staff salary and welfare payment brought by the decrease in the number of staffs.

INCOME TAX (CREDIT) EXPENSE

The income tax credit of the Group for the Year was approximately RMB731,000 (2011: income tax expense of approximately RMB18,985,000).

TOP FIVE SUPPLIERS

For the Year, the purchases from the Group's top five suppliers accounted for approximately 22.3% of the total purchases from all of the Group's suppliers.

	2012			2011		
Top five suppliers	Number of suppliers	RMB million	%	Number of suppliers	RMB million	%
Raw materials suppliers	2	14.7	8.1	3	78.4	11.4
Apparel contract manufacturers	3	25.7	14.2	2	53.1	7.7
Total	5	40.4	22.3	5	131.5	19.1

INVENTORIES AND PROVISION FOR INVENTORIES

The following table sets out the aging analysis of inventories net of allowance for inventories:

	As at 31 December 2012				As at 31 December 2011			
	Raw Materials RMB'000	Work-in-progress RMB'000	Finished Goods RMB'000	Total RMB'000	Raw Materials RMB'000	Work-in-progress RMB'000	Finished Goods RMB'000	Total RMB'000
0-90 days	27,514	4,602	40,795	72,911	3,023	5,003	43,096	51,122
91-180 days	3,455	–	16,695	20,150	29,184	–	38,578	67,762
181-365 days	6,931	–	–	6,931	6,088	–	11,150	17,238
Over 365 days	–	–	–	–	–	–	–	–
	37,900	4,602	57,490	99,992	38,295	5,003	92,824	136,122

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 decreased by approximately 26.5% from approximately RMB136.1 million as at 31 December 2011 to approximately RMB100.0 million as at 31 December 2012 and number of days of inventory turnover increased from 92.4 days for the year ended 31 December 2011 to 137.4 days for the year ended 31 December 2012. This was mainly due to the reduction in sales of the Group's distributors as a result 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.

The Group made specific provision on inventories. The Group has conducted physical counts from time to time to identify obsolete, damaged or slow-moving inventories. Provision will be made on an item of inventories if the carrying amount is lower than the net realisable value.

The Group had made an allowance of approximately RMB15,444,000 on finished goods as at 31 December 2012 which were slow-moving and off-season. The Board considered that the allowance on inventories was adequate for the year ended 31 December 2012.

No provision was made for work-in-progress as those work-in-progress was still in progress and for orders of early 2013.

TRADE AND OTHER RECEIVABLES AND PROVISION FOR IMPAIRMENT LOSS

The Group generally granted each of our distributors a credit period of no more than 180 days, however, the Group has extended the credit period for certain distributors up to 270 days during the Year upon negotiation after considering their financial strength, past credit history and business performance history. The Group believed that this would allow these distributors more flexibility, which in turn might encourage them to sustain their development of our brand or enhance their sales even in market with intensified competition but reduction in demand. This measure was adopted by the Group temporarily and will be revised from time to time according to the market situation.

MANAGEMENT DISCUSSION AND ANALYSIS

Trade receivables, net of provision for impairment loss, decreased by approximately 47.4% from approximately RMB575.9 million as at 31 December 2011 to approximately RMB302.8 million as 31 December 2012. Besides, turnover day of trade receivables increased from approximately 301.4 days for the year ended 31 December 2011 to approximately 483.8 days for the year ended 31 December 2012. The reason for the significant decrease in trade receivables while the turnover day of trade receivables were significantly increased when there was a decline in revenue was because starting from the second half of 2011, the demand in the sportswear was obviously reduced but at the same time the sportswear industry experienced intensive competition as certain major players have repurchased inventories from their distributors and re-sold with deeper discounting in their factory outlets or discount stores in order to reduce their excessive inventory level, sales of the Group's distributors have been greatly affected and deteriorated significantly, who then, delayed their payment to settle their outstanding balances due to the Group.

Other receivables mainly represented the prepayment to the Group's suppliers as the Group had to retain sufficient materials to cope with the Group's production plans.

The Group estimated impairment loss on trade and other receivables resulting from the inability of customers to make the required payments and then there was objective evidence that the Group would not be able to collect all amounts due. The Group made the estimates based on the payment history, customer's credit worthiness, historical write-off experience and default or delinquency in payments. During the year ended 31 December 2012, impairment loss in respect of trade receivables was recognised in the consolidated statement of comprehensive income amounting to approximately RMB85.2 million.

No impairment loss was recognised in respect of other receivables.

Details of trade and other receivables as at 31 December 2012 are set out in Note 21 to the consolidated financial statements in this annual report.

LIQUIDITY AND FINANCIAL RESOURCES

During the Year, net cash inflow from operating activities of the Group amounted to approximately RMB156.8 million (2011: net cash outflow of approximately RMB204.1 million). As at 31 December 2012, bank balances and cash in hand and short-term bank deposits amounted to approximately RMB261.1 million, representing a net increase of approximately RMB140.1 million as compared to the position as at 31 December 2011. As at 31 December 2012, the Group's cash balances were denominated in Renminbi and Hong Kong Dollars only.

PLEDGE OF ASSETS

As at 31 December 2012, the Group secured its bank borrowings by prepaid land lease payments and buildings held for own uses with a carrying amount of approximately RMB73.5 million (2011: approximately RMB53.8 million), bank deposit: nil (2011: approximately RMB51.4 million) and trade receivables of approximately RMB101.8 million (2011: approximately RMB67.0 million).

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

Details of the capital commitments of the Group as at 31 December 2012 are set out in Note 30 to the consolidated financial statements in this annual report. As at 31 December 2012, the Group did not have any material contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

(LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS AND NET (LOSS)/PROFIT MARGIN

For the Year, loss attributable to the owners of the Company amounted to approximately RMB150,897,000, representing a decrease of approximately 368.9% over that in the same period of 2011 (2011: profit attributable to the owners of the Company amounted to approximately RMB56,118,000). Net loss margin of the Group dropped to approximately 45.5% (2011: net profit margin approximately 8.9%).

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 31 December 2012, the gearing ratio of the Group was approximately 17.3% (2011: approximately 18.2%), which was derived by dividing interest-bearing debt incurred in the ordinary course of business by total assets.

INTEREST-BEARING BANK LOANS

As at 31 December 2012, the Group's bank loans balance amounted to approximately RMB171.8 million, bearing interest rates from 5.40% to 7.87%, which were all due within one year.

HUMAN RESOURCES

As at 31 December 2012, the Group had a total of 1,518 employees (as at 31 December 2011: 2,018 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" in page 36 in this annual report.

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 1 February 2010 (the "Listing Date") 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 approximately 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 31 December 2012:

Use of Net Proceeds (RMB million)	Available to utilise (as at 1 January 2012)	Utilised (as at 31 December 2012)	Unutilised (as at 31 December 2012)
Expansion of production capacity	28.9	14.0	14.9
Expansion of the sales network and market penetration	9.2	6.6	2.6
Develop and increase brand awareness	38.4	5.1	33.3
Enhancement of research and development capabilities	1.7	1.7	–
	78.2	27.4	50.8

CHANGE OF DIRECTORS, CHAIRMAN OF THE REMUNERATION COMMITTEE AND THE AUDIT COMMITTEE AND MEMBER OF THE REMUNERATION COMMITTEE

Mr. Ding Siqiang ceased to be the chairman of the remuneration committee of the Company and Mr. Lin Jiwu has been appointed as chairman of the remuneration committee of the Company with effect from 30 March 2012.

Mr. Xie Weichun ("**Mr. Xie**") resigned as an independent non-executive Director due to the need to focus on his other business development with effect from 21 September 2012. Ms. Qiu Qiuxing ("**Ms. Qiu**") has been appointed as an independent non-executive Director with effect from 21 September 2012. Ms. Qiu has replaced Mr. Xie as the chairman of the audit committee and a member of the remuneration committee of the Company with effect from 21 September 2012.

FUTURE PROSPECTS

2012 is a challenge year for the sportswear industry, not only the small to medium sportswear brands but also the major brands who are also facing the difficulties from the decrease in demand from both the domestic and overseas markets, over-expansion of distribution channels and excessive inventories that brought by the volume-driven growth in last few years. Different measures have been adopted by the industry players, such as streamlining of distribution channels, repurchase inventories and product resale through factory outlets or discount stores with deeper discounting and reduced selling prices to distributors, etc., which drove down the gross profit margins as well as the net profits.

In order to cope with the current challenges, the Group will devote more resources to consistently optimise our research and development capabilities to enhance the quality of our products in order to increase the recognition and awareness of the "Meike" brand in the market. Besides, the Group will closely monitor the integration programme and remain cautious in processing future orders with the distributors to avoid piling up of inventories in the distribution channels and also, to enhance the influence to the distributors. Also, supportive measures may be adopted to help the distributors. Lastly, the Group will take measures to ensure the inventories and trade receivables to reach a reasonable level in the year of 2013.

CORPORATE GOVERNANCE REPORT

The Directors recognise 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 formalising best practice.

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

Save as disclosed in this Corporate Governance Report, the Board considered that the Group had complied with all the code provisions as set out in the Code on Corporate Governance Practices contained in the former Appendix 14 to the Listing Rules (the "Code") during the period from 1 January 2012 to 31 March 2012, and all the code provisions as set out in the Corporate Governance Code (the "Revised Code") contained in the revised Appendix 14 to the Listing Rules during the period from 1 April 2012 to 31 December 2012.

Details of the Group's corporate governance are summarized as below.

BOARD OF DIRECTORS

COMPOSITION OF THE BOARD

The Board currently comprises nine Directors including six executive Directors and three independent non-executive Directors. During the Year and up to the date of this annual report, the Directors are:

Executive Directors:
Mr. Ding Siqiang *(Chairman and President)*
Ms. Ding Xueleng
Ms. Ding Jinzhu
Mr. Lin Yangshan
Mr. Li Dongxing
Mr. Ding Minglang

Independent non-executive Directors:
Mr. Yang Chengjie
Mr. Xie Weichun (resigned on 21 September 2012)
Mr. Lin Jiwu
Ms. Qiu Qiuxing (appointed on 21 September 2012)

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 24 to 28 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.

CORPORATE GOVERNANCE REPORT

During the Year, the Board maintained a high level of independence, with one-third of the Board comprised of independent non-executive Directors, who had exercised independent judgments. The independent non-executive Directors are expressly identified in all corporate communications whenever the names of the Directors are disclosed.

CODE PROVISION A.2.1

Under code provision A.2.1 of the Revised 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 Revised 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. Mr. Ding Minglang, being an executive Director has entered into a service contract with the Company for a term of two years commencing from 25 July 2011.

Each of Mr. Yang Chengjie, Mr. Lin Jiwu and Ms. Qiu Qiuxing, 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, 25 July 2012 and 21 September 2012 respectively 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 may submit themselves for re-election at the annual general meeting immediately following their appointments.

Mr. Yang Chengjie, Ms. Qiu Qiuxing and Ms. Ding Jinzhu 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.

CONTINUOUS PROFESSIONAL DEVELOPMENT

Pursuant to code provision A.6.5 of the Revised Code, which has come into effect from 1 April 2012, all directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. During the year, all Directors namely, Mr. Ding Siqiang, Ms. Ding Xueleng, Ms. Ding Jinzhu, Mr. Lin Yangshan, Mr. Li Dongxing, Mr. Ding Minglang, Mr. Yang Chengjie, Mr. Lin Jiwu and Ms. Qiu Qiuxing, have participated in continuous professional development by attending training courses conducted by the legal advisor of the Company, which covered topics including the Revised Code and the Listing Rules to develop and refresh their knowledge and skills and provided their training records for the financial year ended 31 December 2012 to the Company.

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 Revised 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.

CORPORATE GOVERNANCE REPORT

Details of the attendance of the meetings of the Board, audit committee of the Company, remuneration committee of the Company and nomination committee of the Company and general meetings held during the Year are summarized as follows:

	Board meeting	Audit committee	Remuneration Committee	Nomination Committee	General Meeting
Executive Directors					
Mr. Ding Siqiang *(Chairman and President)*	3/4	N/A	2/2	2/2	1/1
Ms. Ding Xueleng	4/4	N/A	N/A	N/A	1/1
Ms. Ding Jinzhu	4/4	N/A	N/A	N/A	1/1
Mr. Lin Yangshan	4/4	N/A	N/A	N/A	0/1
Mr. Li Dongxing	4/4	N/A	N/A	N/A	1/1
Mr. Ding Minglang	4/4	N/A	N/A	N/A	0/1
Independent Non-executive Directors					
Mr. Yang Chengjie	4/4	2/2	N/A	2/2	1/1
Mr. Xie Weichun	3/3 (Note 1)	2/2	2/2	N/A	1/1
Mr. Lin Jiwu	4/4	2/2	2/2	2/2	1/1
Ms. Qiu Qiuxing	1/1 (Note 2)	0/0 (Note 2)	0/0 (Note 2)	N/A	0/0 (Note 2)

Note 1: Mr. Xie Weichun resigned as an independent non-executive Director of the Company on 21 September 2012. Mr. Xie attended three out of three Board meetings held during his tenure in the year ended 31 December 2012.

Note 2: Ms. Qiu Qiuxing was appointed as an independent non-executive Director of the Company on 21 September 2012. Ms. Qiu attended one out of one Board meeting held during her tenure in the year ended 31 December 2012. No meeting of the Company's audit committee and remuneration committee and no general meeting was held during her tenure in the year ended 31 December 2012.

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 (the "Audit Committee") on 6 January 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 to make recommendation to the Board on the appointment, reappointment and removal of external auditor, review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, develop and implement policy on the engagement of an external auditor to supply non-audit services and monitor the integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and significant financial reporting judgments contained in them. The Audit Committee currently has three members comprising Ms. Qiu Qiuxing (Chairman), Mr. Yang Chengjie and Mr. Lin Jiwu, all being independent non-executive Directors.

The terms of reference of the Audit Committee was revised on 29 March 2012 and is available on the website of the Stock Exchange and the Company to comply with the Revised Code.

During the Year, the Audit Committee had reviewed the internal control, the 2012 interim results and the 2011 final results of the Group. 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 applicable standard, the Listing Rules and other applicable legal requirements and that adequate disclosures have been made. 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 meetings are as follows:

	Attendance/Meeting held
Mr. Xie Weichun (Note 1)	2/2
Mr. Yang Chengjie	2/2
Mr. Lin Jiwu	2/2
Ms. Qiu Qiuxing *(Chairman)* (Note 2)	0/0

Note 1: Mr. Xie Weichun resigned as an independent non-executive Director of the Company on 21 September 2012. Mr. Xie attended two out of two Audit Committee meetings held during his tenure in the year ended 31 December 2012.

Note 2: Ms. Qiu Qiuxing was appointed as an independent non-executive Director of the Company on 21 September 2012. No Audit Committee meeting has been held during her tenure in the year ended 31 December 2012.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee on 6 January 2010 with written terms of reference which are in compliance with the code provisions of the Code. The primary duties of the Remuneration Committee are to consult the chairman of the Board about their remuneration proposals for other executive Directors, make recommendation to the Board on the Company's remuneration policy and structure for all Directors' and senior management and make recommendation to the Board on the remuneration packages of individual Directors' and senior management. 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), Ms. Qiu Qiuxing 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 terms of reference of the Remuneration Committee was revised on 29 March 2012 and is available on the website of the Stock Exchange and the Company to comply with the Revised Code.

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. Xie Weichun (Note 1)	2/2
Mr. Lin Jiwu *(Chairman)*	2/2
Ms. Qiu Qiuxing (Note 2)	0/0

Note 1: Mr. Xie Weichun resigned as an independent non-executive Director of the Company on 21 September 2012. Mr. Xie attended two out of two Remuneration Committee meetings held during his tenure in the year ended 31 December 2012.

Note 2: Ms. Qiu Qiuxing was appointed as an independent non-executive Director of the Company on 21 September 2012. No Remuneration Committee meeting has been held during her tenure in the year ended 31 December 2012.

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 6 January 2010 with written terms of reference which are in compliance with paragraph A.4.5 of the Revised 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 terms of reference of the Nomination Committee was revised on 29 March 2012 and is available on the website of the Stock Exchange and the Company to comply with the Revised Code.

On 1 September 2012, the Nomination Committee nominated Ms. Qiu Qiuxing as an independent non-executive Director. New Directors are selected on the basis of their qualifications, skills and experiences which the Nomination Committee considers will make a positive contribution to the performance of the Board.

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. Yang Chengjie	2/2
Mr. Lin Jiwu	2/2

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 FUNCTIONS

The Board is responsible for performing the function set out in the code provision D.3.1 of the Revised code by reviewing the Company's corporate governance policies and practices, the compliance of the Model Code, disclosure in this Corporate Governance Report, etc.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the consolidated financial statements which give a true and fair view of the state of affairs of the Group, 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. The statement by the auditor of the Company about his responsibilities for the consolidated financial statements is set out in 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.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Group paid or accrued total Directors' remuneration amounts of approximately RMB650,000, RMB466,000, RMB116,000, RMB164,000, RMB271,000, RMB150,000, RMB35,000, RMB35,000 and RMB10,000 to Mr. Ding Siqiang, Ms. Ding Xueleng, Ms. Ding Jinzhu, Mr. Lin Yangshan, Mr. Li Dongxing, Mr. Ding Minglang, Mr. Yang Chengjie, Mr. Lin Jiwu and Ms. Qiu Qiuxing respectively, for the year ended 31 December 2012.

Directors' remuneration is determined based on a variety of factors such as market conditions and responsibilities assumed by each Director. As at 31 December 2012, there was no arrangement in which the Directors waived their remuneration.

Senior management's remuneration payment of the Group in the year ended 31 December 2012 falls within the following bands:

	Number of Individuals
RMB500,000 or below	4
RMB500,001 to RMB1,000,000	1

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 RMB312,000.

CORPORATE GOVERNANCE REPORT

COMPANY SECRETARY

The Company does not engage an external service provider as its company secretary. Mr. Li Yik Sang, being the Company Secretary of the Company, has taken no less than 15 hours of relevant professional training during the year ended 31 December 2012 and has complied with Rule 3.29 of the Listing Rules in relation to the professional training requirements.

The Company Secretary reports directly to the Board. All the Directors have easy access to the Company Secretary and responsibility of the Company Secretary is to ensure the board meetings are properly held and are in compliance with the relevant laws and regulations. The Company Secretary is also responsible for giving advices with respect to the Directors' obligations on securities interest disclosure, disclosure requirements of discloseable transactions, connected transactions and price-sensitive information. The Company Secretary shall provide advices to the Board with respect to strict compliance with the laws, requirements and the Company's articles of association at appropriate times. As the Company's principal channel of communication with the Stock Exchange, the Company Secretary assists the Board in implementing and strengthening the Company's corporate governance code so as to bring the best long term value to shareholders. In addition, the Company Secretary also provides relevant information updates and continuous professional development to the Directors with respect to legal, supervisory and other continuous obligations for being a director of a listed company at appropriate times. The Company Secretary is also responsible for supervising and managing the Group's relationship with investors.

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 investors' investment and the Group's 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, operational, compliance controls and risk management functions. 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.

INVESTOR RELATIONS

The Company places great emphasis on its relationship and communication with 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.

During the Year, the Company did not make any significant changes to its Memorandum and Articles of Association.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company endeavors to maintain an on-going dialogue with the Shareholders and in particular, through annual general meetings or other general meetings to communicate with the Shareholders and encourage their participation.

The Company's annual general meeting allows the Directors to meet and communicated with shareholders. The Company ensures that shareholders' views are communicated to the Board. The Chairman of the annual general meeting proposes separate resolutions for each issue to be considered.

The forthcoming annual general meeting of the Group will be held on 16 May 2013.

The Group will continue to maintain an open and effective investor communication policy and to update investors on relevant information on the Group's business in a timely manner, subject to relevant regulatory requirement.

Annual general meeting proceedings are reviewed from time to time to sure that the Company follows good corporate governance practices. The notice of annual general meeting is distributed to all shareholders prior to the annual general meeting and the accompanying circular also sets out details of each proposed resolution and other relevant information as required under the Listing Rules. The chairman of the annual general meeting exercises his power under the Articles of Association of the Company to put each proposed resolution to the vote by way of a poll. The procedures for demanding and conducting a poll are explained at the meeting prior to the polls being taken. Voting results are posted on the Company's website on the day of the annual general meeting.

PROCEDURES FOR CONVENING AN EXTRAORDINARY GENERAL MEETING AND PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS BY SHAREHOLDERS

Pursuant to Article 58 of the Articles of the Company, extraordinary general meetings shall be convened on the requisition of one or more shareholders of the Company holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transactions of any business specified in such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisition(s) may do so in the same manner.

Pursuant to Article 85 of the Articles of the Company, no person (other than a retiring Director) shall be eligible for election to the office of Director at any general meeting unless a notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the Head Office or at the Registration Office no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least 7 days.

ENQUIRES PUT TO THE BOARD

Shareholders can make enquiries directly to the Company through the following e-mail: ad@meike.cn, or may send written enquiries or requests in respect of their rights to the following principal place of business of the Company in Hong Kong:

Meike International Holdings Limited
Room 1602, 16/F
Harcourt House
39 Gloucester Road
Wanchai, Hong Kong
Email: enquiry@meikehk.com
Tel No.: 2810-9800
Fax No.: 2810-9380

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

EXECUTIVE DIRECTORS

Mr. Ding Siqiang (丁思強), aged 50, 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 6 January 2010. He is primarily responsible for making key decisions on the Group's overall strategies, plans and business development. Mr. Ding has 20 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 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 48, was appointed as an executive Director on 6 January 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 20 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 the Group 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 as 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 35, was appointed as an executive Director on 6 January 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 14 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 33, was appointed as an executive Director on 6 January 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 11 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 38, was appointed as an executive Director of on 6 January 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 10 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 58, was appointed as an executive Director on 25 July 2011 and 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yang Chengjie (楊承傑), aged 55, was appointed as an independent non-executive Director on 6 January 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 as 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. Lin Jiwu (林紀武), aged 42, 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.

Ms. Qiu Qiuxing (邱秋星), aged 49, was appointed as an independent non-executive Director on 21 September 2012 graduated from Jimei financial institute (集美財經學校) in China in 1984 and graduated from Peking University (北京大學) in 1988. Ms. Qiu is a senior member of the Chinese Institute of Certified Public Accountants. Ms. Qiu is currently the responsible person of BDO China Zhonglian Mindu Shu Lun Pan CPAs Co., Ltd (立信中聯閩都會計師事務所有限公司福建分所) (which is formerly known as BDO China Fujian Shu Lun Pan CPAs (福建立信閩都會計師事務所有限公司)). Ms. Qiu does not hold any directorship in other public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years or any other position with the Company and other members of the Group or other major appointments and professional qualifications.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Li Yik Sang (李奕生), aged 38, 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 13 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 37, 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 16 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. (廣州金帝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 41, 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. Wang Dongrong (王東榮), aged 35, 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 16 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 43, 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 21 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 25 June 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 10 September 2009.

The shares of the Company have been listed on the Main Board of the Stock Exchange since 1 February 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 17 February 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 38 to the consolidated financial statements in this annual report.

FINAL DIVIDEND

No final dividend was recommended by the Board for the year ended 31 December 2012.

RESULTS

The results of the Group for the Year are set out in the consolidated statement of comprehensive income on page 41 of this annual report.

CLOSURE OF THE REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 14 May 2013 to 16 May 2013, 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 13 May 2013.

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 31 December 2012 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 consolidated financial statements in this annual report and the prospectus of the Company dated 19 January 2010 (the "Prospectus"), is set out on pages 99 to 100. 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 the 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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2012.

TRANSFER TO RESERVES

Loss attributable to equity shareholders, before dividends, of RMB150,897,000 (2011: profit attributable to equity shareholders RMB56,118,000) have been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity in this annual report.

RELATED PARTIES TRANSACTIONS

PROPERTY LEASE AGREEMENTS

On 6 January 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 1 January 2010 and ended on 31 December 2012 at an aggregate rental of approximately RMB610,350, RMB610,350 and RMB610,350 for the three years ended 31 December 2010, 2011 and 2012, respectively.

On 6 January 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 6 January 2010 and ended on 31 December 2012 at an aggregate rental of approximately RMB180,075, RMB180,075 and RMB180,075 for the three years ended 31 December 2010, 2011 and 2012, respectively.

On 19 October 2012, the Lessor and Fujian Meike has renewed the property lease agreement for a term commencing on 1 January 2013 and ending on 31 December 2015 and the aggregate rental remains unchanged.

On 19 October 2012, the Lessor and Fujian Meisike has renewed the property lease agreement for a term commencing on 1 January 2013 and ending on 31 December 2015 and the aggregate rental remains unchanged.

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 (黃自然先生), 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.

PROVISION OF FINANCIAL ASSISTANCE

As at 31 December 2012, a guarantee of RMB46,000,000 was jointly provided by Mr. Ding Siqiang and Ms. Ding Xueleng, the executive Directors, to secure certain banking facilities of the Group. The provision of guarantee by Mr. Ding Siqiang and Ms. Ding Xueleng constitutes financial assistance to the Company which was for the benefit of the Group on normal commercial terms where no security over the assets of the Group is granted in respect of the financial assistance, which is exempt from reporting, announcement and independent shareholders' approval requirements under Rule 14A.65(4) of the Listing Rules.

KEY MANAGEMENT COMPENSATION

The material related party transactions in relation to the key management compensation as disclosed in Note 35(B) to the consolidated financial statements in this annual report are connected transactions exempt from reporting, announcement and independent shareholders' approval requirements pursuant to Rule 14A.31(6) of the Listing Rules.

DIRECTORS' REPORT

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 45.3% of the total sales for the Year and sales to the largest customer included therein amounted to 14.6% of the total sales for the Year. Purchases from the Group's five largest suppliers accounted for approximately 22.3% of the total purchases for the Year and purchase from the Group's largest supplier included therein amounted to 6.6% 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
Ms. Ding Jinzhu
Mr. Lin Yangshan
Mr. Li Dongxing
Mr. Ding Minglang

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Mr. Yang Chengjie
Mr. Xie Weichun (resigned on 21 September 2012)
Mr. Lin Jiwu
Ms. Qiu Qiuxing (appointed on 21 September 2012)

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.

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. Yang Chengjie, Ms. Qiu Qiuxing and Ms. Ding Jinzhu 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.

Mr. Yang Chengjie being an 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.

Ms. Qiu Qiuxing, being an independent non-executive Director has entered into a service contract with the Company for a term of two years commencing from 21 September 2012 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 24 to 28 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 6 January 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.

DIRECTORS' 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 31 December 2012 amounted to RMB567.8 million.

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

(a) As at 31 December 2012 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, 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 562,500,000 Shares 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. Therefore, as at 31 December 2012, 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.

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 27 August 2010.

(b) So far as is known to the Directors, as at 31 December 2012, 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	562,500,000	47.48%

Save as disclosed above, as at 31 December 2012 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.

DIRECTORS' REPORT

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 6 January 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 6 January 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 1.1.2012	Granted during the Year	Cancelled/ lapsed during the Year	Exercise during the Year	Outstanding at 31.12.2012
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	16,200,000	–	–	–	16,200,000
				22,600,000	–	–	–	22,600,000

\# 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 27 August 2010. The closing price of the Shares immediately before the date of granting the share options i.e. 26 August 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 Chairman, President, executive Director and a controlling shareholder of the Company as defined by the Listing Rules.

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

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2012, the Group employed approximately 1,518 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.

DIRECTORS' REPORT

PLACING OF NON-LISTED WARRANTS

On 26 August 2010, the Company entered into a warrant placing agreement with China Merchants Securities (HK) Co., Limited (the "Placing Agent") whereby the Company appointed the Placing Agent to procure not less than six placees (the "Placees") to subscribe for up to 30,000,000 warrants (the "Warrants") at the issue price of HK$0.01 per Warrant (the "Warrant Placing").

The Warrants entitled the Placees to subscribe for a maximum of 30,000,000 new ordinary shares of the Company at an initial subscription price of HK$1.60 per share, subject to adjustments, at any time from 13 September 2010 to 12 September 2012, both dates inclusive.

The Warrant Placing was completed on 13 September 2010 for which an aggregate of 30,000,000 Warrants had been successfully placed to not less than six Placees.

No Warrants were exercised since the date of issue and up to 12 September 2012 (i.e. the last date of the exercise period of any Warrants to subscribe for any new Shares). For further details of the Warrant Placing, please refer to the announcements of the Company dated 26 August 2010 and 13 September 2010 respectively.

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 23 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 Ms. Qiu Qiuxing during her 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

Ding Siqiang
Chairman
Hong Kong, 27 March 2013

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 the 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 41 to 98, which comprise the consolidated statement of financial position as at 31 December 2012, 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 about whether the consolidated financial statements are free from material misstatement.

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

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

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2012, and of the Group's loss 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
27 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Revenue	7	331,487	633,385
Cost of sales		(313,587)	(422,213)
Gross profit		17,900	211,172
Other income	9	2,004	3,952
Other gains and losses, net	9	139	7,698
Impairment loss recognised in respect of trade receivables	21	(85,247)	–
Selling and distribution expenses		(24,936)	(74,085)
Administrative expenses		(37,614)	(42,156)
Other operating expenses		(10,551)	(18,383)
Finance costs	11	(13,323)	(13,105)
Gain on disposal of a subsidiary	33	–	10
(Loss) profit before tax		(151,628)	75,103
Income tax credit (expense)	12	731	(18,985)
(Loss) profit and total comprehensive (expense) income for the year	13	(150,897)	56,118
(Loss) earnings per share	17		
Basic and diluted (RMB)		(0.127)	0.047

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Non-current assets			
Property, plant and equipment	18	161,563	163,927
Prepaid lease payments	19	47,065	48,163
Deferred tax assets	28	3,861	2,246
		212,489	214,336
Current assets			
Inventories	20	99,992	136,122
Trade, bills and other receivables	21	417,537	689,222
Prepaid lease payments	19	1,098	1,097
Pledged bank deposit	22	–	51,449
Short-term bank deposits	22	86,050	35,000
Bank balances and cash	22	175,059	86,022
		779,736	998,912
Current liabilities			
Trade and other payables	23	41,102	59,419
Amount due to a related company	24	15	562
Bank borrowings	25	171,800	220,450
Derivative financial instruments	26	–	139
Income tax payable		–	4,525
		212,917	285,095
Net current assets		566,819	713,817
Total assets less current liabilities		779,308	928,153

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Capital and reserves			
Share capital	27	**10,355**	10,355
Reserves		**762,444**	911,289
Total equity		**772,799**	921,644
Non-current liability			
Deferred tax liabilities	28	**6,509**	6,509
		6,509	6,509
		779,308	928,153

The consolidated financial statements on pages 41 to 98 were approved and authorised for issue by the board of directors on 27 March 2013 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 2012

	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 2011		10,446	572,894	36,599	136,801	–	1,395	168,463	926,598
Profit and total comprehensive income for the year		–	–	–	–	–	–	56,118	56,118
Shares repurchased and cancelled	27 (i)	(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
At 1 January 2012		10,355	561,252	47,382	136,801	–	4,793	161,061	921,644
Loss and total comprehensive expense for the year		–	–	–	–	–	–	(150,897)	(150,897)
Recognition of equity-settled share-based payments	32	–	–	–	–	–	2,052	–	2,052
At 31 December 2012		10,355	561,252	47,382	136,801	–	6,845	10,164	772,799

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 2012

	Note	2012 RMB'000	2011 RMB'000
OPERATING ACTIVITIES			
(Loss) profit before tax		(151,628)	75,103
Adjustments for:			
Allowance for inventories		–	17,970
Reversal of allowance for inventories		(2,526)	–
Amortisation of prepaid lease payments		1,097	1,097
Depreciation of property, plant and equipment		9,791	8,380
Finance costs		13,323	13,105
Fair value change on derivative financial instruments		–	(7,698)
Gain on lapse of derivative financial instruments		(139)	–
Impairment loss recognised in respect of trade receivables		85,247	–
Gain on disposal of a subsidiary		–	(10)
Interest income		(1,852)	(1,783)
Loss on disposal of property, plant and equipment		57	485
Share-based payments		2,052	4,093
Operating cash flows before movements in working capital		(44,578)	110,742
Increase in inventories		(52,453)	(78,331)
Decrease (increase) in trade, bills and other receivables		277,972	(179,510)
Decrease in trade and other payables		(20,067)	(32,135)
Cash from (used in) operations		160,874	(179,234)
Income tax paid		(4,084)	(24,883)
NET CASH FROM (USED IN) OPERATING ACTIVITIES		156,790	(204,117)
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(7,509)	(32,739)
Withdrawal of pledged bank deposit		51,449	2,457
Interest received		1,852	1,783
Net cash inflow from disposal of a subsidiary	33	–	1,672
Increase in short term bank deposits maturing beyond three months when placed		(86,050)	–
Proceeds on disposal of property, plant and equipment		25	220
NET CASH USED IN INVESTING ACTIVITIES		(40,233)	(26,607)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	2012 RMB'000	2011 RMB'000
FINANCING ACTIVITIES		
Repayments of bank borrowings	(265,350)	(277,900)
Dividends paid	–	(53,432)
Interest paid	(13,323)	(13,105)
Payment for repurchase and cancellation of shares	–	(11,733)
New bank borrowings raised	216,700	270,450
(Repayment to) advance from a related company	(547)	27
NET CASH USED IN FINANCING ACTIVITIES	(62,520)	(85,693)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	54,037	(316,417)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	121,022	437,439
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	175,059	121,022
Represented by:		
Short-term bank deposits	–	35,000
Bank balances and cash	175,059	86,022
	175,059	121,022

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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 38.

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 HKFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters;
Amendments to HKFRS 7	Financial Instruments: Disclosures – Transfers of Financial Assets; and
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets.

Except as explained below, the adoption of the amendments to 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.

AMENDMENTS TO HKFRS 7 DISCLOSURES – TRANSFERS OF FINANCIAL ASSETS

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

To date, the Group has not entered into transactions involving transfers of financial assets. However, if the Group enters into any types of financial assets in the future, disclosures regarding these transfers may be affected.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

NEW AND REVISED HKFRSs ISSUED BUT NOT YET EFFECTIVE

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

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

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

ANNUAL IMPROVEMENTS TO HKFRSs 2009 – 2011 CYCLE ISSUED IN JUNE 2012

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

The amendments to HKAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

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

ANNUAL IMPROVEMENTS TO HKFRSs 2009 – 2011 CYCLE ISSUED IN JUNE 2012 *(continued)*

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

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

HKFRS 9 – FINANCIAL INSTRUMENTS

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

Key requirements of HKFRS 9 are described as follows:

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

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

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

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

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 offset of financial assets and financial liabilities 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 amendments to HKFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

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

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. HK(SIC)-Int 12 Consolidation – Special Purpose Entities will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consideration, that is, control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios. Overall, the application of HKFRS 10 requires a lot of judgement. The application of HKFRS 10 is not expected to change any of the control conclusions reached by the Group in respect of its investment with other entities as at 1 January 2013.

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK (SIC) – Int 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers will be withdrawn upon the effective date of HKFRS 11. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate consolidation.

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 HKFRS 12 are more extensive than those in the current standards.

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

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013. 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 the application of these five standards will not have significant impact on amounts reported in the consolidated financial statements.

AMENDMENTS TO HKFRS 10, HKFRS 12 AND HKAS 27 INVESTMENT ENTITIES

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

HKFRS 13 – FAIR VALUE MEASUREMENT

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

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors of the Company anticipate that the application of the new standard affect certain amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

AMENDMENTS TO HKAS 1 PRESENTATION OF ITEMS OF OTHER COMPREHENSIVE INCOME

The amendments to HKAS 1 Presentation of Items of Other Comprehensive Income introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income' and an 'income statement' is renamed as a 'statement of profit or loss'. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

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

Other than disclosed above, the directors of the Company anticipate that the application of 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.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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

Cash and cash equivalents comprise bank balances and cash and short-term bank deposits within three months of maturity when placed.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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

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

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 measured 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 each 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

FINANCIAL INSTRUMENTS *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

For all financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, 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.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

FINANCIAL INSTRUMENTS *(continued)*

Financial liabilities and equity instruments *(continued)*

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees 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.

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at FVTPL when the financial liabilities are held for trading on initial recognition.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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 derecognises financial liability when, and only when, the Group's obligations are discharged, cancelled or expired. 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

BORROWING COSTS

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

LEASING

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

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

The Group as lessor

Rental income from operating lease is recognised in profit or loss 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 and building 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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 before tax 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 carrying amount of deferred tax assets is reviewed at end of each 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

TAXATION *(continued)*

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

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

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.

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

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 Group'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.

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. As at 31 December 2012, the carrying amount of the property, plant and equipment was approximately RMB161,563,000 (2011: RMB163,927,000). 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 aging 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 2012, the carrying amounts of inventories was approximately RMB99,992,000, net of accumulated allowance of RMB15,444,000 (2011: carrying amount of approximately RMB136,122,000 net of accumulated allowance of RMB17,970,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Estimated impairment loss on trade and other receivables

The Group estimates impairment loss on trade and other receivables resulting from the inability of customers to make the required payments and when there is objective evidence that the Group will not able to collect full amounts due. These estimates were based on the payment history, customers' credit-worthiness, historical write-off experience and default or delinquency in payments. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated. As at 31 December 2012, the carrying amount of the trade and other receivables net of provision for impairment loss of approximately RMB302,836,000 and RMB29,935,000 (2011: RMB575,908,000 and RMB12,904,000) respectively. During the year ended 31 December 2012, impairment loss in respect of trade receivables was recognised in the consolidated statement of comprehensive income amounting to RMB85,247,000 (2011: Nil). No impairment loss was recognised on other receivables during both years.

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.

Income taxes

The Group is subject to income taxes in the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax assets are recognised for unused tax losses and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered. Details of deferred taxation are set out in Note 28.

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

	2012 **RMB'000**	2011 RMB'000
Financial assets		
Loans and receivables (including bank balances and cash)	**614,142**	784,483
Financial liabilities		
Liabilities measured at amortised cost	**202,691**	272,906
Derivative financial instruments	**–**	139

(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 deposits, bank balances and cash, trade and other payables, amount due to a related company and bank borrowings. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. FINANCIAL INSTRUMENTS *(continued)*

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

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 is a currency 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 (2011: 50 basis points) against HK$ and all other variables were held constant, the Group's loss after tax for the year would decrease/increase by approximately RMB35,000 (2011: profit after tax for the year would increase/decrease by approximately RMB297,000). 50 basis points (2011: 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 and adjusts their translation at the end of the reporting period for 50 basis points (2011: 50 basis points) change in foreign currency rates. 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 deposits 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.

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.

6. FINANCIAL INSTRUMENTS *(continued)*

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

***Market risk** (continued)*

(ii) Interest rate risk (continued)

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 and deposit rate arising stipulated by the People's Bank of China arising from the Group's RMB denominated bank borrowings and bank balances.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. 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 (2011: 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 (2011: 100 basis points) higher/lower and all other variables were held constant, the Group's loss after tax for the year ended 31 December 2012 would increase/decrease by approximately RMB1,006,000 (2011: profit after tax for the year would decrease/increase by approximately RMB185,000). 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 2012, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties 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 actions are taken to recover overdue debts. Follow-up actions may include debts restructuring plan with debtors and legal actions after taken into account of factors including the credit history, estimated purchase for the current year of the customers and market condition. As at 31 December 2012, the Group had entered into repayment plans with certain debtors who have overdue trade and other receivables with the Group. In addition, the Group reviews the recoverable amount of each individual trade and other receivables at the end of the reporting period to ensure that adequate impairment loss is made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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 10% (2011: 13%) and 46% (2011: 39%) of the total trade and bills receivables was due from the Group's largest customer and the five largest customers respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. FINANCIAL INSTRUMENTS *(continued)*

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

***Credit risk** (continued)*

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 100% (2011: 100%) of the total trade and bills receivables as at 31 December 2012.

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.

	Total undiscounted cash flows due on demand or within one year RMB'000	Carrying amount RMB'000
At 31 December 2012		
Non-derivative financial liabilities		
Trade and other payables	**30,876**	**30,876**
Amount due to a related company	**15**	**15**
Bank borrowings	**175,931**	**171,800**
	206,822	**202,691**
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

6. FINANCIAL INSTRUMENTS *(continued)*

(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 observable current market transactions.

The fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed 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 to 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.

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

There was no derivative financial instruments measured at fair value as at 31 December 2012. There were no transfers between level 1 and 2 in the current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

7. REVENUE

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

	2012 **RMB'000**	2011 RMB'000
Footwear	**224,857**	380,015
Apparel	**104,123**	230,060
Accessories and shoe sole	**2,507**	23,310
	331,487	633,385

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.

SEGMENT REVENUES, RESULTS, ASSETS AND LIABILITIES

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.

GEOGRAPHICAL INFORMATION

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.

8. SEGMENT INFORMATION *(continued)*

INFORMATION ABOUT MAJOR CUSTOMERS

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

	2012 RMB'000	2011 RMB'000
Customer A	**49,647**	73,236
Customer B	**48,748**	N/A*
Customer C	**35,394**	77,589
Customer D	**N/A***	69,789

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

9. OTHER INCOME AND OTHER GAINS AND LOSSES, NET

	2012 RMB'000	2011 RMB'000
Other income		
Government grants (Note)	**45**	2,040
Interest income	**1,852**	1,783
Gain from sale of materials	**–**	100
Others	**107**	29
	2,004	3,952
Other gains and losses, net		
Fair value change on derivative financial instruments	**–**	7,698
Gain on lapse of derivative financial instruments	**139**	–
	139	7,698

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

10. LOSS ON REPURCHASE OF INVENTORIES

During the year ended 31 December 2012, the Group repurchased inventories of approximately RMB91,109,000 (included in the cost of sales) from the customers and subsequently resold for an aggregated amount of approximately RMB25,706,000 (included in the revenue) to overseas customers through various independent third party export companies, resulting in a gross loss of approximately RMB65,403,000. Further details are set out in the announcements of the Company dated 14 June 2012 and 10 December 2012 respectively.

11. FINANCE COSTS

	2012 RMB'000	2011 RMB'000
Interest expenses on bank borrowings wholly repayable within five years	13,323	13,105

No borrowing costs were capitalised for the two years ended 31 December 2012 and 2011.

12. INCOME TAX (CREDIT) EXPENSE

	2012 RMB'000	2011 RMB'000
PRC Enterprise Income Tax ("EIT")		
– Current tax	–	16,915
– Under-provision in prior years	884	–
Deferred tax (Note 28)		
– Current year	631	2,070
– Attributable to a change in tax rate	(2,246)	–
	(731)	18,985

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 the two years ended 31 December 2012 and 2011.

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.

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

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 up to 31 December 2012. As a result of the expiry of the preferential tax reduction, the income tax rate applicable to the PRC subsidiaries changed from 12.5% to 25% with effect from 1 January 2013. The change in the carrying amount of the deferred tax (liabilities) assets as a result of the change in tax rate from 12.5% to 25% had been reflected in the consolidated financial statements for the year ended 31 December 2012.

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. No withholding tax were accrued as the Group did not generate distributable profits for the year ended 31 December 2012 (2011: RMB4,316,000).

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

	2012 **RMB'000**	2011 RMB'000
(Loss) profit before tax	**(151,628)**	75,103
Tax at the domestic income tax rate of 25% (2011: 25%)	**(37,907)**	18,776
Increase on opening deferred tax assets resulting from the change in applicable tax rate	**(2,246)**	–
Tax effect of non deductible expenses	**186**	5,084
Tax effect of deductible temporary differences not recognised	**21,312**	–
Tax effect of profits entitled to tax reduction	**–**	(9,191)
Under-provision in prior years	**884**	–
Tax effect of unused tax losses not recognised	**17,040**	–
Withholding tax on undistributed profits of subsidiaries	**–**	4,316
Income tax (credit) expense for the year	**(731)**	18,985

The domestic tax rate in the PRC is used as it is where the operation of the Group is substantially based.

Details of the deferred taxation are set out in Note 28.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

13. (LOSS) PROFIT FOR THE YEAR

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

	2012 RMB'000	2011 RMB'000
Salaries and allowances	51,155	88,447
Contributions to retirement benefits scheme	10,201	9,857
Share-based payments	2,052	4,093
Total staff costs (including directors' and chief executive's emoluments disclosed in Note 14)	63,408	102,397
Auditors' remuneration	714	690
Cost of inventories recognised as an expense	316,113	404,243
Allowance for inventories (included in cost of sales)	–	17,970
Reversal of allowance for inventories (included in cost of sales)	(2,526)	–
Amortisation of prepaid lease payments	1,097	1,097
Depreciation for property, plant and equipment	9,791	8,380
Research and development costs (included in other operating expenses) (Note)	9,017	10,317
Loss on disposal of property, plant and equipment	57	485
Net foreign exchange (gains) losses	(68)	7,233
Operating lease rentals in respect of rented premises	1,579	1,310
Rental income	(39)	(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

14. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the 10 (2011: 11) directors and the chief executive were as follows:

	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 2012					
Executive directors:					
Mr. Ding Siqiang	–	491	5	154	650
Ms. Ding Xueleng	–	307	5	154	466
Mr. Li Dongxing	–	239	5	27	271
Mr. Lin Yangshan	–	132	5	27	164
Ms. Ding Jinzhu	–	84	5	27	116
Mr. Ding Minglang	–	118	5	27	150
	–	1,371	30	416	1,817
Independent non-executive directors:					
Mr. Yang Chengjie	35	–	–	–	35
Mr. Xie Weichun (resigned on 21 September 2012)	25	–	–	–	25
Ms. Qiu Qiuxing (appointed on 21 September 2012)	10	–	–	–	10
Mr. Lin Jiwu	35	–	–	–	35
	105	–	–	–	105
	105	1,371	30	416	1,922

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

14. DIRECTORS' AND CHIEF EXECUTIVE'S 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 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

Mr. Ding Siqiang is also the chief executive of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive.

None of the directors of the Company waived or agreed to waive any emoluments paid by the Group for the two years ended 31 December 2012 and 2011. No emoluments have been paid to 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 2012 and 2011.

The remuneration of directors and the chief executive of the Company is determined by the remuneration committee having regard to the performance of individual and market trends.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

15. EMPLOYEES' EMOLUMENTS

The five highest paid individuals in the Group in 2012 and 2011 were all directors and the chief executive of the Company and details of their emoluments are included in Note 14.

Their emoluments were within the following bands:

	No. of individuals	
	2012	2011
Nil to HK$1,000,000 (equivalent to Nil to RMB810,500) (2011: equivalent to Nil to RMB831,000)	**5**	5

16. DIVIDENDS

	2012	2011
	RMB'000	RMB'000
Interim dividend paid during the year	**–**	24,264
Final dividend paid during the year	**–**	29,168
	–	53,432

No dividend was paid or proposed for the year ended 31 December 2012, nor has any dividend been proposed since the end of the reporting period.

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 2011 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 ended 31 December 2011.

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 names appear in the register of members on 20 September 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

17. (LOSS) EARNINGS PER SHARE

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

	2012 RMB'000	2011 RMB'000
(Loss) earnings		
(Loss) profit for the year attributable to the owners of the Company for the purpose of basic and diluted (loss) earnings per share	**(150,897)**	56,118

	2012 '000	2011 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted (loss) earnings per share	**1,184,610**	1,190,502

The computation of diluted (loss) 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 two years ended 31 December 2012 and 2011.

The diluted (loss) earnings per share for the years ended 31 December 2012 and 2011 are the same as the basic (loss) earnings per share as there were no dilutive potential ordinary shares outstanding during both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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 2011	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
Additions	407	–	870	546	384	5,302	7,509
Disposals	–	–	(16)	–	(108)	–	(124)
Transfer from construction in progress	–	–	333	–	–	(333)	–
At 31 December 2012	**129,679**	**–**	**54,484**	**7,529**	**3,658**	**27,375**	**222,725**
DEPRECIATION							
At 1 January 2011	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
Provided for the year	4,698	–	3,846	923	324	–	9,791
Eliminated on disposals	–	–	(2)	–	(40)	–	(42)
At 31 December 2012	**23,974**	**–**	**32,316**	**3,980**	**892**	**–**	**61,162**
CARRYING VALUES							
At 31 December 2012	**105,705**	**–**	**22,168**	**3,549**	**2,766**	**27,375**	**161,563**
At 31 December 2011	109,996	–	24,825	3,926	2,774	22,406	163,927

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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 2012, the Group was applying for certificates of ownership for buildings with carrying values of approximately RMB44,387,000 (2011: RMB46,944,000) 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.

At 31 December 2012, certain of the Group's buildings with carrying values of approximately RMB36,492,000 (2011: RMB18,998,000) were pledged to secure certain banking facilities granted to the Group (Note 25).

19. PREPAID LEASE PAYMENTS

	2012 **RMB'000**	2011 RMB'000
Analysed for reporting purposes as:		
Non-current asset	**47,065**	48,163
Current asset	**1,098**	1,097
	48,163	49,260

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.

At 31 December 2012, prepaid lease payments amounted to RMB37,042,000 (2011: RMB34,810,000) were pledged to secure certain banking facilities granted to the Group (Note 25).

20. INVENTORIES

	2012 RMB'000	2011 RMB'000
Raw materials	37,900	38,295
Work-in-progress	4,602	5,003
Finished goods	57,490	92,824
	99,992	136,122

During the year, a reversal of allowance for inventories of approximately RMB2,526,000 (2011: Nil) was recognised, due to the subsequent sale of slow-moving inventories during the year and included in cost of sales for the year ended 31 December 2012.

21. TRADE, BILLS AND OTHER RECEIVABLES

	2012 RMB'000	2011 RMB'000
Trade receivables	388,083	575,908
Less: provision of impairment loss	(85,247)	–
	302,836	575,908
Bills receivables	23,060	23,200
Trade and bills receivables	325,896	599,108
Other receivables	29,935	12,904
Prepayment to suppliers	55,981	70,845
Prepayment for advertising	663	3,525
Other prepayments	4,637	2,840
Income tax recoverable	425	–
Other receivables and prepayments	91,641	90,114
Trade, bills and other receivables	417,537	689,222

The Group does not hold any collateral over these balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

In the past, the Group generally allows a credit period ranging from 90 days to 180 days to its trade customers. During the year ended 31 December 2012, the management of the Group, upon negotiation with individual specific customers, extended the credit period ranging from 180 days to 270 days to certain customers depending on their financial strength, past credit history and business performance history. As of the end of the reporting period, the aged analysis of trade receivables, net of provision for impairment loss recognised presented based on the invoice dates which approximated the respective revenue recognition dates, are as follows:

	2012	2011
	RMB'000	RMB'000
Within 90 days	**96,467**	129,981
91 to 180 days	**90,929**	115,938
181 to 365 days	**95,981**	328,321
Over 365 days	**19,459**	1,668
Total	**302,836**	575,908

In determining the recoverability of receivables, the Group considers whether there has been adverse change in the credit standing of the debtors from the date on which credit was initially granted. The directors of the Company believe that there was no further credit provision required in excess of the accumulated impairment loss already provided for in the consolidated financial statements.

The movement in provision for impairment loss of trade receivables was as follows:

	2012	2011
	RMB'000	RMB'000
At 1 January	**–**	–
Recognised during the year	**85,247**	–
At 31 December	**85,247**	–

Included in the provision for impairment loss of trade receivables are individually impaired trade receivables with an aggregate balance of approximately RMB85,247,000 (2011: Nil). The individually impaired receivables are recognised based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. Consequently, provision for impairment loss is recognised.

All bills receivables were aged within 30 days from the invoice date for the years ended 31 December 2012 and 2011.

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

The aged analysis of the trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	2012 RMB'000	2011 RMB'000
Neither past due nor impaired	220,918	245,919
Past due but not impaired:		
Within 90 days	47,745	188,988
91-180 days	14,714	139,333
Over 180 days	19,459	1,668
Total	302,836	575,908

The Group's neither past due nor impaired trade and bills receivables relate to a large number of diversified customers for whom there was no recent history of default. Based on past experience, 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.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment provision 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.

As at 31 December 2012, certain trade receivables with aggregate carrying amount of approximately RMB101,846,000 (2011: RMB66,994,000) were pledged to banks to secure certain bank borrowings of the Group as disclosed in Note 25.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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. During the year ended 31 December 2011, such secured bank borrowing was settled while the corresponding pledged bank deposit was released during the year ended 31 December 2012. The carried fixed interest rate of the pledged bank deposit was 3.50% per annum in 2011.

Short-term bank deposits represented term deposits within three to twelve months and carried interest at fixed rates from 3.25% to 3.50% (2011: 3.10%) per annum. Bank balances carried interest at market rates which ranged from 0.001% to 0.385% (2011: 0.001% to 0.50%) per annum.

As at 31 December 2012, approximately RMB7,751,000 (2011: RMB59,329,000) of the pledged bank deposit and bank balances and cash of the Group were denominated in HK$ which is a currency other than RMB while the remaining balances and short-term bank deposits were denominated in RMB.

	2012 **RMB'000**	2011 RMB'000
Pledged bank deposit	**–**	51,449
Short-term bank deposits	**86,050**	35,000
Bank balances and cash	**175,059**	86,022
	261,109	172,471
Less: pledged bank deposit	**–**	51,449
Less: short-term bank deposits maturing beyond three months when placed	**86,050**	–
Cash and cash equivalents in the consolidated statement of cash flows	**175,059**	121,022

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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23. TRADE AND OTHER PAYABLES

	2012 RMB'000	2011 RMB'000
Trade payables	**16,169**	22,129
Other payables	**13,790**	22,375
Receipts in advance	**3,127**	7,525
Accrued payroll and staff welfare	**8,016**	7,390
	24,933	37,290
Trade and other payables	**41,102**	59,419

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

	2012 RMB'000	2011 RMB'000
Within 90 days	**9,405**	4,370
91 to 180 days	**107**	7,412
181 to 365 days	**841**	7,195
Over 365 days	**5,816**	3,152
Total	**16,169**	22,129

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

	2012 RMB'000	2011 RMB'000
Amount due to		
– Hengqiang (China) Co., Ltd. ("Hengqiang")	**15**	562

Mr. Ding Siqiang, a director of the Company, holds 80% equity interests of 恒強(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

25. BANK BORROWINGS

	2012 RMB'000	2011 RMB'000
Bank borrowings repayable within one year:		
Unsecured	23,000	67,000
Secured	148,800	153,450
	171,800	220,450

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

	2012 RMB'000	2011 RMB'000
Fixed-rate borrowings	73,100	81,300
Variable-rate borrowings	98,700	139,150
	171,800	220,450

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

	2012	2011
Effective interest rate:		
Fixed-rate borrowings	6.89%	6.89%
Variable-rate borrowings	5.40% to 7.87%	6.56% to 7.87%

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

During the year ended 31 December 2012, the Group obtained new borrowings in the amount of approximately RMB216,700,000 (2011: RMB270,450,000). The proceeds were used to finance the general working capital of the Group.

As at 31 December 2012, secured bank borrowings with aggregate carrying values of approximately RMB68,300,000 (2011: RMB97,300,000) were secured by prepaid lease payments and buildings held for own use of the Group. As at 31 December 2012, secured bank borrowings with aggregate carrying values of approximately RMB80,500,000 (2011: RMB56,150,000) were secured by certain trade receivables of the Group. Details are disclosed in Note 31.

26. DERIVATIVE FINANCIAL INSTRUMENTS

	2012 RMB'000	2011 RMB'000
Warrants	–	139

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 was approximately HK$172,000, equivalent to approximately RMB139,000 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 in 2011. The inputs into the model were as follows:

	2011
Share price of the underlying shares	HK$0.695
Exercise price	HK$1.600
Expected volatility	56.83%
Expected life	0.7 years
Risk-free rate	0.24%
Expected dividend yield	7.48%

All outstanding warrants were lapsed on 12 September 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

27. SHARE CAPITAL

	Note	Number of shares	Nominal value of ordinary shares HK$'000	RMB'000
Ordinary shares of HK$0.01 each				
Authorised:				
At 1 January 2011, 31 December 2011 and 31 December 2012		10,000,000,000	100,000	
Issued and fully paid:				
At 1 January 2011		1,195,000,000	11,950	10,446
Repurchase of ordinary shares	(i)	(10,390,000)	(104)	(91)
At 31 December 2011 and 31 December 2012		**1,184,610,000**	**11,846**	**10,355**

Note:

(i) 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 HK$	Price per share Lowest HK$	Aggregate consideration and transaction cost paid HK$000	Aggregate consideration and transaction cost paid equivalent to 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 ended 31 December 2012.

28. DEFERRED TAX LIABILITIES (ASSETS)

The movement in deferred tax liabilities is as follows:

	Withholding tax on dividends RMB'000
At 1 January 2011	2,193
Charged to consolidated statement of comprehensive income	4,316
At 31 December 2011,1 January 2012 and 31 December 2012	6,509

The movement in deferred tax assets is as follows:

	Allowance for inventories RMB'000
At 1 January 2011	–
Credited to consolidated statement of comprehensive income	2,246
At 31 December 2011	2,246
Effect of change in tax rate	2,246
Charged to consolidated statement of comprehensive income	(631)
At 31 December 2012	3,861

At the end of the reporting period, the Group has unused tax losses of approximately RMB68,160,000 (2011: Nil) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams. The unused tax losses will expire after five years from the year of assessment to which they relate.

At the end of the reporting period, the Group had deductible temporary differences of approximately RMB85,247,000 (2011: Nil). No deferred tax has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised (2011: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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:

	2012 RMB'000	2011 RMB'000
Within one year	918	994
In the second to fifth years inclusive	1,221	128
	2,139	1,122

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average of 2 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:

	2012 RMB'000	2011 RMB'000
Contracted for but not provided in the consolidated financial statements	35,791	38,103

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:

	2012 RMB'000	2011 RMB'000
Buildings held for own use (Note 18)	36,492	18,998
Prepaid lease payments (Note 19)	37,042	34,810
Trade receivables (Note 21)	101,846	66,994
Pledged bank deposit	–	51,449
	175,380	172,251

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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 2012, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 22,600,000 (2011: 22,600,000), representing 1.91% (2011: 1.91%) 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.

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)

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

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

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 2012

Option type	Outstanding at 1 January 2012	Granted during the year	Forfeited during the year	Outstanding at 31 December 2012
2010	22,600,000	–	–	22,600,000
Exercisable at the end of the year				6,780,000
Weighted average exercise price	HK$1.56	N/A	N/A	HK$1.56

For the year ended 31 December 2011

Option type	Outstanding at 1 January 2011	Granted during the year	Forfeited during the year	Outstanding at 31 December 2011
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

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 were forfeited during the year ended 31 December 2012.

No share options have been exercised during both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

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

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 RMB2,052,000 (equivalent to approximately HK$2,530,000) for the year ended 31 December 2012 (2011: RMB4,093,000 equivalent to approximately HK$4,923,000) in relation to share options granted by the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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 assets and liabilities over which control was lost	
Non-Current asset	
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 before 1 June 2012 and HK$1,250 per month with effective from 1 June 2012.

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 2012, the total retirement benefit scheme contributions charged to the consolidated statement of comprehensive income amounted to approximately RMB9,621,000 (2011: RMB9,857,000).

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 2012, 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 (2011: RMB790,000). Leases are negotiated for an average term of 2 years.

As at 31 December 2012, a guarantee of RMB46,000,000 (2011: RMB46,000,000) 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:

	2012 RMB'000	2011 RMB'000
Short-term benefits	**2,556**	2,332
Post-employment benefits	**67**	43
Share-based payments	**524**	998
	3,147	3,373

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

36. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2012, the Group repurchased inventories of approximately RMB91,109,000 from its customers. The settlement of such is netted off with the respective outstanding trade receivables balance.

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2012 RMB'000	2011 RMB'000
Non-current assets			
Property, plant and equipment		10	10
Investment in subsidiaries		9	9
		19	19
Current assets			
Other receivables		329	190
Dividend receivables		165,592	165,592
Amounts due from subsidiaries	(a)	419,916	361,558
Bank balances and cash		6,944	57,873
		592,781	585,213
Current liabilities			
Other payables		785	930
Amounts due to subsidiaries	(a)	13,708	3,066
Amount due to a director	(a)	182	182
Derivative financial instruments		–	139
		14,675	4,317
Net current assets		578,106	580,896
Total assets less current liabilities		578,125	580,915
Capital and reserves			
Share capital		10,355	10,355
Reserves	(b)	567,770	570,560
Total equity		578,125	580,915

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

Notes:

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

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

(b) Reserves

	Notes	Share Premium RMB'000	Share options reserve RMB'000	(Accumulated losses) retained earnings RMB'000	Total RMB'000
At 1 January 2011		572,894	1,395	(16,948)	557,341
Profit and total comprehensive income for the year		–	–	74,200	74,200
Shares repurchased and cancelled	27(i)	(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
Loss and total comprehensive expense for the year		**–**	**–**	**(4,842)**	**(4,842)**
Recognition of equity-settled share-based payments	32	**–**	**2,052**	**–**	**2,052**
At 31 December 2012		**561,252**	**6,845**	**(327)**	**567,770**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

38. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2012 and 2011 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		Proportion of voting power held by the Company	Principal activities
				Direct %	Indirect %		
Amber Jungle Limited 珀森有限公司	BVI 12 March 2009	Ordinary	US$2/US$50,000 (2011: US$2/US$50,000)	100% (2011: 100%)	–	100% (2011: 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 (2011: HK$1/HK$10,000)	–	100% (2011: 100%)	100% (2011: 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 (2011: HK$42,488,800/ HK$42,488,800)	–	100% (2011: 100%)	100% (2011: 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 (iii))	The PRC 12 February 1999	Ordinary	RMB186,140,005/ RMB200,000,000 (2011: RMB160,223,525/ RMB200,000,000)	–	100% (2011: 100%)	100% (2011: 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 (iii))	The PRC 15 March 2007	Ordinary	HK$200,000,000/ HK$200,000,000 (2011: HK$200,000,000/ HK$200,000,000)	–	100% (2011: 100%)	100% (2011: 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 (iii))	The PRC 30 January 2007	Ordinary	RMB 281,999,497/ RMB 300,000,000 (2011: RMB 261,063,840/ RMB 300,000,000)	–	100% (2011: 100%)	100% (2011: 100%)	Manufacturing and 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.

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

FINANCIAL SUMMARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended December 31,				
	2008 RMB'000	2009 RMB'000	2010 RMB'000	2011 RMB'000	**2012 RMB'000**
Revenue	365,631	499,420	712,864	633,385	**331,487**
Cost of sales	(246,480)	(328,483)	(464,611)	(422,213)	**(313,587)**
Gross profit	119,151	170,937	248,253	211,172	**17,900**
Other income	3,411	2,265	7,624	3,952	**2,004**
Other gains and losses, net	–	–	(7,726)	7,698	**139**
Impairment loss recognised in respect of trade receivables	–	–	–	–	**(85,247)**
Selling and distribution expenses	(29,721)	(21,089)	(42,812)	(74,085)	**(24,936)**
Administrative expenses	(18,471)	(22,096)	(34,964)	(42,156)	**(37,614)**
Other operating expenses	(6,624)	(9,121)	(16,923)	(18,383)	**(10,551)**
Finance costs	(9,460)	(10,372)	(12,006)	(13,105)	**(13,323)**
Gain on disposal of a subsidiary	–	–	–	10	**–**
Profit (loss) before tax	58,286	110,524	141,446	75,103	**(151,628)**
Income tax (expense) credit	(1,829)	(15,170)	(24,994)	(18,985)	**731**
Profit (loss) for the year	56,457	95,354	116,452	56,118	**(150,897)**
Other comprehensive income:					
Exchange differences on translation	(29)	(5)	18	–	**–**
Total comprehensive income (expense) for the year	56,428	95,349	116,470	56,118	**(150,897)**
Profit (loss) for the year attributable to:					
Owners of the Company	49,118	90,606	116,452	56,118	**(150,897)**
Non-controlling interests	7,339	4,748	–	–	**–**
	56,457	95,354	116,452	56,118	**(150,897)**
Total comprehensive income (expense) for the year attributable to:					
Owners of the Company	49,093	90,602	116,470	56,118	**(150,897)**
Non-controlling interests	7,335	4,747	–	–	**–**
	56,428	95,349	116,470	56,118	**(150,897)**
Earnings (loss) per share — Basic and diluted (RMB)	0.065	0.121	0.122	0.047	**(0.127)**

FINANCIAL SUMMARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As of December 31,				
	2008	2009	2010	2011	**2012**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Assets					
Current assets	268,899	396,140	1,080,833	998,912	**779,736**
Non-current assets	152,245	148,179	189,752	214,336	**212,489**
Total Assets	421,144	544,319	1,270,585	1,213,248	**992,225**
Equity and Liabilities					
Current liabilities	173,039	231,470	341,794	285,095	**212,917**
Non-current liabilities	19,296	20,943	2,193	6,509	**6,509**
Total Equity	228,809	291,906	926,598	921,644	**772,799**
Total Equity and Liabilities	421,144	544,319	1,270,585	1,213,248	**992,225**