PEAK SPORT PRODUCTS CO., LIMITED
匹克體育用品有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1968)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2011

The Board of Directors (the "Board") of Peak Sport Products Co., Limited (the "Company") is pleased to announce the annual results of the Company and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2011. This announcement, containing the full text of the 2011 Annual Report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcements of annual results. The printed version of the Company's 2011 Annual Report will be delivered to the shareholders of the Company and available on the websites of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and of the Company at ir.peaksport.com.hk for perusal by the end of March 2012.

REVIEW OF ANNUAL RESULTS BY THE AUDIT COMMITTEE

The Audit Committee of the Company, consisting of the Company's three independent non-executive directors, has reviewed the accounting principles and practices adopted by the Group and the Group's results for the year ended 31 December 2011. The Audit Committee has also met and discussed with the Company's external auditors, KPMG, regarding the Group's audit, internal control system and financial reporting matters.

FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK11 cents per ordinary share for the year ended 31 December 2011 subject to the approval of the shareholders at the Company's annual general meeting to be held on 14 May 2012 (the "AGM"). The proposed final dividend is expected to be paid on 31 May 2012 to shareholders whose names appear on the register of members of the Company on 23 May 2012.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 10 May 2012 to 14 May 2012 (both days inclusive) for the purpose of determining the right to attend and vote at the AGM. In order to be entitled to attend and vote at the AGM, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the corresponding share certificates are lodged with the Company's share registrar and transfer office (i.e. Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong) for registration not later than 4:30 p.m. on 9 May 2012.

Besides, the register of members of the Company will also be closed from 21 May 2012 to 23 May 2012 (both days inclusive) for the purpose of determining the entitlement to the proposed final dividend in respect of the year ended 31 December 2011 (subject to the approval of the shareholders at the AGM). In order to be qualified for the proposed final dividend, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the corresponding share certificates are lodged with the Company's share registrar and transfer office for registration not later than 4:30 p.m. on 18 May 2012.

On behalf of the Board of
Peak Sport Products Co., Limited
Xu Jingnan
Chairman

Hong Kong, 13 March 2012

As at the date of this announcement, the Board comprises three executive directors, namely Mr. Xu Jingnan, Mr. Xu Zhihua and Mr. Xu Zhida; three non-executive directors, namely Ms. Wu Tigao, Mr. Shen Nanpeng and Mr. Zhu Linan; and three independent non-executive directors, namely Dr. Xiang Bing, Mr. Wang Mingquan and Dr. Ouyang Zhonghui.

Mission

To facilitate the development of global sports business and to provide quality sportswear and services for the betterment of human health

Vision

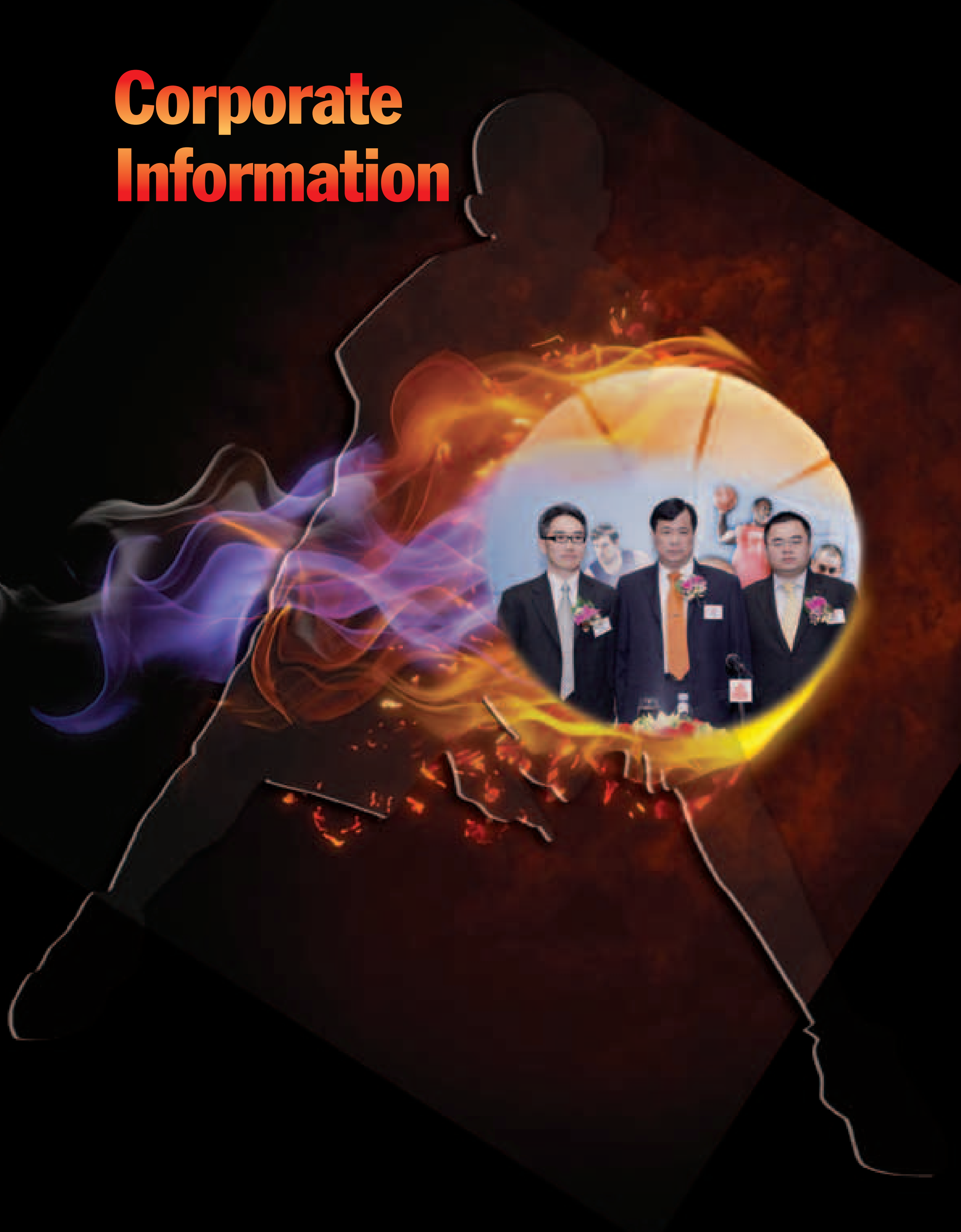
To become an internationally renowned brand of sportswear that can be sustainable for centuries

Core Value

United, practical and effective
Pragmatic, conscientious and diligent
People-oriented, creating value for customers and society
Making dreams come true through team work

Contents

Corporate Information



Board of Directors

Executive Directors

Mr. Xu Jingnan (許景南) *(Chairman)*
Mr. Xu Zhihua (許志華)
Mr. Xu Zhida (許志達)

Non-executive Directors

Ms. Wu Tigao (吳提高)
Mr. Shen Nanpeng (沈南鵬)
Mr. Zhu Linan (朱立南)

Independent Non-executive Directors

Dr. Xiang Bing (項兵)
Mr. Wang Mingquan (王明權)
Dr. Ouyang Zhonghui (歐陽鐘輝)

Board Committees

Audit Committee

Dr. Xiang Bing (項兵) *(Chairman)*
Mr. Wang Mingquan (王明權)
Dr. Ouyang Zhonghui (歐陽鐘輝)

Remuneration Committee

Dr. Xiang Bing (項兵) *(Chairman)*
Mr. Wang Mingquan (王明權)
Dr. Ouyang Zhonghui (歐陽鐘輝)
Mr. Shen Nanpeng (沈南鵬)
Mr. Xu Jingnan (許景南)

Nomination Committee

Mr. Wang Mingquan (王明權) *(Chairman)*
Dr. Xiang Bing (項兵)
Dr. Ouyang Zhonghui (歐陽鐘輝)

Company Secretary

Mr. Tsoi Ka Ho (蔡家豪) *CPA, ACA, FCCA*

Authorized Representatives

Mr. Xu Zhihua (許志華)
Mr. Tsoi Ka Ho (蔡家豪)

Registered Office

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

Head Office and Principal Place of Business in the PRC

Peak Building
Dongbao Industrial Area
Donghai, Fengze District
Quanzhou
Fujian Province, the PRC

Principal Place of Business in Hong Kong

Units 1613 & 1615, 16th Floor
Tower Two, Lippo Centre
89 Queensway, Hong Kong

Auditor

KPMG

Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

Principal Bankers

Bank of China (Quanzhou Branch)
China CITIC Bank (Quanzhou Branch)
China Construction Bank (Quanzhou Bincheng Branch)
The Hongkong and Shanghai Banking Corporation

Company Website

www.peaksport.com

Chairman's Statement

Xu Jingnan
Chairman

斗志改变未知

I CAN PLAY

Dear respectful shareholders,

On behalf of the Board of Directors of Peak Sport Products Co., Limited, it is my pleasure to present the audited annual results of the Group for the year ended 31 December 2011.

Results Overview

In spite of the sluggish domestic and overseas economic conditions and the increasingly fierce competition with dwindling growth in the sportswear industry in 2011, the Group remained positive to meet such challenges and was able to maintain a steady growth in revenue in 2011. During the year, turnover of the Group amounted to RMB4,646.9 million, representing an increase of approximately 9.4% from RMB4,249.4 million over the past year. Profit attributable to equity shareholders was RMB777.7 million. Basic earnings per share was RMB37.07 cents. The Board recommended a final dividend of HK11 cents per share, which, together with an interim dividend of HK3 cents per share, represented a dividend payout ratio of 30.7% for the year.

Business Review

Since the inception of our brand in 1991, the Group has been committed to building up a clear and consistent brand image to highlight our unique advantages in the sportswear industry. The Group has been endeavouring to build up a top international sportswear brand through implementing the strategies of international and professional branding and maintaining long-term cooperative relationships with various internationally renowned sports tournaments and organizers.

As the consumption expenditure of the general public kept on rising, consumers began to care for brands. We believe that brand differentiation is the key to the establishment of brand value. Over the past year, in order to be in line with the Group's unique positioning of being an international and professional brand as well as to highlight the advantages of the Peak brand, the Group continued our close cooperative relationships with various internationally renowned sports organizers such as NBA and FIBA. Being the exclusive official marketing partner of NBA in China, the Group actively organized a number of activities for the promotion of NBA in China, including the "2011 Peak Team China Tour" to which a number of NBA spokespersons of Peak were invited and sponsorship of NBA Jam Van. As at the end of 2011, the Group had endorsement agreements with 15 NBA players. In August 2011, the Group entered into a new cooperation agreement with FIBA, which upgraded us to a "global strategic partner" from a "partner in Asia region" of FIBA. Meanwhile, the Group also entered into sponsorship agreements with the national basketball associations of a number of countries such as Australia, New Zealand and Serbia, manifesting Peak's influence in the professional basketball sector.

Leveraging our successful marketing experience accumulated from the basketball sector for 20 years, the Group promptly launched new marketing strategies to expand into other sports categories such as running and tennis while maintaining our focus on basketball, thus diversifying our product mix and enhancing brand penetration. As for the tennis sector, being the official partner of the Women's Tennis Association (WTA) in the Asia-Pacific region, the Group actively participated in a number of tennis tournaments and tennis carnival. The Group's spokesperson in the tennis sector, Olga Govortsova, achieved excellent performance during the year. She won the championships in the Women's Double at Memphis 2011 and Birmingham 2011, which helped further promote the Group's tennis products.

In addition, the Group entered into sponsorship agreements with various national Olympic committees such as those of New Zealand, Iraq and Cyprus. In coming months, the sports products of Peak will be showcased in 2012 London Olympics. The Group also sponsored a number of international tournaments, including consecutive sponsorships of Stankovi Continental Champion's Cup for the seventh time and the Tour of Qinghai Lake International Cycling Race for the sixth time, and the sponsorship of 2011 Asian Basketball Championships for Men and Women, further enhancing the popularity of the Peak brand.

In respect of the establishment of distribution network, the Group continued to focus on the second and third-tier cities with huge development potential. In 2011, the Group began to put emphasis on the adjustment and optimization of the structure of our retail outlets. While actively expanding retail outlets, the Group shut down those with relatively low efficiency. In the meantime, the Group adjusted and increased the number of distributors to further enhance their penetration into smaller market segments. The Group also encouraged our existing distributors to open more authorized Peak retail outlets and promoted certain qualified retailers to distributors, in order to enhance our cooperation with distributors. The number of the Group's distributors increased from 45 at the end of 2010 to 50 at the end of 2011. The number of retail outlets increased from 7,224 at the end of 2010 to 7,806 at the end of 2011, representing a net increase of 582 outlets which covered the first, second and third-tier cities throughout China.

Moreover, the Group continued to boost our overseas sales in an effort to further open up the international market in 2011. As a result, the Group's international sales accounted for 9.9% of our total turnover, representing an increase of 0.5 percentage point from 9.4% in 2010. Following the establishment of a subsidiary in the United States and the accumulation of our international brand influence built up by our cooperation with NBA for years, the Group opened its first authorized Peak retail outlet in the United States at the end of 2011.

Social Responsibilities

Apart from business development, the Group has devoted itself to contributing to the society for many years and has actively participated in community activities such as sponsorships for education and other needs of the underprivileged and support for reconstruction after disasters. We have published the "Report on Social Responsibilities of Peak (匹克社會責任報告書)" for three consecutive years. The Goup was awarded the "Outstanding Corporate Citizen in China (中國優秀企業公民獎)" and the "Chinese Charity — Collective" (中國公益獎 — 集團獎) in 2011. In 2011, the total charitable donation made by the Group amounted to RMB3,025,400.

Industry Outlook

2012 is an important year of transition for the 12th Five-Year Plan. The PRC government will continue to implement proactive fiscal and prudent monetary policies to safeguard stable and relatively fast economic development. However, uncertainties in both domestic and overseas economic environments and the dwindling growth of the sportswear industry have accelerated the rationalization of the industry. It is expected that some small brands will be eliminated by the vigorous competition and operating costs including rentals will be lowered, which in turn will lay the ground for the next round of fast growth of the industry. In addition, we remain optimistic about the future development of China's sportswear industry. It is believed that following the accelerated urbanization of China and the change in lifestyle of the general public, there will still be fast economic growth in the second and third-tier cities and more people will participate in sports activities. Such rationalization of the industry and increasing brand concentration will provide a good opportunity for the Group to expand its business.

Development Strategies

The Group will continue to promote the international and professional image of our brand in our future development. In terms of brand promotion, in addition to working with renowned tournament promotion partners such as NBA and FIBA, the Group will continue to execute effective marketing strategies. While maintaining our focus on the basketball sector, we will increase our efforts in promoting other sports categories such as tennis, running and football to extend our brand reach. In addition, the Group will strategically set up retail outlets overseas, so as to further enhance the international brand image of Peak.

In terms of production, the Group will remain cautious and strict in the selection of contract manufacturers, and continue to improve supply chain management capability. In order to have better control over our production process and to have the flexibility and ability to respond promptly to market changes, the Group will continue to maintain our own production capabilities at an appropriate level and therefore continue to expand our in-house production lines to increase production capacity. The Group plans to set up a new apparel manufacturing facility in Shandong commencing from 2012.

In terms of building our distribution network, the Group will continue to expand our retail outlets with an emphasis on the second and third-tier cities in China. Meanwhile, we will further optimize and adjust the structure of our retail outlets by opening large outlets and closing down small ones. The Group will further increase the average floor area of our retail outlets. In addition to maintaining close cooperation with distributors, the Group will also speed up the development of our management information system and improve market monitoring.

In terms of product research and development, the Group will continue to spend more on the research and development of new products, thus increasing the depth of each product line. The Group will also enhance cooperation among our existing research and development workshops to consolidate our loyal customer base with quality products and excellent brand image.

In terms of human resources management, we will further improve our internal management system and enhance our corporate culture so as to attract more people of higher calibre to join our Group. We will continue to increase the scope of our training programmes for our employees and provide more promotion opportunities to facilitate a parallel development of employees and the Group.

Appreciation

Last but not least, on behalf of the Board, I wish to express my sincere appreciation for the devotion and contribution of all our employees during the year. I also wish to express my gratitude to the long term support and trust from our shareholders and business partners. The Group will endeavour to pursue better performance to reward our shareholders' trust in us.

Chairman
Xu Jingnan

13 March 2012

Financial Highlights

Turnover grew by **9.4%** to RMB**4,646.9** million

Gross profit grew by **13.4%** to RMB**1,832.5** million with gross profit margin rising to **39.4%**

Profit for the year attributable to equity shareholders declined by **5.4%** to RMB**777.7** million with net profit margin at **16.7%**

Basic and diluted earnings per share amounted to RMB**37.07** cents per share and RMB**37.06** cents per share respectively

Final dividend of HK**11** cents (equivalent to RMB**8.9** cents) per ordinary share is proposed

Number of authorized Peak retail outlets reached **7,806**, representing a net increase of **582** outlets from the end of 2010

Five-Year Financial Summary

	For the year ended 31 December				
	2011 (RMB million)	2010 (RMB million)	2009 (RMB million)	2008 (RMB million)	2007 (RMB million)
Profitability data					
Turnover	**4,646.9**	4,249.4	3,094.9	2,042.0	1,014.6
Gross profit	**1,832.5**	1,616.3	1,159.7	667.8	306.0
Net profit for the year	**777.7**	822.3	628.3	376.0	166.0
Basic earnings per share (RMB cents)	**37.07**	39.19	36.12	25.06	11.07
Diluted earnings per share (RMB cents)	**37.06**	39.18	36.12	25.06	11.07
Profitability ratios					
Gross profit margin	**39.4%**	38.0%	37.5%	32.7%	30.2%
Net profit margin	**16.7%**	19.4%	20.3%	18.4%	16.4%
Effective tax rate	**17.0%**	17.6%	10.6%	8.5%	5.6%
Return on equity (Note 1)	**20.7%**	25.4%	33.3%	64.2%	62.0%
Operating ratios					
(as a percentage of turnover)					
Advertising and promotion expenses	**14.2%**	10.8%	11.3%	7.5%	8.6%
Staff costs	**8.0%**	6.3%	5.2%	5.5%	4.2%
Research and development expenses	**1.0%**	0.5%	0.3%	0.3%	0.2%

	As at 31 December				
	2011 (RMB million)	2010 (RMB million)	2009 (RMB million)	2008 (RMB million)	2007 (RMB million)
Assets and liabilities data					
Non-current assets	**672.3**	438.0	337.8	269.2	101.4
Current assets	**4,207.5**	3,762.2	3,062.3	1,165.4	774.8
Current liabilities	**777.3**	671.4	366.7	567.9	478.0
Non-current liabilities	**59.0**	47.0	31.2	92.7	0.1
Shareholders' equity	**4,043.5**	3,481.8	3,002.2	774.0	398.1
Current ratio	**5.4**	5.6	8.4	2.1	1.6
Gearing ratio (Note 2)	**4.0%**	0.0%	0.0%	26.1%	2.7%
Net asset value per share (RMB yuan)	**1.93**	1.66	1.43	0.52	0.26

	For the year ended 31 December				
	2011 (day)	2010 (day)	2009 (day)	2008 (day)	2007 (day)
Working capital data					
Average inventory turnover days (Note 3)	**49**	38	36	43	66
Average trade receivables and bills receivable turnover days (Note 4)	**66**	63	70	74	95
Average trade payables and bills payable turnover days (Note 5)	**48**	46	42	79	130

Notes:

1. Return on equity is equal to the net profit for the year divided by the average of the opening and closing equity.

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

3. Average inventory turnover days is equal to the average of the opening and closing inventory divided by the costs of sales and multiplied by the number of days for the year.

4. Average trade receivables and bills receivable turnover days is equal to the average of the opening and closing trade receivables and bills receivable divided by the turnover and multiplied by the number of days for the year.

5. Average trade payables and bills payable turnover days is equal to the average of the opening and closing trade payables and bills payable divided by the cost of sales and multiplied by the number of days for the year.

Management Discussion and Analysis

Market Overview

Global economic conditions

China experienced high inflation throughout 2011 with the consumer price index rising by 5.4% when compared to that in 2010. To curb further increase in inflation, the PRC government adopted a series of monetary austerity measures during 2011. These measures included increasing the deposit-reserve ratio and interest rate. The economic growth of China remained at a high level during the first half of 2011 and slowed down considerably when the PRC government increased the strength of the austerity measures starting from the second half of 2011. Economic conditions in Western countries were no better than those in China during 2011. The US economy lost its momentum following the end of the second round of quantitative easing monetary policy in June 2011. The unemployment rate in the US improved very slowly and the property market remained sluggish throughout 2011. The debt crisis of European countries was worsened in 2011 as a feasible solution to the crisis is yet to be sorted out. Economic conditions in Asia and Africa were less rosy than those in 2010 partly because of high inflation and political disturbances in several countries in the Middle East and Africa during 2011.

Sportswear industry in China

The sportswear industry still enjoyed steady growth in China during the first half of 2011. However, growth had been weakening starting from the second half of 2011, in particular when the PRC government gradually increased the strength of the monetary austerity measures in the last few months of 2011. These measures caused a credit crunch affecting a considerable number of small to medium-sized enterprises and created negative sentiment on consumption expenditure in many parts of the country. In addition, the weather in 2011 was not favourable to the sportswear industry as we experienced a summer with many rainy days and warm weather in early months of winter in 2011. As a result, excessive inventory was built up in the distribution channels in the last few months of 2011. Competition intensified when many peers had launched promotion campaigns to clear the excessive inventory. A rationalization of the sportswear industry has been taking place since the second half of 2011.

Prospects

There are many uncertainties over world economic conditions in 2012, which include when the Chinese government will relax the monetary austerity measures, and whether the economies of the US and European countries can recover or at least be stabilized. As there are signs that inflation in China has been stabilized, it is expected that the monetary austerity measures will be relaxed in the coming months. We also estimate that the rationalization of the sportswear industry, which involves aggressive promotion activities to clear excessive inventory, restructuring of retail channels, elimination of small competitors out of the industry, will continue this year. On the other hand, we are still optimistic about the future development of the sportswear industry as there have not been any changes in those factors supporting the long term growth of the industry, such as urbanization of rural areas and change in the life-style of the Chinese people with greater participation in sports activities. We consider that the recent setback of the industry is only a cyclical adjustment of the industry from a period of abnormal growth in preceding years. As raw material costs have come down considerably and labour cost has stabilized recently, we also expect a downward adjustment to rentals of retail channels in coming months. Once the government measures have been appropriately adjusted, the sportswear industry will recover and move into another period of healthy growth. Since we have already adopted measures, such as cancellation of excessive sales fair orders not yet produced and optimization of our retail network, to prepare for the rationalization of the sportswear industry, we are confident that Peak will be among the first batch of companies to get over it.

Financial Review

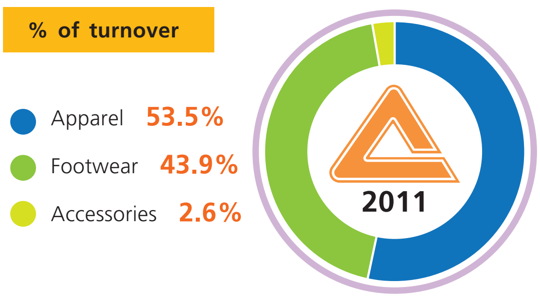
Turnover

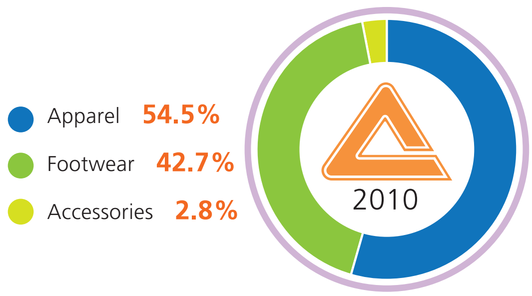
The Group's turnover for 2011 amounted to RMB4,646.9 million (2010: RMB4,249.4 million), representing an increase of 9.4% when compared to that for 2010. The increase was mainly due to increased demand for our products and continuous expansion of our distribution network in China during the year. The increase in the demand for our products was attributable to our successful brand promotion and marketing strategies, as well as the organic growth of the sportswear market in China. The number of authorized Peak retail outlets in China increased by 8.1% to 7,806 as at 31 December 2011 from 7,224 as at 31 December 2010.

Analysis of turnover by product category:

	Year ended 31 December				
	2011		2010		
	RMB (million)	**% of turnover**	RMB (million)	% of turnover	Change (%)
Footwear	**2,041.4**	**43.9**	1,813.7	42.7	12.6
Apparel	**2,486.7**	**53.5**	2,317.6	54.5	7.3
Accessories	**118.8**	**2.6**	118.1	2.8	0.6
Total	**4,646.9**	**100.0**	4,249.4	100.0	9.4

There have not been any material changes in the ratios of turnover contributed by various kinds of product category during 2011.





Analysis of turnover by geographical location:

	Year ended 31 December				
	2011		2010		
	RMB (million)	**% of turnover**	RMB (million)	% of turnover	Change (%)
Northern region (Note 1)	**974.5**	**21.0**	919.0	21.6	6.0
Eastern region (Note 2)	**1,763.6**	**37.9**	1,600.5	37.7	10.2
Southern region (Note 3)	**1,449.6**	**31.2**	1,329.0	31.3	9.1
China market	**4,187.7**	**90.1**	3,848.5	90.6	8.8
Asia	**172.8**	**3.7**	140.2	3.3	23.3
Africa	**97.6**	**2.1**	64.7	1.5	50.9
Europe	**97.5**	**2.1**	119.2	2.8	(18.2)
South America	**62.3**	**1.4**	48.1	1.1	29.5
North America	**20.0**	**0.4**	19.3	0.5	3.6
Australia	**9.0**	**0.2**	9.4	0.2	(4.3)
Overseas markets	**459.2**	**9.9**	400.9	9.4	14.5
Total	**4,646.9**	**100.0**	4,249.4	100.0	9.4

Notes: Geographical locations (i.e. provinces or cities) in China are classified into three regions as follows:

1. Northern region includes Heilongjiang, Jilin, Liaoning, Inner Mongolia, Hebei, Beijing, Tianjin, Shanxi, Shaanxi, Gansu, Ningxia, Qinghai and Xinjiang.

2. Eastern region includes Shandong, Jiangsu, Shanghai, Zhejiang, Henan, Anhui, Hubei, Hunan and Jiangxi.

3. Southern region includes Fujian, Guangdong, Hainan, Guangxi, Guizhou, Chongqing, Sichuan, Yunnan and Tibet.

The China market contributed 90.1% of the total turnover while the overseas markets contributed 9.9% of the total turnover during 2011. The turnover derived from the China market and the overseas markets grew by 8.8% and 14.5% respectively in 2011 when compared to those in 2010. The increase in turnover derived from the China market was primarily attributable to increased demand for our products and further expansion of the Group's distribution network during the year. The increase in turnover derived from the overseas markets was mainly due to increased demand from emerging markets in Asia, Africa and South America during the year.

Gross profit by product

Analysis of contribution to gross profit by product category:

	Year ended 31 December				
	2011		2010		Change in
	Gross profit RMB (million)	Gross profit margin (%)	Gross profit RMB (million)	Gross profit margin (%)	gross profit margin (% point)
Footwear	794.5	38.9	689.7	38.0	0.9
Apparel	993.5	40.0	883.7	38.1	1.9
Accessories	44.5	37.5	42.9	36.3	1.2
Total	1,832.5	39.4	1,616.3	38.0	1.4

The gross profit margins for footwear and apparel products increased by 0.9% point and 1.9% points respectively during 2011 when compared to those in 2010. Such increases were in line with the Group's strategy of increasing gradually the gross profit margins of our products in response to our enhanced brand image in recent years. The increase in the gross profit margin for apparel products was higher than that for footwear products in 2011 mainly because the cost of raw materials for apparel products decreased more than our expectation during the second half of 2011.

Selling price and volume

Analysis of average unit selling price and sales volume by product category:

	Year ended 31 December					
	2011		2010		Change	
	Quantity sold (million)	Average unit selling price (RMB)	Quantity sold (million)	Average unit selling price (RMB)	Quantity sold (%)	Average unit selling price (%)
Footwear (pairs)	22.8	89.5	21.7	83.6	5.1	7.1
Apparel (pieces)	41.5	59.9	40.9	56.7	1.5	5.6

Notes:

1. We have not included the respective information of our accessory products. We believe that a unit-based analysis of this product category would not be meaningful because we have a broad range of accessory products that vary significantly in terms of unit price.

2. Average unit selling price of each product category represents the turnover of that product category for the year divided by its quantity sold for the year.

The average unit selling price for footwear products increased by 7.1% to RMB89.5 in 2011 from RMB83.6 in 2010. The average unit selling price for apparel products increased by 5.6% to RMB59.9 in 2011 from RMB56.7 in 2010. Such increases were mainly caused by upward adjustments to the selling prices of our footwear and apparel products in response to increases in the costs of production and the Group's strategy of raising gradually the gross profit margin of our products during the year.

Turnover per retail outlet and per unit retail floor area

Analysis of turnover (at wholesale level) by number of retail outlets and floor area in China:

	As at 31 December			Year ended 31 December			
	No. of retail outlets	Total retail floor area (sq. m.)	Average floor area per retail outlet (sq. m.)	Average no. of retail outlets (Note 1)	Average total retail floor area (sq. m.) (Note 2)	Average turnover per retail outlet (RMB'000) (Note 1)	Average turnover per unit retail floor area (RMB'000) (Note 2)
2011	**7,806**	**617,461**	**79.1**	**7,515**	**585,276**	**557**	**7.2**
2010	7,224	553,090	76.6	6,715	503,064	573	7.7
Change (%)	8.1	11.6	3.3	11.9	16.3	(2.8)	(6.5)

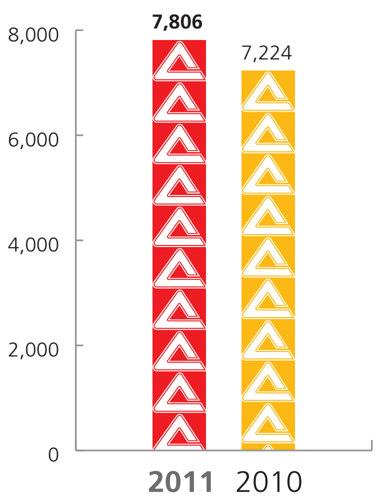
Notes:

1. Average turnover per retail outlet is equal to the total turnover (China market) divided by the average number of retail outlets, which is equal to the average of the opening and closing numbers of the retail outlets for the year.

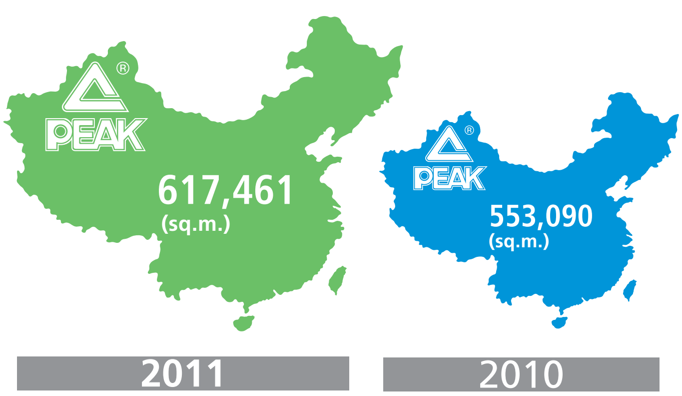
2. Average turnover per unit retail floor area is equal to the total turnover (China market) divided by the average total retail floor area, which is equal to the average of the opening and closing total retail floor areas for the year.

The average floor area per authorized Peak retail outlet in China increased to 79.1 square metres as at 31 December 2011 from 76.6 square metres as at 31 December 2010, which was in line with the Group's strategy to increase gradually the size of our new outlets to accommodate our increasing product offerings and to match our enhanced brand image. The average turnover per authorized Peak retail outlet in China and the average turnover per unit retail floor area in China during 2011 decreased by 2.8% and 6.5% respectively when compared to those for 2010 mainly because the growth rate for turnover in 2011 was less than the growth rate for the average number and average floor area of retail outlets during 2011. The slowdown in the growth rate of turnover was in turn due to unfavourable weather and a decrease in the demand for sportswear caused by monetary austerity measures taken by the PRC government during 2011.

No. of retail outlets



Total retail floor area



Cost of sales

Analysis of cost of sales by production method:

	Year ended 31 December				
	2011		2010		
	RMB (million)	% of total	RMB (million)	% of total	Change (%)
Self-production					
Raw materials	714.5	68.7	496.1	66.2	44.0
Direct labour	189.9	18.2	142.0	18.9	33.7
Overhead	136.0	13.1	111.6	14.9	21.9
Total	1,040.4	100.0	749.7	100.0	38.8
Cost of sales					
Self-production	1,040.4	37.0	749.7	28.5	38.8
OEM	625.9	22.2	742.8	28.2	(15.7)
Subcontracting arrangements	1,148.2	40.8	1,140.5	43.3	0.7
Total	2,814.5	100.0	2,633.0	100.0	6.9

As the rate of increase in the cost of raw materials was higher than that of direct labour during the year, the ratio of the cost of raw materials to total self-production cost increased to 68.7% in 2011 from 66.2% in 2010.

The ratio of the total costs of self-production to total cost of sales increased to 37.0% in 2011 from 28.5% in 2010. Such increase was primarily due to the increases in the self-production ratios for both footwear and apparel products during the year. The self-production ratios by volume for footwear and apparel products for 2011 increased to 54.0% and 25.2% from 39.5% and 22.0% in 2010 respectively.

Other revenue and net income/(loss)

Other revenue for 2011 increased to RMB28.4 million (2010: RMB20.1 million) mainly because interest income derived from bank deposits increased as a result of an increase in the interest rate during the year. Other net income increased to RMB3.0 million (2010: Other net losses of RMB6.8 million) mainly due to an increase in the gain on disposal of excessive intermediate products during the year.

Selling and distribution expenses

Total selling and distribution expenses for 2011 amounted to RMB712.8 million (2010:RMB505.4 million), representing an increase of 41.0% when compared to those in 2010. The increase was mainly attributable to increased advertising and promotion expenses to further promote the Peak brand and our products.

Administrative expenses

Total administrative expenses for 2011 amounted to RMB213.0 million (2010: RMB126.1 million), representing an increase of 68.9% when compared to those in 2010. The increase was in line with the expansion of the Group's business activities during the year and was primarily due to: (i) increased staff costs for our management and administrative personnel; (ii) increased research and development expenses; and (iii) increased education surcharge and city construction tax.

Finance expenses

The finance expenses represented the interest expenses arising from short-term borrowings from banks during 2011 while the Group did not have any bank borrowings in 2010.

Income tax

Income tax expenses decreased by 9.7% to RMB158.9 million in 2011 from RMB175.9 million in 2010. The decrease was in line with the decrease in operating profits during the year.

Net profit and net profit margin

Net profit decreased by 5.4% to RMB777.7 million in 2011 from RMB822.3 million in 2010 while net profit margin decreased to 16.7% in 2011 from 19.4% in 2010. The decreases in net profit and net profit margin during the year were primarily a result of: (i) the increase in advertising and promotion expenses; (ii) the increase in research and development expenses; (iii) the increase in education surcharge and city construction tax; and (iv) the increase in gross profit, which only partially offset the impact of items (i) to (iii).

Working capital ratios

The average inventory turnover days for the year ended 31 December 2011 increased to 49 days from 38 days for the year ended 31 December 2010. Such increase was mainly due to weakening demand for sportswear caused by unfavourable weather and increasing strength of monetary austerity measures taken by the PRC government starting from the second half of 2011. As the liquidity of some of our distributors was also affected by the above factors, the average trade receivables and bills receivable turnover days increased to 66 days for the year ended 31 December 2011 from 63 days for the year ended 31 December 2010. The average trade payables and bills payable turnover days increased to 48 days for the year ended 31 December 2011 from 46 days for the year ended 31 December 2010.

Liquidity and capital resources

The net cash inflow from operating activities of the Group for the year ended 31 December 2011 amounted to RMB310.8 million (2010: RMB1,166.4 million). The decrease in the net cash inflow from operating activities was mainly due to increases in the balances of inventories and trade receivables and a decrease in the balance of trade payables as at 31 December 2011 when compared to those as at 31 December 2010. As at 31 December 2011, our Group's cash and bank deposits (including cash at bank and on hand, fixed deposits held at bank and pledged deposits at bank) amounted to RMB2,696.9 million, representing a net increase of RMB34.4 million when compared to the position as at 31 December 2010.

The increase in the Group's cash and cash deposits is analyzed below:

	Year ended 31 December 2011 RMB'000
Net cash inflow from operating activities	310,797
Net capital expenditure	(228,876)
Dividends paid	(227,165)
Proceeds from bank loans	161,217
Other net cash inflow	18,414
Net increase in cash and bank deposits	34,387

The Group has been adopting a prudent treasury management policy and has strong liquidity position with sufficient standby banking facilities to cope with funding needs arising from daily operations and future developments.

Foreign exchange risk

The Group's operating activities were principally carried out in China with most of our transactions denominated and settled in Renminbi, and therefore the overall foreign currency risk was not considered to be significant. The Group's foreign exchange exposure mainly arose from our revenue derived from our export sales that were denominated predominantly in United States dollars. If Renminbi appreciates against a foreign currency, the value of the foreign currency denominated assets (e.g. trade receivables) will decline accordingly. The Group has not used any forward contracts, currency borrowings or other means to hedge our foreign exchange exposure. Nevertheless, the management will continue to monitor the foreign exchange exposure and adopt prudent measures as appropriate.

Pledge of assets

The following assets were pledged to banks as security for bills payable and certain banking facilities:

	Carrying amount as at 31 December	
	2011	2010
	RMB'000	RMB'000
Buildings	**148,749**	156,036
Bank deposits	**82,259**	53,963
Lease prepayments	**11,887**	14,534

Operations Review

Expansion in distribution network

The network of authorized Peak retail outlets across China, which is owned and operated either by our distributors or by retail outlet operators, has been providing an effective retail channel for our products. With increasing demand for sports products in China and the enhanced image and popularity of the Peak brand, the Group was able to further expand our retail network steadily into all provinces and major cities in China in 2011. As at 31 December 2011, the total number of authorized Peak retail outlets was 7,806 (31 December 2010: 7,224), representing a net increase of 582 outlets.

Analysis of authorized Peak retail outlets in China by geographical region:

	Number of retail outlets as at 31 December		
	2011	2010	Change (%)
Northern region	**2,065**	1,884	9.6
Eastern region	**3,199**	3,025	5.8
Southern region	**2,542**	2,315	9.8
Total	**7,806**	7,224	8.1

Note: Please refer to page 13 for details of classification of geographical regions.

Analysis of authorized Peak retail outlets by type of city:

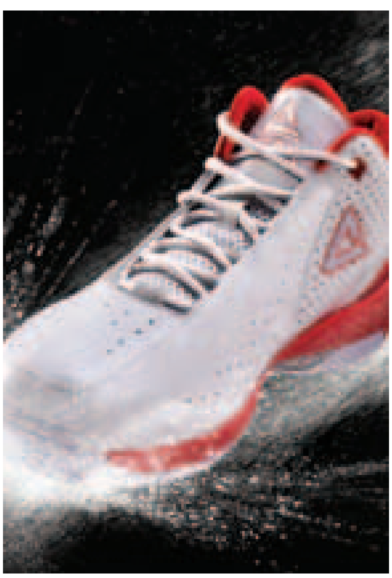
	Number of retail outlets as at 31 December		
	2011	2010	Change (%)
First-tier city	**437**	398	9.8
Second-tier city	**1,578**	1,523	3.6
Third-tier city	**5,791**	5,303	9.2
Total	**7,806**	7,224	8.1

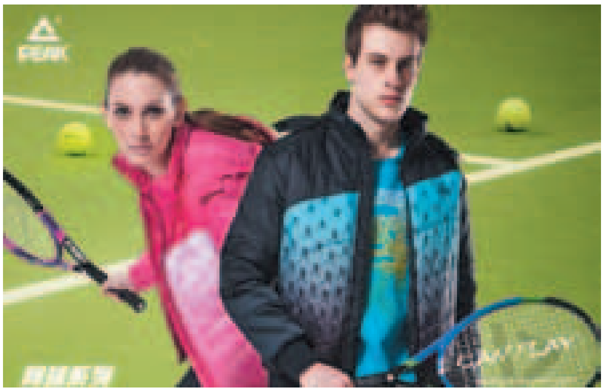
The second-tier and third-tier cities in China have been the Group's focused markets in recent years because of their faster economic growth and less intense competition when compared to the first-tier cities. Accordingly, the new authorized Peak retail outlets opened during 2011 are mainly located in the second-tier and third-tier cities. At the same time, with the increasing popularity of the Peak brand among consumers throughout China, we also expanded our network in the first-tier cities strategically to further enhance our brand image.

Analysis of authorized retail outlets by store category:

	Number of retail outlets as at 31 December		
	2011	2010	Change (%)
Flagship Store	**25**	19	31.6
Basic Store	**4,969**	4,549	9.2
Department Store or Shopping Mall Outlet	**2,745**	2,622	4.7
Basketball Specialty Outlet	**67**	34	97.1
Total	**7,806**	7,224	8.1

The authorized Peak retail outlets are classified into the above 4 categories. Flagship stores are street-level outlets situated in prime locations in major cities and each flagship store has a floor area of at least 200 square metres and a monthly turnover (at retail price) of not less than RMB500,000. Basic stores are also street-level outlets but do not satisfy the above criteria for flagship stores. Basketball specialty outlets are either street-level outlets or shopping mall outlets and offer mainly premium basketball sportswear to basketball enthusiasts.





Management of distributors and retail outlets

Our strict policies in managing our distributors and the operations of the authorized Peak retail outlets have been crucial to the success of our distribution network.

China market

Starting from 2011, we organize and host four sales fairs a year to introduce our new product collections for each season. Our domestic distributors and retail outlet operators attend the sales fairs and place orders which are generally six months in advance of the delivery of the ordered products. During 2011, the Group held four such sales fairs for our Autumn 2011, Winter 2011, Spring 2012 and Summer 2012 collections at Xiamen International Conference and Exhibition Center on 8 January, 28 March, 15 June and 19 September respectively.

We select our distributors according to a range of factors such as retail experience in sportswear, ability to expand and operate a network of retail outlets, and adequacy of financial resources. We enter into an agreement with each distributor, whereby we grant them the exclusive right to distribute our products in specified areas for a specified period of time, which is generally one year. Our distribution agreement contains principal terms such as geographical exclusivity, sales and expansion targets, payment terms, and discounts and rewards. Subject to our approval and written consent, we allow our distributors to appoint retail outlet operators. However, we do not enter into agreements with such retail outlet operators other than the licensing of our trademarks to them.

Our distributors are responsible for supervising and managing the operations of the authorized Peak retail outlets according to our policies and guidelines regarding the layout of outlets, sales and expansion targets, pricing, customer and after-sale services, etc.

We invite representatives of our distributors and retail outlet operators to attend training sessions to familiarize themselves with Peak policies and procedures. The training sessions take the form of in-house training as well as external training conducted by experienced retail management consultants.

On-site inspections of authorized Peak retail outlets are regularly carried out by our marketing teams to identify and inform distributors of any non-performing or non-compliant retail outlets. We coordinate with distributors to monitor the performance of these retail outlets and any recurring non-performance or non-compliance may cause a distributor to lose its distributorship.

The performance of each distributor is reviewed annually prior to the renewal of its distribution agreement. Key elements that form part of such review include whether the distributor has achieved the sales and expansion targets and complied with the credit terms.

During 2011, the Group continued to expand the coverage of our computerized management information system ("MIS"), which collects real-time operational data and feedback from authorized Peak retail outlets connected to the system. As at 31 December 2011, 1,930 retail outlets were connected to our MIS.

As an incentive for our distributors to expand the network of retail outlets and to maintain consistency of store image and layout, we provide certain renovation work to authorized Peak retail outlets and rental subsidies to retail outlet operators for opening authorized Peak retail outlets with high rentals in prime locations. We also offer performance bonuses to our distributors who meet or exceed annual sales targets.

Overseas markets

We sell our Peak branded products overseas on a wholesale basis to: (i) overseas customers who learn about our products from our website or at international exhibitions or trade fairs; and (ii) overseas distributors who then sell our products to consumers, retailers, sports teams or clubs.

During 2011, we participated in the following international exhibitions and trade fairs:

— China Import and Export Fair in Guangzhou, China;
— China Sourcing Fair in Dubai, the United Arab Emirates;
— International Trade Fair for Sports Equipments and Fashion ("ISPO") in Munich, Germany;
— GDS in Düsseldolf, Germany;
— BSF in São Paulo, Brazil;
— Aspire4Sport in Doha, Qatar; and
— Fujian Commodities Expo-Singapore in Singapore.

Brand promotion and marketing

Strategy

We believe that marketing and promotion of our brand are crucial to success in the sportswear industry. To create a simple and powerful brand message to our consumers, the Group has been employing a focused marketing strategy by focusing on basketball in marketing and promoting the Peak brand since our inception in 1991 although we offer products in almost every sports category. The Group promotes Peak as an international and professional brand through association with internationally renowned tournament organizers and provision of products with premium functionality and performance. Our promotion partners are therefore not restricted to domestic partners and include sports associations, leagues, federations, events, and individual athletes throughout the world. The Group also employs various means of promotion such as national and local television commercials, outdoor media, online advertising, newspapers and magazines.

Leveraging our success in focusing on basketball, the Group rolled out our new marketing strategy focusing on three other sports categories (i.e. running, tennis and football) in addition to basketball, starting from 2010. The Group believes that the new strategy will further enhance our brand image and positioning and ensure sustained growth in popularity of the Peak brand.

Basketball promotion partners

The utilization of basketball promotion partners such as federations, leagues, teams, events and individual athletes is an integral part of the Group's brand promotion and marketing strategy to differentiate us from our peers. Such focused strategy also disseminates a clear profile to consumers. The Group has association with most of the top renowned basketball promotion partners around the world and this enables the Group to build up successfully the most international brand image in the basketball sector among our Chinese peers. By requiring our endorsed basketball athletes to wear our basketball footwear during all tournaments, we demonstrate that our products can withstand the severest tests of functionality and performance and this further enhances our professional brand image. Although the Group has started promoting the other sports categories in addition to basketball under the new marketing strategy, we will continue to dedicate the most significant portion of our resources to basketball so as to maintain our leading position in the basketball sector in coming years.

NBA league, teams and players

The Group has been an official marketing partner of NBA in China since 2007. The association with NBA includes, among other things, the right to use the NBA logo and other licensed marks in connection with the advertising and promotion of the Peak brand and our products in China.

The Group has also entered into sponsorship agreements with the NBA's Houston Rockets and Miami Heat under which the Group can, among other things, display the Peak signage at the home stadiums of the two teams.

As at 31 December 2011, the Group endorsed a total of 15 NBA players. With these players, we had presence in 12 teams out of the 30 NBA teams as follows (by alphabetical order):

NBA players	**NBA teams**
Andrew Goudelock	Los Angeles Lakers
Anthony Morrow	New Jersey Nets
Beno Udrih	Milwaukee Bucks
Carl Landry	New Orleans Hornets
C. J. Watson	Chicago Bulls
Dorell Wright	Golden State Warriors
Gordon Hayward	Utah Jazz
Jason Richardson	Orlando Magic
JaVale McGee	Washington Wizards
Jeremy Tyler	Golden State Warriors
Kyle Lowry	Houston Rockets
Marqus Blakely	Houston Rockets
Patrick Patterson	Houston Rockets
Sam Young	Memphis Grizzlies
Shane Battier	Miami Heat

FIBA

The Group has had an association with FIBA since 2008 and became the official and exclusive footwear partner of FIBA worldwide and the exclusive sportswear (apparel and headwear) partner of FIBA in Asia in August 2011. Under relevant sponsorship and licensing agreements, the Group is required, among other things, to supply footwear to all staff, referees and volunteers at all FIBA and FIBA Zones Championships, and has an exclusive right to use globally specified logos and/or mascots associated with certain FIBA sports competitions on some of our products.

Stanković Continental Champions' Cup

The Stanković Continental Champions' Cup ("Stanković Cup") is an international basketball tournament for men's national teams of a number of countries. It is also the most well-known international basketball game and one of the highest ranking international basketball tournaments in China. The Group has been sponsoring the Stanković Cup since 2005. Under the relevant sponsorship agreement, the Group is required, among other things, to supply sportswear to all officials and staff of the tournaments.

Basketball Australia

The Group has had an association with Basketball Australia since 2006. Under the relevant sponsorship agreement, the Group is a sponsor for certain Australian national basketball teams. The national basketball teams are required to use our apparel products in all matches except for the Olympic Games.

Basketball New Zealand

The Group has had an association with Basketball New Zealand since 2009. Under the relevant sponsorship agreement, the Group is a sponsor for certain New Zealand national basketball teams which are required to use our apparel products in all matches except for the Olympic Games and Commonwealth Games.

Basketball Federation of Serbia

The Group entered into a cooperation agreement with the Basketball Federation of Serbia in 2010 as its official strategic partner and the sponsor of its ten national basketball teams. Under the agreement, the Group is required, among other things, to supply the above national teams with sports products in all international tournaments such as the 2012 Olympic Games.

Lebanese Basketball Federation

The Group entered into a cooperation agreement with Lebanese Basketball Federation in 2010 and became its official sponsor and supplier. Under the agreement, the Group is required, among other things, to supply sportswear for five Lebanese national basketball teams.

Côte d'Ivoire Basketball Federation

The Group entered into a cooperation agreement with Côte d'Ivoire Basketball Federation in February 2011 and became its official sponsor and supplier. Under the agreement, the Group is required, among other things, to supply sportswear for the Côte d'Ivoire national basketball team.

Cameroon Basketball Federation

The Group entered into a cooperation agreement with Cameroon Basketball Federation in April 2011 and became its official sponsor and strategic partner. Under the agreement, the Group is required, among other things, to supply sports products for all Cameroon national basketball teams in all matches during the agreement period, including the Olympic Games in 2012 and the World Championship for Men in 2014.

Montenegro Basketball Federation

The Group entered into a cooperation agreement with Montenegro Basketball Federation in September 2011 and became its official sponsor and strategic partner. Under the agreement, all teams under Montenegro Basketball Federation are required to wear Peak's sportswear in all matches during the agreement period, including the World Championship for Men in 2014 and the Olympic Games in 2016.

Iceland Basketball Federation

The Group entered into a cooperation agreement with Iceland Basketball Federation in July 2011 and became its official sponsor and supplier. Under the agreement, the Group is required, among other things, to supply sports products for Iceland Basketball Federation, and the Group can display advertisements at specified training venues.

Uzbekistan Basketball Federation

The Group entered into a cooperation agreement with Uzbekistan national men's basketball team in July 2011. Under the agreement, the team is required to wear Peak's sportswear during the 26th Asia Championship for Men.

Women's Chinese Basketball Association

The Group entered into a cooperation agreement with Women's Chinese Basketball Association ("WCBA") in December 2011 and became its marketing partner. Under the agreement, all the athletes, referees and staff are required to wear Peak's sportswear during all matches, trips, commercial or charitable events under WCBA.

Peak Team China Tour

The "Peak Team China Tour" is one of the most important events among all our marketing activities. The tour is held once a year in China with an aim to promote the NBA spirit and increase the popularity of basketball in China. The 2011 Peak Team China Tour was officially kicked off in Beijing on 2 August 2011. The Group invited seven of our NBA spokespersons to participate in the tour. These spokespersons came to China and interacted with Chinese basketball fans at nearly 20 cities, including Beijing, Guangzhou, Nanjing and Shenzhen, in early August 2011. Both the Peak brand and NBA players obtained intense media exposure throughout the tour.

NBA Jam Van

NBA Jam Van is a basketball carnival presented in a caravan that travels around a number of cities in China for several months every year. During the year, the event was held across over 20 cities including Beijing, Shanghai, Harbin and Qingdao from May to September. The Group organized the event and sponsored all sportswear. The event has provided a great opportunity to further promote both NBA and the Peak brand.

2011 ABA Championship

2011 ABA Championship was held in September 2011. Being a sponsor and official sports apparel supplier of the tournament, the Group, among other things, supplied sports apparel to all officials and staff of the tournament.

Other basketball sponsorships

The Group also sponsored the following basketball events in 2011:

– Quanzhou 100 Teams/1000 Matches Basketball Competition (泉州百隊千場籃球賽) held from July to August; and

– Peak-Xiamen Basketball Camp (匹克廈門籃球夏令營) held from July to August.

Tennis promotion partners

With a view to attracting more female customers and boosting the female sportswear sales, the Group has strengthened our promotion in the tennis sector starting from 2010. Leveraging the success in the basketball sector, the Group has adopted the same marketing strategy of building up an international and professional brand image for its tennis sportswear. Accordingly, the Group utilizes promotion partners which can manifest the internationalism and professionalism of the Peak brand to promote its tennis sportswear.

Women's Tennis Association ("WTA") Tour

The Group entered into a product sponsorship and promotion agreement in 2010 with WTA, which is the worldwide circuit of women's professional tennis. Pursuant to the agreement, the Group is the official footwear and apparel partner for the following tournaments in 2011, which make up the WTA Tour (currently known as "The Sony Ericsson WTA Tour"):

– ASB Classic (Auckland, New Zealand);

– PTT Pattaya Women's Open (Pattaya, Thailand);

– Guangzhou International Women's Open (Guangzhou, China);

– Commonwealth Bank Tournament of Champions (Bali, Indonesia); and

– Malaysian Open (Kuala Lumpur, Malaysia).

The Group, among other things, obtained a licence to develop, manufacture, market and sell the WTA-PEAK co-branded products in the Asia Pacific region. In addition, the Group is the official cooperative partner of the WTA Carnival and organized interactive games and tennis-related activities for tennis fans in summer 2011 in Shanghai, Chengdu, Guangzhou and Beijing.

Endorsed tennis athlete

To increase our brand awareness in the tennis sector, the Group endorsed in 2010 our first tennis spokesperson, Olga Govortsova, who is a Belarusian professional tennis player. Ms. Olga won the Championship of Women's Doubles at Memphis 2011 and Birmingham 2011.

Running promotion partners

In line with the new marketing strategy, the Group embarked on the promotion of our running footwear in 2010. The Group's new series of running shoes, Yi Pao (逸跑), successfully boosted the recognition of the Peak brand in the running sector. The latest product of the series, Yi Pao III (逸跑3代), was launched in 2011 and continued to receive positive response from the market. The promotion partners of Yi Pao included CCTV, Guangdong Sports TV, Hunan Satellite TV and a number of sports magazines.

Football promotion partners

The Group also adopts the strategy of building up an international and professional brand image to promote its football sportswear. A number of promotion activities for football carried out during 2011 were targeted not only at the domestic market but also specific overseas markets including the Middle East.

Iraq Football Association

The Group entered into a sponsorship agreement with the Iraq Football Association in 2010 and became the official and sole sponsor for the Iraq Football Association. Under the agreement, all the Iraqi national football teams are, among other things, required to wear Peak's sportswear and sports bags in all matches and training sessions.

Chinese Football Teams

As at 31 December 2011, the Group sponsored five Chinese football league teams, including Shenyang Dongjin and Beijing Baxishengshi, in preparation for the revival of the football sector in China.

Other promotion partners and events

The National Olympic Committee of New Zealand

The Group entered into a sponsorship agreement with the New Zealand Olympic Committee in 2009. Under the agreement, the Group, among other things, supplies sports apparel and footwear for the New Zealand teams in the 2012 Olympic Games.

The National Olympic Committee of Iraq

The Group has had an association with the National Olympic Committee of Iraq since 2007. Under relevant agreements, the Group is the official and sole sponsor of the National Olympic Committee of Iraq and, among other things, supplies sportswear for all Iraqi teams in all training, games and sports events.

The National Olympic Committee of Cyprus

The Group entered into a sponsorship agreement with the National Olympic Committee of Cyprus in 2010. Under the agreement, the Group, among other things, supplies sportswear for the Cypriot teams participating in all sports games, including the Olympic Games in 2012.

The National Olympic Committee of Slovenia

The Group entered into a cooperative agreement with the National Olympic Committee of Slovenia in April 2011. Under the agreement, the Group, among other things, supplies sportswear for the Slovene teams during the Olympic Games in 2012.

The National Olympic Committee of Algeria

The Group entered into a sponsorship agreement with the National Olympic Committee of Algeria in July 2011. Under the agreement, the Group, among other things, supplies sports products for the Algerian teams during the Olympic Games in 2012.

2011 Tour of Qinghai Lake International Cycling Race ("QLCR")

QLCR is a top-tier international highway cycling competition held at a racing track with the highest altitude above sea-level and approved by the International Cycling Association. The competition is held from July to August in Qinghai Lake every year with top cyclists from the five continents of the world participating in the competition. The Group has become the collaborative partner of the competition and the sole supplier of sports products for the officials of the competition for six consecutive years since 2006.

The 7th City Games of the PRC (第七屆全國城市運動會)

The 7th City Games of the PRC is a national sports event with teams representing different cities in China and was held in mid-October 2011 in Nanchang, China. Under the relevant sponsorship agreement, the Group was the official partner of the event and, among other things, supplied sports products and gears for all the athletes and staff during the event.

The National University team of Lithuania

The Group entered into a sponsorship agreement with the National University team of Lithuania in May 2011 and became its cooperative partner during the 26th Summer Universiade. Under the agreement, the team was required to wear Peak's sports products during the event.

The 10th Asia Karate Championship

The 10th Asia Karate Championship was held in Quanzhou, China in July 2011. The Group entered into an agreement and became an authorized sponsor and cooperative partner of the event. Under the agreement, the Group, among other things, supplied sportswear for all the referees, staffs and volunteers of the event.

Production capacity

Our products are manufactured either by the Group's own production facilities or through our outsourcing arrangements with contract manufacturers. As we believe that maintaining our own production capabilities enables us to have better control over the production process and to have the flexibility and ability to respond promptly to market changes, the Group will continue to invest in new production facilities.

Footwear production facilities

The Group currently has two footwear production facilities at Fengze, Fujian Province and Shang'gao, Jiangxi Province. We, however, outsourced a portion of our footwear production to contract manufacturers. The total footwear production volume for 2011 was approximately 24.4 million pairs, of which approximately 54.1% were produced in-house and approximately 45.9% were produced through outsourcing to contract manufacturers. We have a plan to increase our annual production capacity for our footwear products to approximately 16.5 million pairs when our plant in Shang'gao, Jiangxi Province attains full production capacity by the end of 2012.

Apparel production facilities

The Group currently has two apparel production facilities at Fengze and Hui'an, Fujian Province. We, however, outsourced a major portion of our apparel production to contract manufacturers. The total apparel production volume for 2011 was approximately 40.3 million pieces, of which approximately 25.1% were produced in-house and approximately 74.9% were produced through outsourcing to contract manufacturers. We have a plan to increase our annual production capacity for our apparel products to approximately 19.1 million pieces when our plant in Hui'an, Fujian Province attains full production capacity by the end of 2013.

Analysis of production capacity by location and product category:

		Footwear production facilities		Apparel production facilities	
Location		**Fengze Quanzhou Fujian province (full production)**	**Shang'gao Yichun Jiangxi province**	**Fengze Quanzhou Fujian province (full production)**	**Hui'an Quanzhou Fujian province**
Commencement date of production		August 1994	June 2008	February 2004	September 2008
Number of production lines as at 31 December 2011		7	13	26	67
Estimated annual production capacity (Note) (pairs/pieces)	2010	3.7 million	5.0 million	2.3 million	7.3 million
	2011	**4.5 million**	**8.5 million**	**2.7 million**	**9.0 million**
Actual production volume (pairs/pieces)	2010	3.8 million	4.7 million	2.1 million	7.2 million
	2011	**4.6 million**	**8.6 million**	**2.4 million**	**7.7 million**
Expected time of full production		N/A	2012	N/A	2013
Expected number of production lines upon full production		N/A	16	N/A	140
Expected production capacity upon full production (pairs/pieces)		N/A	12.0 million	N/A	16.4 million

Note: Estimated annual production capacity is an estimate we make with regard to each year taking into account a number of factors and assumptions, including, among others, number of production lines, amount of equipment and personnel, estimated rate of production per worker per hour, number of hours and days our workers work per month, and seasonal impact on production selection. As a result, there can be no assurance that total amounts we would have been able to produce in any year would have been higher or lower than the actual amount we produce for that year.

Research & development ("R&D")

Being a professional sportswear manufacturer, we endeavour to introduce high quality products with innovative designs and functionality to our customers. To this end, the Group continues to invest in R&D of new products. As at 31 December 2011, the Group operated four R&D workshops located in Beijing, Guangzhou, Quanzhou and Los Angeles. These workshops altogether employed approximately 250 research and design professionals. Through the interactions of the design teams in different workshops, we are capable of producing more innovative and stylish products to satisfy the needs of different consumer segments all over the world. During 2011, the Group introduced 683 new footwear products, 1,330 new apparel products and 763 new accessory products to the market.

In addition to product functionality and style, the R&D workshops take account of environmental protection issues when selecting raw materials and designing new products. The Group will continue to introduce more environmentally friendly or recycled materials and to adopt energy-saving processes to manufacture its products.

Supply chain management

A significant portion of the Group's total production of footwear and apparel was outsourced to contract manufacturers. We have two types of outsource arrangements with our contract manufacturers: (i) subcontract arrangements; and (ii) arrangements with original equipment manufacturers ("OEM"). Under the subcontract arrangements, we provide subcontractors with raw materials and pay them processing fees for manufacturing finished products for us. Under the OEM arrangements, we provide OEMs with the designs and specifications of our products and recommend suppliers for them to procure raw materials for their production. The OEM arrangements allow us to devote less of our management time on monitoring the whole production process so as to divert our resources to other areas such as monitoring Peak's sales network and enhancement of our brand image while the subcontract arrangements enable us to obtain more control over the production process.

The Group carefully selects and evaluates our contract manufacturers. Each of our contract manufacturers is subject to an annual evaluation and assessment of product quality and timeliness of product delivery. We monitor the operation and performance of our contract manufacturers by checking each batch of products delivered to us so as to report in a timely manner to relevant contract manufacturers any failure to meet our product quality requirements or incidents of late delivery.

In addition to the above procedures, the Group also adopts the following measures to ensure an efficient and effective supply of raw materials and finished goods:

- We source our raw materials from suppliers located in nearby regions such as Fujian Province, Guangdong Province and Jiangxi Province. The proximity of these suppliers to our production facilities helps reduce our procurement costs.

- We do not enter into any long-term agreements with any of our suppliers. This gives us flexibility to switch to other suppliers for lower raw material costs with better quality and delivery schedules that best suit our production needs.

- We organize four sales fairs each year to allow our distributors and retail outlet operators to review our new product collections and place pre-season orders generally six months in advance of the delivery of the ordered products. With this practice, production can be better planned in advance to ensure smooth supply of products to the market.

Human resources

We consider our people to be the most valuable asset to the Group and will continue to allocate sufficient resources to recruiting, training and rewarding our staff. During 2011, over 2,100 new production staff were recruited for the new production facilities at Hui'an, Fujian Province and Shang'gao, Jiangxi Province. We also recruited new staff for a number of departments including sales and marketing, logistics and R&D to cope with the expansion of our business. As at 31 December 2011, the Group's total headcount was approximately 12,000.

We care for the career development of our staff and provide various kinds of training courses and guidance to enhance their technical and product knowledge as well as knowledge of industry quality standards and workplace safety standards. We launched pre-job training programmes for new staff and other training programmes related to management skills, professional role, etc.

Our "Peak Business School", which is established to provide systematic training to our front-line sales staff, also provides training to our distributors and retail outlet operators regarding Peak's product knowledge and selling and promotion skills. During 2011, the school held 13 training camps for store managers and other training courses on topics such as regional training policy set-up, standard display set-up, project marketing and knowledge of current offerings to support our front-line operations.

We determine the remuneration of our employees based on factors such as qualifications, performance and years of experience. We generally distribute bonuses to our employees at each year end to reward their contribution to the Group. As an additional incentive to our employees, the Company grants share options to those employees that have demonstrated exceptional performance.

Prospects

We are very optimistic about the future development of the sportswear industry. To capture the growth of the domestic and emerging markets and to ensure sustained growth of our business, the Group will use our best endeavours to accomplish the following tasks in the coming years.

Enhancement of the Peak brand

The Group strives to enhance our international and professional image as we acknowledge our brand image is crucial to our development and success in future. Accordingly, we will continue to allocate a significant portion of our resources to brand building and maintenance. While we still focus on basketball to maintain our leading position in the basketball sector in China, we will also increase the marketing and promotion activities for other sports categories such as running, tennis and football. In coming years, the Group will continue to utilize renowned tournaments organizers such as NBA and FIBA and other promotion partners including teams, events and individual athletes to extend the reach and recognition of the Peak brand in the market.

Optimization of distribution channels

To prepare for the future development of the sportswear industry, the Group is going to optimize our distribution channels in 2012. Regarding our retail network, the Group will, through our distributors and retail outlet operators, open larger retail outlets and close down more small and less efficient retail outlets in 2012. At the same time, the Group will encourage each retail outlet operator to open more retail outlets so as to increase its capability to withstand changes in market conditions. Regarding our distributors, the Group will continue to increase their number to enhance their competitiveness in 2012. The Group may introduce a new distributor by allocating part of a region previously managed by an underperforming distributor to the new distributor. When the area managed by the underperforming distributor has been reduced, the distributor can concentrate its resources to manage better the smaller region. The Group will also encourage our distributors to open more of their own retail outlets to further enhance their efficiency and responsiveness to market changes.

Expansion of production capacity

As mentioned above, maintaining our own production capabilities will enable us to have better control of our production process and the flexibility and ability to respond promptly to market changes. Accordingly, the Group will invest approximately RMB150 million to complete the construction of and to purchase new machinery and equipment in our two existing production facilities in Hui'an, Fujian Province and Shang'gao, Jiangxi Province in 2012. To alleviate the impact of the shortage of labour around the coastal regions of China, the Group is going to build another apparel plant in Heze, Shandong Province ("Shandong Project"). The estimated annual production capacity for the new plant is about 30 million pieces of apparel with total capital expenditure amounting to about RMB1 billion. The major construction work of the Shandong Project has commenced this year and will take at least 4 years for its completion.

The Board is pleased to present this Corporate Governance Report in the Company's annual report for the year ended 31 December 2011.

The Company believes that good corporate governance practices are very important for maintaining and promoting investor confidence and for the sustainable growth of the Group. The Company has made continued efforts to maintain and uplift the quality of corporate governance, so as to ensure an effective Board, a sound internal control system, and transparency and accountability to its shareholders.

The Company has applied the principles as contained in the CG Code during the year ended 31 December 2011.

In the opinion of the Board, except as described in sections (A.2) and (A.7) below, the Company has complied with all the code provisions set out in the CG Code during the year ended 31 December 2011. The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review its corporate governance practices from time to time to ensure they comply with the increasingly tightened regulatory requirements and to meet the rising expectations of shareholders and other stakeholders. The following summarizes the Company's corporate governance practices.

(A) The Board

(A.1) Responsibilities and Delegation

The Board, led by the Chairman, is responsible for the leadership, management and control of the Company, oversees the Group's business strategic direction and performance and is collectively responsible for promoting the success of the Group by directing and supervising the Group's affairs. In addition, the Board has also delegated various responsibilities to the board committees. All the Directors carry out their duties in good faith and in compliance with applicable laws and regulations, making decisions objectively and acting in the interests of the Company and its shareholders at all times.

The Chairman is responsible for the leadership and effective functioning of the Board, while the EDs and the senior management are delegated with the authority to manage the day-to-day business of the Group in all aspects. The Chairman approves board meeting agendas and ensures that the Directors receive adequate, reliable and timely information on all board matters.

The EDs are responsible for different business and functional divisions of the Group in accordance with their respective areas of expertise. Daily operations and administration are delegated to the management, which are given clear directions as to their powers - particularly with respect to circumstances under which they should report back to and obtain prior approvals from the Board before making decisions or entering into any commitments on behalf of the Company.

(A.2) Board Composition

The Board members during the year ended 31 December 2011 and up to the date of this report are as follows:

EDs:

Mr. Xu Jingnan	*(Chairman of the Board, Chairman of the Executive Committee and Member of the Remuneration Committee)*
Mr. Xu Zhihua	*(Chief Executive Officer and Member of the Executive Committee)*
Mr. Xu Zhida	*(Member of the Executive Committee)*

NEDs:

Ms. Wu Tigao	
Mr. Shen Nanpeng	*(Member of the Remuneration Committee)*
Mr. Zhu Linan	

INEDs:

Dr. Xiang Bing	*(Chairman of both the Audit Committee and Remuneration Committee and Member of the Nomination Committee)*
Mr. Wang Mingquan	*(Chairman of the Nomination Committee and Member of both the Audit Committee and Remuneration Committee)*
Dr. Ouyang Zhonghui	*(Appointed on 10 March 2011; Member of the Audit Committee, Remuneration Committee and Nomination Committee)*
Dr. Rock Jin	*(Resigned on 31 January 2011; Former Chairman of the Nomination Committee and Former Member of both the Audit Committee and Remuneration Committee)*

Biographical details of the current Directors and the relationship among them are set out in the section headed "Directors and Senior Management" on pages 45 to 48 of this annual report.

The list of Directors (by category) is also set out under the section headed "Corporate Information" in this annual report and is disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time. The INEDs are expressly identified in all corporate communications of the Company.

The Board includes a balanced composition of EDs, NEDs and INEDs such that there is a sufficient independent element in the Board to exercise independent judgement on issues of strategy, policy, performance, accountability, resources, key appointment and standards of conduct.

The INEDs possess different business and professional backgrounds. Throughout the year ended 31 December 2011, except during the period as described below in this paragraph, the Board has met the requirements of Listing Rule 3.10 of having at least three independent non-executive directors with at least one of them possessing appropriate professional qualifications and accounting and related financial management expertise. Due to and upon the resignation of Dr. Rock Jin as an INED on 31 January 2011, the Company had only two INEDs, which caused the number of INEDs falling below the aforesaid minimum number required. Dr. Rock Jin's resignation also led to the insufficiency in the number of the Company's Audit Committee members (the minimum number as required under Listing Rule 3.21 is three) and in the number of INEDs in the Company's Remuneration Committee (a majority of the members of a listed issuer's remuneration committee should be independent non-executive directors according to the code provision B.1.1 of the CG Code). The Board has subsequently fully complied with the above Listing Rule and code provision requirements upon its appointment of Dr. Ouyang Zhonghui as an INED and a member of each of the Audit Committee and Remuneration Committee on 10 March 2011 to fill the vacancies left by Dr. Rock Jin. Details of the above-mentioned changes are set out in the Company's announcements dated 31 January 2011 and 10 March 2011 respectively.

The Board has received from each of the existing INEDs an annual written confirmation of independence pursuant to Listing Rule 3.13 and the Board considers each of them independent up to the date of this report. The Board has also received a written confirmation from Dr. Rock Jin confirming his independence up to the date of his resignation.

(A.3) Board Meetings and Board Practices

The Board meets regularly and holds at least four regular meetings at approximately quarterly intervals in a year, for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company. Additional meetings are held when significant events or important issues are required to be discussed and resolved. During the year ended 31 December 2011, the Board held five meetings. Details of individual attendance of each Director at these meetings are set out below:

Directors	**Meetings attended/held**	**Attendance (%)**
EDs		
Mr. Xu Jingnan *(Chairman)*	5/5	100
Mr. Xu Zhihua	5/5	100
Mr. Xu Zhida	4/5	80
NEDs		
Ms. Wu Tigao	4/5	80
Mr. Shen Nanpeng	4/5	80
Mr. Zhu Linan	5/5	100
INEDs		
Dr. Xiang Bing	4/5	80
Mr. Wang Mingquan	5/5	100
Dr. Ouyang Zhonghui	5/5	100
Dr. Rock Jin (Note)	N/A	N/A

Note: Dr. Rock Jin has resigned as an INED with effect from 31 January 2011. Prior to his resignation, no Board meeting was held during the year ended 31 December 2011. Accordingly, the attendance at the Board meetings held during the year ended 31 December 2011 is not applicable to him.

A formal notice of at least 14 days would be given to all Directors before each regular Board meeting. For all other Board meetings, reasonable notice would be given. All Directors are consulted on any matters proposed for inclusion in an agenda to enable the Directors to make informed decisions on Board matters. Board papers and related materials are made available to the Directors not less than three days before the intended date of a Board meeting. In addition, draft and final versions of minutes of Board meetings are sent to all Directors for comments and records respectively within a reasonable time after the Board meetings. The Company Secretary is responsible to keep minutes of all Board meetings.

The Chief Financial Officer, Company Secretary and members of the senior management normally attend regular Board meetings and, when and where necessary, other Board meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

Directors are required to declare their interests in the matters to be passed in a resolution, if any. If a substantial shareholder or a Director has a material conflict of interest in a matter to be considered by the Board, such matter will be dealt with pursuant to the applicable rules and regulations in a Board meeting and, if appropriate, an independent Board committee will be set up to deal with such matter.

Directors are timely informed of any major changes that may affect the Group's business, as well as changes in the relevant rules and regulations. They have an access to the advice and services of the Company Secretary to ensure that Board procedures and all applicable rules and regulations are followed. Where appropriate, they can also obtain independent professional advice at the expense of the Company.

(A.4) Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code provides that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. The positions of the Chairman and Chief Executive Officer of the Company are currently held by Mr. Xu Jingnan and Mr. Xu Zhihua, respectively, in order to maintain an effective segregation of duties in respect of the leadership of the Board and the day-to-day management of the Group's business and a balance of power and authority.

The respective responsibilities of the Chairman of the Board and the Chief Executive Officer have been established and set out in writing. The Chairman provides leadership to the Board so that the Board works effectively and discharges its responsibilities and that all key issues are discussed by the Board in a timely manner.

The Chief Executive Officer is responsible for the formulation of business directions and operational decisions of the management and performance of the Group. The Chief Executive Officer, together with other EDs and the senior management, are responsible for the implementation of strategies adopted by the Board and assume full accountability to the Board for the operations of the Group.

(A.5) Appointment, Re-election and Removal of Directors

Each of the NEDs and INEDs has been engaged for a term of three years and is subject to retirement by rotation and re-election in accordance with the Company's Articles of Association.

According to the Company's Articles of Association, one-third of the Directors for the time being (if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation at each AGM provided that every Director shall be subject to retirement at an AGM at least once every three years. In addition, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting after his appointment and any Director appointed by the Board as an addition to the existing Board shall hold office until the next following AGM. The retiring Directors are eligible for re-election by the shareholders at the respective general meetings.

Pursuant to the aforesaid provisions in the Company's Articles of Association, Mr. Xu Zhida, Mr. Zhu Linan and Dr. Xiang Bing, being not less than one-third of the Directors who are subject to retirement by rotation, shall retire by rotation at the forthcoming 2012 AGM. The above retiring Directors, being eligible, will offer themselves for re-election at the 2012 AGM. The Nomination Committee of the Company has also considered and recommended the re-election of these three retiring Directors. The Company's circular, sent together with this annual report, contains detailed information of these Directors pursuant to the requirements set out in the Listing Rules.

The Company may by an ordinary resolution remove a Director before the expiration of his/her period of office notwithstanding any provision in the Company's Articles of Association or in any agreement between the Company and such Director.

(A.6) Induction and Continuing Development for Directors

Each newly appointed Director receives induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Group and that he/she is aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The existing Directors are updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their duties. Continuing briefings and professional development to Directors will be arranged whenever necessary.

(A.7) Securities Transactions by Directors

The Company has adopted the Model Code as its own code of conduct regarding directors' securities transactions in the Company. The code provision A.5.4 of the CG Code stipulates that directors of a listed issuer must comply with their obligations under the Model Code. All the Directors, except for Mr. Xu Zhida, have confirmed, following specific enquiry by the Company, that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2011 and up to the date of this annual report. As already disclosed in the last year's corporate governance report, Mr. Xu Zhida informed the Company that he inadvertently purchased 1,000,000 shares of the Company on 19 January 2011, which was shortly after the commencement of the black-out period for Directors' dealings in shares of the Company on 14 January 2011. Mr. Xu Zhida advised that his purchase of the shares during the black-out period was a complete oversight on his part. He confirmed to the Company that at the time he made the purchase, he was not in possession of any insider or price sensitive information. With a view to demonstrating that he had no intention to make any short term profit from the purchase, he disposed of all the shares purchased on 19 January 2011 on the following day at a loss.

The Company has also established written guidelines on no less exacting terms than the Model Code for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company and/or its securities. No incident of non-compliance of the written guidelines by the Group's employees has been noted by the Company throughout the year ended 31 December 2011 and up to the date of this report.

When the Company is aware of any restricted period for dealings in the Company's securities, the Company will notify its Directors and relevant employees in advance. To avoid recurrence of any Director's dealing in shares of the Company during the black-out period in future, the Company has implemented new procedures which, among other things, include the requirement that Directors copy all notifications of intended dealing in the Company's securities to the Company Secretary in addition to the Chairman (or a specifically designated Director).

(B) Board Committees

The Board has established four Board committees, namely the Executive Committee, the Audit Committee, the Remuneration Committee and the Nomination Committee, for overseeing particular aspects of the Group's affairs. All Board committees have been established with defined written terms of reference which are available to Shareholders upon request. All the Board committees should report to the Board on their decisions or recommendations made.

The practices, procedures and arrangements in conducting meetings of Board committees follow in line with, so far as practicable, those of the Board meetings set out in section (A.3) above.

All Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances at the Company's expense.

(B.1) Executive Committee

The Executive Committee comprises all the EDs with the Chairman of the Board, Mr. Xu Jingnan, acting as the chairman of such Committee. The Executive Committee operates as a general management committee under the direct authority of the Board to increase the efficiency for business decisions. It monitors the execution of the Group's strategic plans and operations of all business units of the Group and discusses and makes decisions on matters relating to the management and day-to-day operations of the Group.

(B.2) Audit Committee

The Audit Committee was established in compliance with the Listing Rules and the CG Code. As stated in section (A.2) above, the Audit Committee comprised only two members, namely Dr. Xiang Bing and Mr. Wang Mingquan, who are both INEDs, immediately upon the resignation of Dr. Rock Jin as an INED on 31 January 2011, and subsequently on 10 March 2011, Dr. Ouyang Zhonghui was appointed as an INED and a member of the Audit Committee to fill the vacancy. The chairman of the Audit Committee is Dr. Xiang Bing who possesses the appropriate accounting and financial management expertise as required under Rule 3.10(2) of the Listing Rules. None of the members of the Audit Committee is a former partner of the Company's existing external auditor.

The primary duties of the Audit Committee include: (i) to review the financial statements and reports and consider any significant or unusual items raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditor before submission to the Board; (ii) to review the work of the external auditor, its fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of the external auditor; and (iii) to review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

During the year ended 31 December 2011, the Audit Committee held three meetings. Details of individual attendance of each member at these meetings are set out below:

Audit Committee Members	**Meetings attended/held**	**Attendance (%)**
Dr. Xiang Bing *(Chairman)*	3/3	100
Mr. Wang Mingquan	3/3	100
Dr. Ouyang Zhonghui	3/3	100
Dr. Rock Jin (Note)	N/A	N/A

Note: Dr. Rock Jin resigned as an INED with effect from 31 January 2011. Prior to his resignation, no Audit Committee meeting was held during the year ended 31 December 2011. Accordingly, the attendance at the Audit Committee meetings held during the year ended 31 December 2011 is not applicable to him.

The external auditor attended all the above three meetings to discuss with the Audit Committee members on audit and financial reporting matters.

The Audit Committee has performed the following major works during the year ended 31 December 2011:

- Review and discussion of the annual report and accounts for the year ended 31 December 2010, and the related accounting principles and practices adopted by the Group;
- Review and discussion of the internal control system;

- Review and discussion of the continuing connected transaction of the Group for the year ended 31 December 2010;

- Review of the independence of the external auditor and recommendation of its re-appointment at the Company's 2011 AGM;

- Review and discussion of the half-year report and accounts for the six months ended 30 June 2011, and the related accounting principles and practices adopted by the Group; and

- Discussion of the nature, plan and scope of the Group's audit for the year ended 31 December 2011.

There is no disagreement between the Board and the Audit Committee regarding the appointment of the external auditor.

(B.3) Remuneration Committee

The Remuneration Committee was established in compliance with the CG Code. As stated in section (A.2) above, Dr. Rock Jin resigned as an INED and also a member of the Remuneration Committee on 31 January 2011 while Dr. Ouyang Zhonghui was appointed as an INED and a member of the Remuneration Committee on 10 March 2011. At other times during the year ended 31 December 2011, the other four members of the Remuneration Committee included, being one ED, Mr. Xu Jingnan, one NED, Mr. Shen Nanpeng, and two INEDs, Dr. Xiang Bing and Mr. Wang Mingquan. The chairman of the Remuneration Committee is Dr. Xiang Bing.

The primary functions of the Remuneration Committee include the followings:

- to make recommendations to the Board on the Company's policy and structure of the remuneration of the Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

- to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

- to ensure that no Director or any of his/her associate is involved in deciding his/her own remuneration; and

- to have the delegated responsibility to determine the specific remuneration packages of all EDs and senior management, and make recommendations to the Board of the remuneration of NEDs and INEDs.

The Directors receive their remuneration in the form of salaries, benefits in kind and discretionary bonuses relating to the performance of the Group. They are also reimbursed for expenses which are necessarily and reasonably incurred for providing services to the Company or the Group or executing their functions in relation to the operations of the Company and the Group. The Directors' remuneration packages may also include options granted under the Company's share option scheme. The Remuneration Committee reviews and determines the remuneration or compensation packages of the Directors with reference to the remuneration packages adopted by comparable companies, time commitment and responsibilities of the Directors and performance of the Group.

During the year ended 31 December 2011, the Remuneration Committee held one meeting. Details of individual attendance of each member at the meeting are set out below:

Remuneration Committee Members	Meeting attended/held	Attendance (%)
Dr. Xiang Bing *(Chairman)*	1/1	100
Mr. Wang Mingquan	1/1	100
Mr. Shen Nanpeng	1/1	100
Mr. Xu Jingnan	1/1	100
Dr. Ouyang Zhonghui	1/1	100
Dr. Rock Jin (Note)	N/A	N/A

Note: Dr. Rock Jin has resigned as an INED with effect from 31 January 2011. Prior to his resignation, no Remuneration Committee meeting was held during the year ended 31 December 2011. Accordingly, the attendance at the Remuneration Committee meeting held during the year ended 31 December 2011 is not applicable to him.

At the aforesaid Remuneration Committee meeting, the remuneration packages and year-end bonuses of all the Directors were reviewed by reference to the Group's performance and profitability as well as the remuneration level of directors in some listed corporations in our industry. Details of the remuneration of Directors are set out in Note 7 to the consolidated financial statements on page 78 of this annual report.

(B.4) Nomination Committee

The Nomination Committee was established in compliance with the recommended best practice set out in the CG Code. Dr. Rock Jin resigned as an INED and also the chairman of the Nomination Committee on 31 January 2011. Mr. Wang Mingquan and Dr. Ouyang Zhonghui were appointed as the chairman and a member of the Nomination Committee respectively on 10 March 2011. At other times during the year ended 31 December 2011, the other members of the Nomination Committee were two INEDs, Dr. Xiang Bing and Mr. Wang Mingquan.

The primary duties of the Nomination Committee include the followings:

- to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and to recommend any changes to the Board;
- to identify qualified and suitable individuals to become Board members and to select or make recommendations to the Board on the selection of individuals nominated for directorships;
- to assess the independence of INEDs, having regard to the requirements under the Listing Rules; and
- to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors in particular, the Chairman and the Chief Executive Officer of the Company.

In considering the appointment of a new Director, the Nomination Committee may make reference to certain criteria such as integrity, independent mindedness, experience, skill and the amount of time and effort that a candidate will devote to carry out his/her duties and responsibilities as a Director, etc.

During the year ended 31 December 2011, the Nomination Committee held one meeting. Details of individual attendance of each member at the meeting are set out below:

Nomination Committee Members	Meeting attended/held	Attendance (%)
Mr. Wang Mingquan *(Chairman)*	1/1	100
Dr. Xiang Bing	1/1	100
Dr. Ouyang Zhonghui	1/1	100
Dr. Rock Jin (Note)	N/A	N/A

Note: Dr. Rock Jin has resigned as an INED with effect from 31 January 2011. Prior to his resignation, no Nomination Committee meeting was held during the year ended 31 December 2011. Accordingly, the attendance at the Nomination Committee meeting held during the year ended 31 December 2011 is not applicable to him.

At the foregoing meeting, the Nomination Committee: (i) reviewed the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements for the business of the Group; (ii) considered and recommended the re-election of the retiring Directors at the 2011 AGM; and (iii) assessed the independence of INEDs.

(C) Accountability and Audit

The Board is provided with explanations and information by the senior management of the Company, so that the Directors have an informed assessment of the financial and other information of the Company putting forward to the Board for discussion and approval.

All the Directors have acknowledged their responsibilities for preparing and reviewing the Company's financial statements and ensure that the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2011 and of the profit and cash flows of the Group for the year then ended. In preparing the Company's financial statements, the Board has selected and applied suitable accounting policies and principles generally accepted internationally, has made prudent and reasonable judgements and estimates, and has prepared the financial statements on a going concern basis. The statement by the external auditor of the Company regarding its reporting responsibilities on the financial statements of the Company and the Group is set out in the "Independent Auditor's Report" on page 59 of this annual report.

The Board's endeavors in presenting a balanced, clear and understandable assessment of the Group's position and prospects extend to annual and interim reports, other price-sensitive announcements and financial disclosures of the Company required under the Listing Rules and other applicable rules, and to other reports to regulators as well as to other information required to be disclosed pursuant to statutory requirements. Accordingly, the Board will exercise due care in reviewing any relevant announcements, reports, or any other information before they are published.

For the year ended 31 December 2011, the remuneration paid and payable to KPMG, the Company's external auditor, amounted to RMB2.0 million for audit services to the Group and amounted to RMB0.8 million for non-audit services, i.e., review for the Group's interim financial report.

(D) Internal Controls

The Board acknowledges its responsibility in maintaining effective and sound internal control system for the Group to safeguard the Group's assets and protect the interests of its shareholders. The internal control system is also designed to ensure the effectiveness and efficiency of the Group's operations, to enhance reliability of internal and external financial reporting, and to ensure compliance of applicable laws and regulations.

During the year ended 31 December 2011, the Board reviewed the effectiveness of the Group's internal control system. The review covered all material controls, including financial, operational and compliance controls and risk management functions. The Board also considered the Group's adequacy of resources, qualifications and experience of staff in its accounting and financial reporting functions, and their training programmes and budget.

(E) Communication with Shareholders

The Company highly values its relationship with its shareholders and other stakeholders. The Company has put in place an effective corporate communication system which provides transparent, regular and timely public disclosures to its shareholders and other stakeholders. The main features of the system are as follows:

- The Company maintains a corporate website www.peaksport.com on which comprehensive information about the Group, including products and services provided, financial reports, public announcements, circulars and news of the Group, is disclosed. Shareholders can obtain corporate communication electronically via the Company's website;

- The Company establishes and maintains different communication channels with its shareholders and other stakeholders through annual reports, interim reports and press releases;

- AGM provides a useful forum for the shareholders to exchange views with the Board. The respective chairmen of the Board and Audit, Remuneration and Nomination Committees (or in the absence of the chairmen of such Committees, another member of each Committee or failing this his duly appointed delegate) will endeavor to be available to answer questions raised by the shareholders;

- Separate resolutions are proposed at general meetings for each substantially separate issue, including the election of individual Directors;

- Details of the proposed resolutions to be put forward at a general meeting are, where necessary or appropriate, included in a circular to the shareholders dispatched prior to the date of the relevant general meeting; and

- All resolutions put to the vote of general meetings are taken by poll. The poll results are published on the Hong Kong Stock Exchange's website www.hkexnews.hk and on the Company's website.

In addition, the Company has established the investor relations department with designated senior management for maintaining regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from shareholders and other stakeholders are dealt with in an informative and timely manner. Shareholders and other stakeholders may write directly to the Company at its principal place of business in Hong Kong or via email to ir@peaksport.com.hk for any enquiries.

Corporate Social Responsibility Report

Statement of Policies

The Group has incorporated the performance of corporate social responsibilities into its development strategies, corporate governance structures, corporate culture and business processes. The above arrangement coupled with the Group's determination to create a harmonious environment for its shareholders, staff and the community at large, enable the Group to achieve sustainable development.

Based on its understanding of the risks and opportunities in the market, the Group has established its strategic mission for corporate social responsibilities as "Efficiency in operation, Growth for staff, Cooperation for win-win situation and Contribution to society" to ensure a sustainable development.

To grow with our staff

Since its establishment, the Group has been adopting the principle of complying with relevant labour rules and regulations. The Group signs employment contracts with all its employees and implements its policy on human resources in compliance with the relevant rules and regulations.

Regarding the production process, the Group strives to resolve safety issues in its production workshops that may be hazardous to the health of its workers. The Group installed dust removal equipment at its footwear production lines, which substantially reduced the particles suspending in the air. Exhaust gas ventilation equipment was also installed to prevent the harmful impact on the health of workers caused by exhaust gases.

The Group places much emphasis on the career development of its employees. The Group organized various training activities to enhance the business skills and professional ethics of its employees. The Group established "Peak Business School", the objective of which is to provide a systematic training to its front line sales people. The school also provides training on knowledge about Peak branded products as well as sales and marketing techniques for the Group's distributors and third party retail outlets operators. The school held training sessions for the staff from the Group's marketing department, as well as staff from its distributors and third party retail outlets operators. The training sessions received good responses from the participants.

Every year, the Group recruits outstanding graduates through vigorous interviews and selection procedures. These trainees generally undergo a year of training and appraisal, through which trainees with good potential are selected for further training and cultivation as candidates for the Group's management team in future. The Group specifically prepared "Procedures and administration for training potential candidates for management team", which expressly specifies the training period, process and objectives for the training of such potential candidates.

The Group is dedicated to creating a good working environment through continuous improvement in employee benefits such as increasing the number of coaches carrying employees to and from their work places, expansion and refurbishment of staff dormitory and improvement of services at staff canteens. The Group organizes various recreational and entertaining activities for its employees to enrich their life at leisure. It also offers incentives to its employees to encourage creative ideas and new inventions as to strengthen their trust and support to the Group. In addition, the Group allows its employees to form a labour union and meetings between the union representatives and senior management are held regularly in each year to discuss matters related to employees' benefits. The Group listens to feedback from its employees patiently and reacts and responds quickly. As a result, the Group is able to keep a relatively low employee turnover rate.

I CAN PLAY

To fulfill environmental protection responsibilities

The Group obtained the ISO14001 certification regarding its environmental protection system and has prepared and implemented the "Peak Sport Environmental Protection Manual". The manual covers 28 key issues on management for environmental protection and also includes other management modules such as standardized application documents, terms and definitions, directions, planning strategies, implementation and operation procedures, and inspection and appraisal programs.

In addition, the Group's research and development department takes account of environmental protection issues such as energy saving in the course of developing and designing new products. Provided that the quality of new products can be assured, the Group develops and designs its new products by using more recycled and light-weight materials. Take the Group's footwear products for example, the Group replaced all glue used in footwear production with benzene-free glue many years ago. The Group then used the non-acidic benzene-free glue which was more environmentally friendly and as a result, the Group has achieved the non-toxic standard for its products. The Group will continue to expand further the application of environmentally friendly materials and develop new products with environmental protection features.

The Group strictly controls the discharge of three categories of pollutants, namely the discharge of "waste water", "exhaust gas" and "residual materials" to ensure compliance with standards set by the State and local governments. The Group continues to acquire new and update its environmental protection equipment which includes installation of sewage treatment system at its production plants to ensure the sewage, exhaust gas and noise level complying with relevant environmental protection standards of the State and local governments.

To participate in charitable activities

The Group has been receiving a lot of support from different segments of society since its establishment. It always upholds the principle of "rewarding to society and creating value for society" and has been supporting all kinds of charity including helping the poor, providing bursaries and disaster relief, etc for years. Peak was awarded the "Outstanding Corporate Citizen in China" and "Chinese Charity — Collective" in 2011.

Every year, the Group makes contribution to the Peak Sport Charity Fund which is set up by the Group and Quanzhou Charity Foundation and other charitable organizations. During 2011, the Group's total contribution for charitable purposes amounted to RMB3,025,400.

Executive Directors

Mr. Xu Jingnan, aged 56, is the founder of the Group. He is also the Chairman, an ED, the chairman of the Executive Committee and a member of the Remuneration Committee of the Company. Mr. Xu is also a director and/or a member of senior management of various subsidiaries of the Company. He is the key decision-maker of the Group and responsible for the operation of the Board as well as the Group's overall strategic planning and the management of the Group's businesses. Mr. Xu launched the Peak brand in 1991 and has over 20 years of experience in the sportswear industry in China. In addition, Mr. Xu is a member of the 15th Quanzhou Municipal People's Congress, vice-chairman of the Fengze Area Committee of the People's Political Consultative Conference, committee member of Quanzhou General Chamber of Commerce and the chairman of the General Chamber of Commerce of Fengze District of Quanzhou City. Mr. Xu graduated from Central Institute of Socialism, majoring in Business Administration, in 1994. He was recognised as an economist in 1991 by the Human Resources Bureau of Fujian Province. He is also the controlling shareholder and director of Ever Sound Development Limited (a controlling shareholder of the Company), the spouse of Ms. Wu Tigao (a controlling shareholder and a NED of the Company), the father of Mr. Xu Zhihua (a substantial shareholder, the Chief Executive Officer and an ED of the Company) and Mr. Xu Zhida (a substantial shareholder and an ED of the Company), and the father-in-law of Ms. Wu Bingrui (the Sales Officer (International Sales) of the Company).

Mr. Xu Zhihua, aged 33, is an ED, Chief Executive Officer and a member of the Executive Committee of the Company. Currently, he is also a director and/or a member of senior management of certain subsidiaries of the Company. Mr. Xu is primarily responsible for the brand management and marketing, as well as management of distributors and sales channels of the Group. Mr. Xu joined the Group in 2001 and has more than 10 years of experience in the sportswear industry in Mainland China. Mr. Xu obtained a Bachelor of Science degree in Applied Information Technology from Sichuan University in 2001 and a Master of Business Administration degree from Guanghua School of Management, Peking University in 2004. Mr. Xu was accredited "Top 10 Example Individual for Staff Management of Quanzhou City" in 2007 by various local authorities, including the Chinese Communist Party Quanzhou Commission (中共泉州市委組織部). He is also the sole shareholder and director of Alpha Top Group Limited (a substantial shareholder of the Company), a son of Mr. Xu Jingnan (a controlling shareholder, the Chairman and an ED of the Company) and Ms. Wu Tigao (a controlling shareholder and a NED of the Company), the elder brother of Mr. Xu Zhida (a substantial shareholder and an ED of the Company) and the brother-in-law of Ms. Wu Bingrui (the Sales Officer (International Sales) of the Company).

Mr. Xu Zhida, aged 31, is an ED and a member of the Executive Committee of the Company. Currently, he is also a director and/or a member of senior management of certain subsidiaries of the Company. Mr. Xu is primarily responsible for the Group's product sales, production, research and development and product design. Mr. Xu joined the Group in 2000 and has more than 10 years of experience in the sportswear industry in China. He is also the sole shareholder and director of Brilliant Lead Group Limited (a substantial shareholder of the Company), a son of Mr. Xu Jingnan (a controlling shareholder, the Chairman and an ED of the Company) and Ms. Wu Tigao (a controlling shareholder and a NED of the Company), a younger brother of Mr. Xu Zhihua (a substantial shareholder, the Chief Executive Officer and an ED of the Company) and the spouse of Ms. Wu Bingrui (the Sales Officer (International Sales) of the Company).

Non-executive Directors

Ms. Wu Tigao, aged 57, is a NED of the Company. She is currently a director of a subsidiary of the Company and is responsible for certain cash management function of the Group. Ms. Wu joined the Group in 1996. Ms. Wu is a director and a shareholder of Ever Sound Development Limited (a controlling shareholder of the Company), the spouse of Mr. Xu Jingnan (a controlling shareholder, the Chairman and an ED of the Company), the mother of Mr. Xu Zhihua (a substantial shareholder, the Chief Executive Officer and an ED of the Company) and Mr. Xu Zhida (a substantial shareholder and an ED of the Company), and the mother-in-law of Ms. Wu Bingrui (the Sales Officer (International Sales) of the Company).

Mr. Shen Nanpeng, aged 44, is a NED and a member of the Remuneration Committee of the Company. He joined the Group in 2007. Mr. Shen obtained a Bachelor's degree from Shanghai Jiao Tong University in 1988 and a Master's degree from Yale University in 1992. Mr. Shen is the founding managing partner of Sequoia Capital China. He is also a director of a number of listed companies including E-House (China) Holdings Ltd. (a company listed on the New York Stock Exchange), Feihe International, Inc. (formerly known as "American Dairy, Inc.", a company listed on the New York Stock Exchange), Ctrip.com International Limited (a company listed on NASDAQ Stock Market), Home Inns and Hotels Management Inc. (a company listed on NASDAQ Stock Market), Focus Media Holding Ltd. (a company listed on NASDAQ Stock Market), China Nuokang Bio-Pharmaceutical Inc. (a company listed on NASDAQ Stock Market), China Real Estate Information Corporation (a company listed on NASDAQ Stock Market), Le GaGa Holdings Limited (a company listed on NASDAQ Stock Market) and Mecox Lane Limited (a company listed on NASDAQ Stock Market). Mr. Shen has worked at Deutsche Bank, Chemical Bank, Lehman Brothers and Citibank and possesses more than 8 years working experience in the investment banking industry in New York and Hong Kong. Mr. Shen was awarded "Economic Figure of the Year" by CCTV in 2006 and was voted "Entrepreneur of the Year" by Asian Venture Capital Journal in 2004. Mr. Shen was named "Venture Capitalist of the Year" by Top Capital Magazine in March 2007 and was also named one of the "Top 10 Most Active Venture Capitalists" in 2006 and 2008 by Zero2IPO. He is also the sole shareholder and director of SNP China Enterprises Limited (a substantial shareholder of the Company), and a director of SC China Holding Limited and Sequoia Capital China Advisors Limited (wholly-owned subsidiaries of SNP China Enterprises Limited and substantial shareholders of the Company).

Mr. Zhu Linan, aged 49, was appointed as a NED of the Company in April 2009. Mr. Zhu holds a Master's degree in Electronic Engineering from Shanghai Jiao Tong University. He is a Senior Engineer certified by the Chinese Academy of Sciences and enjoys the special subsidy granted by the State Council of the People's Republic of China. Mr. Zhu is the founder, chief executive officer, managing director and a member of the Investment Committee of Legend Capital Co., Ltd., a subsidiary of Legend Holdings Limited. He is the executive vice president of Legend Holdings Limited. Currently, Mr. Zhu also serves as a non-executive director at Lenovo Group Limited (a company listed on the Main Board of the Hong Kong Stock Exchange) and Foshan Saturday Shoes Co., Ltd. (a company listed on the Shenzhen Stock Exchange). Mr. Zhu has over 20 years of experience in the IT industry and rich management experience. Mr. Zhu was named as one of the "Top Venture Capitalists in 2009" by TopCapital, "Most Respected Entrepreneurs in 2008" by The Founder Magazine, "Most Well-recognized Investors in China's Venture Capital Industry in 2008" by Peking University Business Review, and "Top 10 VC Funds and Investors in 2008" by China Venture Capital and Private Equity Association.

Independent Non-executive Directors

Dr. Xiang Bing, aged 49, was appointed as an INED of the Company in September 2009. He is also the chairman of each of the Audit Committee and the Remuneration Committee and a member of the Nomination Committee of the Company. Dr. Xiang obtained a Doctor of Philosophy degree in Accounting from University of Alberta, Canada in 1991. Dr. Xiang is currently the founding dean and professor of Cheung Kong Graduate School of Business. He has extensive experience in cooperating with multi-national corporations to offer professional programs regarding, in particular, corporate governance and internal control, to their senior executives. Currently, Dr. Xiang is acting as an independent non-executive director of a number of listed companies in Hong Kong, Shenzhen and New York as follows:

Name of listed company	Stock code	Place of listing
Dan Form Holdings Company Limited	271	Hong Kong
HC International, Inc.	8292	Hong Kong
China Dongxiang (Group) Co., Ltd.	3818	Hong Kong
Enerchina Holdings Limited	622	Hong Kong
Sinolink Worldwide Holdings Limited	1168	Hong Kong
Longfor Properties Co. Ltd.	960	Hong Kong
Guangzhou Automobile Group Co., Ltd.	2238	Hong Kong
LDK Solar Co. Ltd.	LDK	New York
Perfect World Co. Ltd.	NASDAQ: PWRD	New York
E-House (China) Holdings Limited	EJ	New York
Yunnan Baiyao Group Co., Ltd.	000538	Shenzhen
Shaanxi Qinchuan Machine Development Co., Ltd.	000837	Shenzhen

Mr. Wang Mingquan, aged 65, was appointed as an INED of the Company in September 2009. He is also a member of both the Audit Committee and the Remuneration Committee, and the chairman of the Nomination Committee of the Company. Mr. Wang obtained a Bachelor of Chinese Language Literature degree from The Open University of Fujian in 1984. Mr. Wang has extensive experience in economic planning. Mr. Wang retired in September 2006. Before his retirement, Mr. Wang has worked as the head of Quanzhou Bureau of Foreign Trade and Economic Cooperation, the vice-director of Quanzhou Development and Reform Commission, the vice-head of Quanzhou Municipal Bureau of Statistics, the director of Licheng Development and Reform Bureau, and the secretary of the Chinese Communist Party Committee in Quanzhou Donghai Commune.

Dr. Ouyang Zhonghui, aged 64, was appointed as an INED of the Company in March 2011. He is also a member of the Audit Committee, Remuneration Committee and Nomination Committee of the Company. Dr. Ouyang graduated from the Faculty of Geology of Nanjing University majoring in Mining Geology in 1975. He obtained a Master's degree in Education and Doctorate's degree in Education from Harvard University in 1985 and 1993 respectively. Dr. Ouyang currently is the dean of the TSL School of Business and Information Technology of Quanzhou Normal University and the head of the Research Institute of E-Commerce of Quanzhou Normal University. He also holds a number of community positions including an executive director of the China Information Economics Society, an expert of the Informatization Expert Group for Manufacturing Industry in Fujian, the deputy director of the Expert Committee of the Leading Group for Quanzhou Informatization, and the chairman of Quanzhou Enterprise Informatization Association. Dr. Ouyang possesses nearly 30 years of experience in the development, application, research and education of information technology, enterprise informatization, e-commerce, information economy and regional economy. He was appointed as an instructor for master's students of the Software School of Xiamen University. Dr. Ouyang was granted the Sixth Friendship Award by the Government of Fujian Province in January 2010 due to his outstanding contribution to the social and economic development of Fujian.

Senior Management

Mr. Tsoi Ka Ho, aged 47, joined our Group in 2008 and is our Company's Chief Financial Officer and the Company Secretary. Mr. Tsoi graduated from The Hong Kong Polytechnic University with a Professional Diploma in Accountancy in 1988. He also obtained a Bachelor of Science degree in Economics from University of London in 1994. Mr. Tsoi is a member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and the Institute of Chartered Accountants in England and Wales. Mr. Tsoi has over 20 years of experience in auditing, accounting, financial control and financial management.

Mr. Li Wei, aged 35, joined our Group in 2007 and is the Deputy General Manager of Peak (China) Company Limited. Prior to joining our Group, Mr. Li has been in the managerial positions in a number of sportswear companies in China for more than 10 years.

Mr. Li Shumei, aged 46, joined our Group in 2006 and is our Group's Factory Manager (Footwear Division). Mr. Li was awarded a certificate on Production Management by Whitworth Institute for International Management in 1994. Prior to joining our Group, Mr. Li has been in the managerial positions in a number of sportswear companies in China and has over 20 years of experience in the sportswear industry.

Ms. Li Yashuang, aged 47, joined our Group in 2004 and is our Group's Factory Manager (Apparel Division). Ms. Li has more than 20 years of management experience in apparel industry.

Mr. Cai Jinhai, aged 35, joined our Group in 2007 and is our Chief Marketing Officer. Mr. Cai has approximately 10 years of experience in sales and marketing.

Ms. Wu Bingrui, aged 31, joined our Group in 2004 and is our Sales Officer (International Sales). Ms. Wu obtained a Bachelor of Arts degree in English Language from Fujian Normal University. Ms. Wu has approximately 8 years of sales and marketing experience in the sportswear industry. She is the daughter-in-law of Mr. Xu Jingnan (a controlling shareholder, the Chairman and an ED of the Company) and Ms. Wu Tigao (a controlling shareholder and a NED of the Company), the sister-in-law of Mr. Xu Zhihua (a substantial shareholder, the Chief Executive Officer and an ED of the Company) and the spouse of Mr. Xu Zhida (a substantial shareholder and an ED of the Company).

Ms. Lin Bi Lian, aged 43, joined our Group in 1989 and is our Sales Officer (Domestic Sales). Ms. Lin graduated from The Open University of Fujian (福建廣播電視大學), majoring in sales and marketing. Ms. Lin has over 20 years of sales and marketing experience in the sportswear industry.

The Directors are pleased to submit the annual report together with the audited consolidated financial statements for the year ended 31 December 2011.

Registered office

The Company is incorporated and domiciled in the Cayman Islands and has its registered office at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

Principal activities

The Group is principally engaged in manufacturing and distribution of sportswear including footwear, apparel and accessories. The principal activities and other particulars of the Group's subsidiaries are set out in note 18 to the consolidated financial statements.

Major customers and suppliers

During the year, the Group sold less than 30% of its goods and services to its 5 largest customers and purchased less than 30% of its raw materials and supplies from its 5 largest suppliers.

Consolidated financial statements

The profit of the Group for the year ended 31 December 2011 and the state of the Company's and the Group's affairs as at that date are set out in the consolidated financial statements on pages 60 to 99.

Transfer to reserves

Profits attributable to shareholders, before dividends, of RMB777,681,000 (2010: RMB822,268,000) have been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity.

An interim dividend of HK3 cents per ordinary share for the six months ended 30 June 2011 (2010: HK7 cents per ordinary share) was paid on 23 September 2011. The Directors recommended the payment of a final dividend of HK11 cents per ordinary share in respect of the year ended 31 December 2011 (2010: HK10 cents per ordinary share), totaling RMB187,354,000 (2010: RMB175,557,000).

Charitable donations

Charitable donations made by the Group during the year amounted to RMB3,025,400.

Property, plant and equipment

Details of the movements in property, plant and equipment of the Group are set out in note 12 to the consolidated financial statements.

Share capital

Details of the movements in share capital of the Company are set out in note 27 to the consolidated financial statements.

Distributable reserves

Distributable reserves of the Company at 31 December 2011, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to RMB1,414,880,000 (2010: RMB1,727,671,000).

Pre-emptive rights

There is no provision for pre-emptive rights under the Company's Articles of Association and there is no restriction against such rights under the laws of the Cayman Islands.

Purchase, sale or redemption of the Company's listed shares

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares during the financial year ended 31 December 2011.

Directors

The Directors during the financial year and up to the date of this report were:

EDs
Mr. Xu Jingnan *(Chairman)*
Mr. Xu Zhihua
Mr. Xu Zhida

NEDs
Ms. Wu Tigao
Mr. Shen Nanpeng
Mr. Zhu Linan

INEDs
Dr. Xiang Bing
Mr. Wang Mingquan
Dr. Ouyang Zhonghui (appointed on 10 March 2011)
Dr. Rock Jin (resigned on 31 January 2011)

In accordance with clause 84(1) of the Articles of Association, Mr. Xu Zhida, Mr. Zhu Linan and Dr. Xiang Bing, being not less than one-third of the Directors who are subject to retirement by rotation, will retire and, being eligible, offer themselves for re-election at the 2012 AGM.

Directors' service contracts

None of the Directors who are proposed for re-election at the AGM has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

Directors' interests and short positions in shares, underlying shares and debentures

As at 31 December 2011, the interests of the Directors in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code, or as known by the Company, were as follows:

(A) Long position in ordinary shares of the Company

Name of Director	Capacity	Note	Number of ordinary shares interested	Percentage+ of the Company's issued share capital
Mr. Xu Jingnan	Interest held by controlled corporation	1	809,982,020	38.61%
Ms. Wu Tigao	Interest held by controlled corporation	1	809,982,020	38.61%
Mr. Xu Zhida	Interest held by controlled corporation	2	274,660,000	13.09%
Mr. Xu Zhihua	Interest held by controlled corporation	3	273,060,000	13.02%
Mr. Shen Nanpeng	Beneficial owner and interest held by controlled corporations	4	133,989,703	6.39%

Notes:

1. These shares were held by Ever Sound Development Limited, the entire issued share capital of which was owned as to 70% by Mr. Xu Jingnan and 30% by Ms. Wu Tigao.

2. These shares were held by Brilliant Lead Group Limited, a corporation wholly owned and controlled by Mr. Xu Zhida.

3. These shares were held by Alpha Top Group Limited, a corporation wholly owned and controlled by Mr. Xu Zhihua.

4. 3,468,564 of these shares were held by Mr. Shen Nanpeng while the remaining 130,521,139 shares were held by the following six investment funds managed by Sequoia Capital China Advisors Limited, a wholly owned subsidiary of SNP China Enterprises Limited: Sequoia Capital China I, L.P. (for 42,532,576 shares); Sequoia Capital China Partners Fund I, L.P. (for 4,888,802 shares); Sequoia Capital China Principals Fund I, L.P. (for 6,583,310 shares); Sequoia Capital China Growth Fund I, L.P. (for 66,737,649 shares); Sequoia Capital China Growth Partners Fund I, L.P. (for 1,591,542 shares); and Sequoia Capital China GF Principals Fund I, L.P. (for 8,187,260 shares). The general partners of the first three investment funds and the last three investment funds above were Sequoia Capital China Management I, L.P. and Sequoia Capital China Growth Fund Management I, L.P., respectively. SC China Holding Limited, a wholly owned subsidiary of SNP China Enterprises Limited, was the general partner of both Sequoia Capital China Management I, L.P. and Sequoia Capital China Growth Fund Management I, L.P. As SNP China Enterprises Limited was wholly owned by Mr. Shen Nanpeng, he was deemed to be interested in the 130,521,139 shares in which SNP China Enterprises Limited had deemed interest as mentioned above pursuant to the SFO.

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Directors' interests and short positions in shares, underlying shares and debentures (continued)

(B) Long position in underlying shares of the Company – physically settled unlisted equity derivatives

Name of Director	Capacity	Note	Number of underlying shares in respect of the share options granted	Percentage+ of underlying shares over the Company's issued share capital
Mr. Xu Zhida	Interest held by spouse	1&2	300,000	0.01%
Dr. Xiang Bing	Beneficial owner	2	200,000	0.01%
Mr. Wang Mingquan	Beneficial owner	2	200,000	0.01%

Notes:

1. Mr. Xu Zhida was deemed to be interested in these 300,000 share options of the Company owned by his spouse, Ms. Wu Bingrui, pursuant to the SFO.

2. Details of the above share options granted by the Company as required to be disclosed pursuant to the Listing Rules are set out in the section headed "Share option scheme" below.

\+ The percentage represents the number of ordinary shares/underlying shares interested divided by the number of the Company's issued shares as at 31 December 2011.

Save as disclosed above and in the below section headed "Share option scheme", as at 31 December 2011, none of the Directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was deemed or taken to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Hong Kong Stock Exchange.

Directors' rights to acquire shares or debentures

Save as disclosed in the below section headed "Share option scheme", at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

Share option scheme

Pursuant to the Company's share option scheme which was approved, adopted and amended by the resolutions of shareholders of the Company passed on 8 September 2009 and 18 May 2011 (the "Scheme"), the Company may grant share options to "Eligible Persons" (including Directors, employees, suppliers, customers or other business partners of any member of our Group) to subscribe for the Company's shares. The purpose of the Scheme is to provide incentive or reward to the Eligible Persons for their contribution to, and continuing efforts to promote the interests of, our Group and to enable our Group to attract and retain high-calibre employees and business partners.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company must not exceed 30% of the total number of shares in issue from time to time. No option may be granted to any participant of the Scheme such that the total number of shares issued and to be issued upon exercise of the options granted and to be granted to that person in any 12-month period up to the date of the latest grant exceeds 1% of the Company's issued share capital from time to time. Any grant or further grant of share options in excess of this limit is subject to shareholders' approval in advance in a general meeting of the Company.

Each grant of share options to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, is subject to approval in advance by the INEDs. In addition, any grant of share options to a substantial shareholder or an INED, or to any of their associates, resulting in the shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person, in a 12-month period up to and including the date of such grant in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, is subject to shareholders' approval in advance in a general meeting of the Company.

The subscription price of share options is determined by the Board and must not be less than the highest of (i) the closing price of the Company's shares as stated in the Hong Kong Stock Exchange's daily quotations sheet on the date of offer of the share options, which must be a business day; (ii) the average of the closing prices of the Company's shares as stated in the Hong Kong Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of offer of the share options; and (iii) the nominal value of a share of the Company.

An option may be exercised in accordance with the terms of the Scheme at any time during a period as determined by the Board and not exceeding 10 years from the date of a grant. Unless the Directors determine otherwise, there is no minimum period for which an option must be held before it can be exercised. The offer of a grant of share options may be accepted within 28 days from the date of offer upon payment of a nominal consideration of RMB1 in total by the grantee. The Scheme shall be valid and effective for a period of 10 years since the approval of the Scheme, i.e. 8 September 2009, after which no further options will be granted or offered.

The total number of shares of the Company currently available for issue under the Scheme is 197,205,339 shares, representing approximately 9.40% of the issued share capital of the Company as at the date of this annual report.

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Share option scheme (continued)

Further details of the Scheme are set out in note 25 to the consolidated financial statements. Details of movements of the options granted under the Scheme for the year ended 31 December 2011 are as follows:

Name or category of option holder	Date of grant	Exercise price per share	Number of options: Outstanding as at 1/1/2011	Granted during the year	Exercised during the year	Cancelled during the year	Forfeited during the year	Outstanding as at 31/12/2011	Exercise period (Note 2)
INEDs									
Dr. Xiang Bing	1 June 2010	HK$5.604	60,000	–	–	–	–	60,000	A
			60,000	–	–	–	–	60,000	B
			80,000	–	–	–	–	80,000	C
			200,000	–	–	–	–	200,000	
Dr. Rock Jin (Note 3)	1 June 2010	HK$5.604	60,000	–	–	–	(60,000)	–	A
			60,000	–	–	–	(60,000)	–	B
			80,000	–	–	–	(80,000)	–	C
			200,000	–	–	–	(200,000)	–	
Mr. Wang Mingquan	1 June 2010	HK$5.604	60,000	–	–	–	–	60,000	A
			60,000	–	–	–	–	60,000	B
			80,000	–	–	–	–	80,000	C
			200,000	–	–	–	–	200,000	
Substantial shareholder									
Ms. Wu Bingrui (Sales Officer (International Sales))	1 June 2010	HK$5.604	90,000	–	–	–	–	90,000	A
			90,000	–	–	–	–	90,000	B
			120,000	–	–	–	–	120,000	C
			300,000	–	–	–	–	300,000	
Employees of the Group									
In aggregate	9 February 2010	HK$5.196	3,489,300	–	(126,000)	–	(275,300)	3,088,000	D
			3,489,300	–	–	–	(381,300)	3,108,000	E
			4,652,400	–	–	–	(508,400)	4,144,000	F
			11,631,000	–	(126,000)	–	(1,165,000)	10,340,000	
In aggregate	1 June 2010	HK$5.604	540,000	–	–	–	(30,000)	510,000	A
			540,000	–	–	–	(30,000)	510,000	B
			720,000	–	–	–	(40,000)	680,000	C
			1,800,000	–	–	–	(100,000)	1,700,000	
			14,331,000	–	(126,000)	–	(1,465,000)	12,740,000	

Share option scheme (continued)

Notes:

1. The weighted average closing price of the Company's shares immediately before the dates on which options were exercised during the year was HK$6.00.

2. The respective exercise periods of the share options granted are as follows:

   A: From 1 June 2011 to 31 May 2015
   B: From 1 June 2012 to 31 May 2015
   C: From 1 June 2013 to 31 May 2015
   D: From 9 February 2011 to 8 February 2015
   E: From 9 February 2012 to 8 February 2015
   F: From 9 February 2013 to 8 February 2015

   The vesting period of the share options is from the date of grant until the commencement of the exercise period.

3. Dr. Rock Jin resigned as an INED on 31 January 2011.

4. The number and/or exercise price of the options may be subject to adjustment in the case of rights or bonus issues, or other changes in the Company's share capital.

Continuing connected transaction

Fujian Peak is a company owned as to 60%, 20% and 20% by Mr. Xu Jingnan, Mr. Xu Zhihua and Mr. Xu Zhida, respectively. These three persons are our EDs and substantial shareholders, and Fujian Peak is therefore an associate of the Company's connected person under the Listing Rules. Accordingly, any transaction entered into between Fujian Peak and the Group constitutes a connected transaction for the Company under the Listing Rules.

Pursuant to a lease agreement dated 31 May 2008 entered into between Fujian Peak and Peak Shoes, an indirect wholly-owned subsidiary of the Company, Fujian Peak leases to Peak Shoes a property, which is comprised of four buildings in Fujian Province, the PRC with a gross floor area of approximately 37,644.3 square metres, from 1 June 2008 to 31 December 2018 at a rate of approximately RMB2.3 million per annum. The property is occupied by the Group as manufacturing workshops with office and dormitory (the said lease is hereinafter referred to as the "Transaction"). The long-term nature of the lease agreement provides stability for the Group's business operations. It enables the Group to (a) secure a location for its workshops, office and dormitory at a fair market price and to prevent unnecessary cost, effort, time and interruption of business caused by relocation in the case of short-term leases, and (b) minimize the effect of any market rental fluctuations and to save recurrent initial set-up costs such as interior decoration and lease renewal expenses in the case of short-term leases.

The INEDs have reviewed the Transaction and confirmed that the Transaction has been entered into by the Group (i) in the ordinary and usual course of the Group's business; (ii) on fair and reasonable terms so far as the interest of the Company's shareholders as a whole are concerned; (iii) on normal commercial terms or, where there is no available comparison, on terms no less favourable than those available from independent third parties; and (iv) in accordance with the terms of the lease agreement governing the Transaction.

The Company's auditor was engaged to report on the Transaction in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing their conclusions in respect of the Transaction disclosed by the Group above in accordance with Listing Rule 14A.38. A copy of the auditor's letter will be provided by the Company to Hong Kong Stock Exchange.

Substantial shareholders' interests and short positions in shares, underlying shares and debentures

As at 31 December 2011, the following parties had interests of 5% or more in the issued share capital of the Company according to the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

(A) Long position in ordinary shares of the Company

Name of substantial shareholder	Capacity	Note	Number of ordinary shares interested	Percentage+ of the Company's issued share capital
Ever Sound Development Limited	Beneficial owner	1	809,982,020	38.61%
Brilliant Lead Group Limited	Beneficial owner	2	274,660,000	13.09%
Ms. Wu Bingrui	Interest held by spouse	3	274,660,000	13.09%
Alpha Top Group Limited	Beneficial owner	4	273,060,000	13.02%
SNP China Enterprises Limited	Interest held by controlled corporations	5	130,521,139	6.22%
SC China Holdings Limited	Interest held by controlled corporations	5	130,521,139	6.22%
Sequoia Capital China Advisors Limited	Interest held by controlled corporations	5	130,521,139	6.22%

Notes:

1. The above interest of Ever Sound Development Limited was also disclosed as the interest of each of Mr. Xu Jingnan and Ms. Wu Tigao in the above section headed "Directors' interests and short positions in shares, underlying shares and debentures".

2. The above interest of Brilliant Lead Group Limited was also disclosed as the interest of Mr. Xu Zhida in the above section headed "Directors' interests and short positions in shares, underlying shares and debentures".

3. Ms. Wu Bingrui was deemed to be interested in these shares of the Company through the interest of her spouse, Mr. Xu Zhida, an ED. Such interest of Mr. Xu Zhida was disclosed in the above section headed "Directors' interests and short positions in shares, underlying shares and debentures".

4. The above interest of Alpha Top Group Limited was also disclosed as the interest of Mr. Xu Zhihua in the above section headed "Directors' interests and short positions in shares, underlying shares and debentures".

5. The interest was included in the interest of Mr. Shen Nanpeng as disclosed in the above section headed "Directors' interests and short positions in shares, underlying shares and debentures".

Substantial shareholders' interests and short positions in shares, underlying shares and debentures (continued)

(B) Long position in underlying shares of the Company – physically settled unlisted equity derivatives

Name of substantial shareholder	Capacity	Number of underlying shares in respect of the share options granted	Percentage+ of underlying shares over the Company's issued share capital
Ms. Wu Bingrui	Beneficial owner	300,000 (Note)	0.01%

Note: This interest was also disclosed as the interest of Mr. Xu Zhida in the above section headed "Directors' interests and short positions in shares, underlying shares and debentures".

+ The percentage represents the number of ordinary shares/underlying shares interested divided by the number of the Company's issued shares as at 31 December 2011.

Save as disclosed above, as at 31 December 2011, no person, other than the Directors whose interests are set out in the section headed "Directors' interests and short positions in shares, underlying shares and debentures" above, had registered an interest or a short position in the shares or underlying shares of the Company as recorded in the register of the Company required to be kept pursuant to Section 336 of the SFO.

Sufficiency of 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 the prescribed public float under the Listing Rules.

Directors' interests in contracts

During the year ended 31 December 2011, the Group leased certain land and properties from Fujian Peak, a corporation controlled by Mr. Xu Jingnan, a Director. The rental expenses for 2011 were RMB2,259,000 (2010: RMB2,259,000).

The above transaction, which constitutes a continuing connected transaction under Chapter 14A of the Listing Rules, has been disclosed in the Prospectus. Details of this continuing connected transaction are also set out in the above section headed "Continuing connected transaction".

Apart from the above transaction, no contracts of significance in relation to the Group's business to which the Company and any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Corporate communications

In accordance with the Listing Rules, the Company has ascertained shareholders' wishes regarding their preferences on the language (i.e. English and/or Chinese) and means of receipt (i.e. in printed form or via the Company's website) of the Company's corporate communications#. Shareholders who have chosen/are deemed to have chosen to receive the corporate communications via the Company's website, and who for any reason have difficulty in receiving or gaining access to the Company's corporate communications will promptly upon request be sent the corporate communications in printed form free of charge. Shareholders have the right at any time to change their choice of language and means of receipt of the Company's corporate communications.

Shareholders may request for printed copy of the Company's corporate communications or change their choice of language and means of receipt of the Company's corporate communications by sending reasonable prior notice in writing to the Company's share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. Shareholders may also send such a notice by email to peak.ecom@computershare.com.hk.

The Company's corporate communications refer to any document issued or to be issued by the Company for the information or action of holders of any of its securities, including but not limited to: (a) annual report; (b) interim report; (c) notice of meeting; (d) listing document; (e) circular; and (f) form of proxy.

Five-year financial summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 9 of this annual report.

Confirmation of independence

The Company has received from each of the INEDs an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the INEDs to be independent.

Biographical details of directors and senior management

Brief biographical details of Directors and senior management are set out on pages 45 to 48.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

Auditor

KPMG will retire and, being eligible, offer itself for re-appointment at the 2012 AGM. A resolution for the re-appointment of KPMG as the auditor of the Company is to be proposed at the 2012 AGM.

On behalf of the Board

Xu Jingnan
Chairman

Hong Kong, 13 March 2012

Independent Auditor's Report

KPMG

To the shareholders of
Peak Sport Products Co., Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Peak Sport Products Co., Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 60 to 99, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement 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 International Financial Reporting Standards issued by the International Accounting Standards Board 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. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

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

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

13 March 2012

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2011
(Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000
Turnover	3	4,646,929	4,249,361
Cost of sales		(2,814,467)	(2,633,051)
Gross profit		1,832,462	1,616,310
Other revenue	4	28,423	20,077
Other net income/(loss)	4	3,009	(6,763)
Selling and distribution expenses		(712,784)	(505,394)
Administrative expenses		(213,007)	(126,107)
Profit from operations		938,103	998,123
Finance expenses	5(a)	(1,552)	–
Profit before income tax	5	936,551	998,123
Income tax	6	(158,870)	(175,855)
Profit for the year attributable to equity shareholders of the Company		777,681	822,268
Other comprehensive income for the year			
Exchange differences on translation of financial statements of foreign operations		5,961	(2,103)
Total comprehensive income for the year attributable to equity shareholders of the Company		783,642	820,165
Earnings per share (RMB cents)	11		
– Basic		37.07	39.19
– Diluted		37.06	39.18

The notes on pages 65 to 99 form part of these financial statements. Details of dividends proposed after the year end and paid during the year to equity shareholders of the Company are set out in note 10.

Consolidated Statement of Financial Position

at 31 December 2011
(Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000
Non-current assets			
Property, plant and equipment	12	439,141	341,866
Construction in progress	13	42,852	54,174
Lease prepayments	14	15,570	15,914
Deposits and prepayments for purchase of non-current assets	15	123,625	21,017
Intangible assets	16	16,265	13,674
Deferred tax assets	26(b)	34,893	12,391
		672,346	459,036
Current assets			
Inventories	17	421,227	335,016
Trade and other receivables	19(a)	1,089,407	743,666
Pledged deposits	20	82,259	53,963
Deposits with banks with more than three months to maturity when placed		111,625	42,716
Cash and cash equivalents	21	2,503,009	2,565,827
		4,207,527	3,741,188
Current liabilities			
Bank loans	22	161,217	–
Trade and other payables	23(a)	561,519	608,324
Current tax liabilities	26(a)	54,533	63,077
		777,269	671,401
Net current assets		3,430,258	3,069,787
Total assets less current liabilities		4,102,604	3,528,823
Non-current liabilities			
Deferred tax liabilities	26(b)	59,058	47,034
		59,058	47,034
Net assets		4,043,546	3,481,789
Equity			
Share capital	27(a)	18,460	18,459
Reserves	28	4,025,086	3,463,330
Total equity		4,043,546	3,481,789

Approved and authorized for issue by the Board of Directors on 13 March 2012.

Xu Jingnan
Director

Xu Zhihua
Director

The notes on pages 65 to 99 form part of these financial statements.

Statement of Financial Position

at 31 December 2011
(Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000
Non-current assets			
Investments in subsidiaries	18	**530,934**	552,549
Current assets			
Other receivables	19(b)	**1,121,703**	1,208,358
Cash and cash equivalents	21	**1,966**	40,772
		1,123,669	1,249,130
Current liabilities			
Bank loans	22	**161,217**	–
Other payables	23(b)	**60,046**	55,549
		221,263	55,549
Net current assets		**902,406**	1,193,581
Total assets less current liabilities		**1,433,340**	1,746,130
Net assets		**1,433,340**	1,746,130
Equity			
Share capital	27(a)	**18,460**	18,459
Reserves	28	**1,414,880**	1,727,671
Total equity		**1,433,340**	1,746,130

Approved and authorized for issue by the Board of Directors on 13 March 2012.

Xu Jingnan
Director

Xu Zhihua
Director

The notes on pages 65 to 99 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2011
(Expressed in Renminbi)

	Share capital RMB'000 (Note 27(a))	Share premium RMB'000 (Note 28(a))	Statutory reserve RMB'000 (Note 28(b))	Other reserve RMB'000 (Note 28(c))	Exchange reserve RMB'000 (Note 28(d))	Share-based payment reserve RMB'000 (Note 28(e))	Retained profits RMB'000	Total equity RMB'000
At 1 January 2010	18,459	1,596,200	96,029	81,354	(1,619)	–	1,211,744	3,002,167
Appropriation to statutory reserve	–	–	94,865	–	–	–	(94,865)	–
Dividends	–	(349,250)	–	–	–	–	–	(349,250)
Equity-settled share-based payments	–	–	–	–	–	8,707	–	8,707
Total comprehensive income	–	–	–	–	(2,103)	–	822,268	820,165
At 31 December 2010	18,459	1,246,950	190,894	81,354	(3,722)	8,707	1,939,147	3,481,789
Appropriation to statutory reserve	–	–	89,063	–	–	–	(89,063)	–
Dividends	–	(227,165)	–	–	–	–	–	(227,165)
Shares issued pursuant to share option scheme	1	687	–	–	–	(137)	–	551
Equity-settled share-based payments	–	–	–	–	–	4,729	–	4,729
Transfer between reserves in respect of share options forfeited after vesting date	–	–	–	–	–	(294)	294	–
Total comprehensive income	–	–	–	–	5,961	–	777,681	783,642
At 31 December 2011	18,460	1,020,472	279,957	81,354	2,239	13,005	2,628,059	4,043,546

The notes on pages 65 to 99 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2011
(Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000
Operating activities			
Profit before income tax		936,551	998,123
Adjustments for:			
– Depreciation	5(c)	31,499	21,598
– Amortization of lease prepayments	5(c)	343	343
– Finance expenses	5(a)	1,552	–
– Interest income	4	(16,450)	(9,906)
– Loss on disposal of property, plant and equipment	5(c)	605	3,029
– Amortization of intangible assets	16	397	302
– Foreign exchange losses		1,134	4,185
– Equity-settled share-based payments expenses		4,729	8,707
Operating profit before changes in working capital		960,360	1,026,381
Increase in inventories		(86,211)	(124,717)
(Increase)/decrease in trade and other receivables		(343,876)	119,182
(Decrease)/increase in trade and other payables		(41,583)	275,997
Cash generated from operations		488,690	1,296,843
Income tax paid		(177,893)	(130,437)
Net cash generated from operating activities		310,797	1,166,406
Investing activities			
Payment for purchase of property, plant and equipment		(73,399)	(73,662)
Proceeds from sale of property, plant and equipment		89	733
Payment for construction in progress		(46,143)	(54,169)
Payment for lease prepayments		(102,637)	(14,090)
Payment for intangible assets		(6,786)	(5,234)
Interest received		14,586	9,906
(Increase)/decrease of deposits with banks with more than three months to maturity when placed		(68,909)	476,767
(Increase)/decrease in pledged deposits		(28,296)	1,381
Net cash (used in)/generated from investing activities		(311,495)	341,632
Financing activities			
Proceeds from shares issued under share option scheme		551	–
Proceeds from bank loans		161,217	–
Interest paid		(1,552)	–
Dividends paid to equity shareholders		(227,165)	(349,250)
Net cash used in financing activities		(66,949)	(349,250)
Net (decrease)/increase in cash and cash equivalents		(67,647)	1,158,788
Cash and cash equivalents at 1 January		2,565,827	1,413,325
Effect of foreign exchange rate changes		4,829	(6,286)
Cash and cash equivalents at 31 December	21	2,503,009	2,565,827

The notes on pages 65 to 99 form part of these financial statements.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by International Accounting Standards Board ("IASB"). These consolidated financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). A summary of the significant accounting policies adopted by the Group is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

(b) Basis of preparation of the consolidated financial statements

The Company was incorporated in the Cayman Islands on 15 February 2008.

The consolidated financial statements for the year ended 31 December 2011 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of these consolidated financial statements is the historical cost basis.

The functional currency of the Company is Hong Kong Dollars ("HK$"). These consolidated financial statements are presented in Renminbi ("RMB") as the functional currency of the Group's operating subsidiaries is RMB. These consolidated financial statements presented in RMB have been rounded to the nearest thousand.

The preparation of these consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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.

Judgements made by management in the application of IFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in note 33.

1 Significant accounting policies (continued)

(c) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealized profits arising from intra-group transactions are eliminated in full in preparing these consolidated financial statements. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(i)).

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(i)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

- Buildings held for own use which are situated on leasehold land are depreciated over the shorter of the unexpired term of the lease and their estimated useful lives, being no more than 20 years after the date of completion.

• Plant and machinery	5 – 10 years
• Motor vehicles	5 years
• Furniture and fixtures	5 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(e) Construction in progress

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is stated at cost less impairment losses (see note 1(i)). Cost of self-constructed items of property, plant and equipment include the cost of materials, direct labour and an appropriate proportion of production overheads and borrowing costs (see note 1(t)). Capitalization of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are completed.

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies (continued)

(f) Lease prepayments

Lease prepayments represent cost of land use rights paid to the People's Republic of China ("PRC") governmental authorities. Lease prepayments are carried at cost less accumulated amortization and impairment losses (see note 1(i)). Amortization of lease prepayments is charged to profit or loss on a straight-line basis over respective periods of the leases.

(g) Intangible assets

Intangible assets represent trademarks and software and are stated at cost less accumulated amortization (where the estimated useful life is finite) and impairment losses (see note 1(i)).

Trademarks are not amortized while their useful lives are assessed to be indefinite. Any conclusion that the useful lives of trademarks are indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that trademark. If they do not, the change in useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortization of intangible assets with finite useful lives.

Software is amortized on the straight-line basis over its estimated useful life of five years.

Both the useful life and method of amortization of an intangible asset are reviewed annually.

(h) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease terms, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognized in profit or loss as an integral part of the aggregate net lease payments made.

(i) Impairment of assets

(i) Impairment of trade and other receivables

Trade and other receivables that are stated at cost or amortized cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganization; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies (continued)

(i) Impairment of assets (continued)

(i) Impairment of trade and other receivables (continued)

If any such evidence exists, any impairment loss is determined and recognized as follows:

The impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognized in prior years.

Impairment losses recognized in respect of trade debtors are included within trade and other receivables if recovery of the debt is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognized in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognized no longer exists or may have decreased:

- property, plant and equipment;
- construction in progress;
- lease prepayments;
- deposits and prepayments for purchase of non-current assets;
- intangible assets; and
- investments in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies (continued)

(i) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

- *Calculation of recoverable amount*

  The recoverable amount of an asset is the greater of its fair value less cost 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 time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- *Recognition of impairment losses*

  An impairment loss is recognized in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

- *Reversals of impairment losses*

  An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

  A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognized.

(j) Inventories

Inventories are carried at the lower of cost and net realizable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period when the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies (continued)

(k) Trade and other receivables

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(l) Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(m) Trade and other payables

Trade and other payables are initially recognized at fair value and thereafter stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(o) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

The fair value of share options granted to directors and employees is recognized as a staff cost with a corresponding increase in the share-based payment reserve within equity. The fair value is measured at the grant date using the Black-Scholes-Merton Option Pricing Model, taking into account the terms and conditions upon which the options are granted. Where the directors and employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies (continued)

(o) Employee benefits (continued)

(ii) Share-based payments (continued)

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognized in prior years is charged/credited to profit or loss for the year of the review, unless the original staff costs qualify for recognition as an asset, with a corresponding adjustment to the share-based payment reserve. On vesting date, the amount recognized as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the share-based payment reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the company's shares. The equity amount is recognized in the share-based payment reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous periods.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from differences which arose on initial recognition of assets and liabilities that affect neither accounting nor taxable profit, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

1 Significant accounting policies (continued)

(p) Income tax (continued)

The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognized when the liability to pay the related dividends is recognized in profit or loss.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

(q) Provisions and contingent liabilities

Provisions are recognized for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies (continued)

(r) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in profit or loss as follows:

(i) Sale of goods

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and rebates. Revenue is recognized when the significant risks and rewards of ownership of the goods have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of the goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

(ii) Interest income

Interest income is recognized as it accrues using the effective interest method.

(iii) Government grants

Government grants are recognized in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognized as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are initially recognized as deferred income and subsequently recognized as revenue in profit or loss over the useful life of the asset.

(s) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognized in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of operations outside the PRC are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in equity in the exchange reserve.

(t) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

1 Significant accounting policies (continued)

(t) Borrowing costs (continued)

The capitalization of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare that asset for its intended use or sale are in progress. Capitalization of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

(u) Dividends

Dividends are recognized as a liability in the period in which they are declared.

(v) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(w) Segment reporting

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 most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations. No segment information is presented for the Group's business segment as the Group is principally engaged in manufacture and sale of sports products in the PRC.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

2 Adoption of new accounting policies

The IASB has issued a number of amendments to IFRSs and one new interpretation that are first effective for the current accounting period of the Group and the Company. Of these, the amendments titled "IAS 24 (revised 2009), Related party disclosures" and "Improvements to IFRSs (2010)" are relevant to the Group's consolidated financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for current accounting period.

"IAS 24 (revised 2009), Related party disclosures" and "Improvements to IFRSs (2010)" have had no material impact on the Group's consolidated financial statements as the amendments were consistent with policies already adopted by the Group.

3 Turnover

The principal activities of the Group are manufacturing and trading of sports products, including footwear, apparel and accessories. Turnover represents the sales value of goods sold less returns, discounts, value added taxes and other sales taxes, and is analyzed as follows:

	2011 **RMB'000**	2010 RMB'000
Footwear	**2,041,341**	1,813,652
Apparel	**2,486,734**	2,317,602
Accessories	**118,854**	118,107
	4,646,929	4,249,361

The Group has one customer with whom transactions have exceeded 10% of the Group's aggregate turnover. The amount of sales from this customer amounted to approximately RMB549,825,000 for the year ended 31 December 2011 (2010: RMB457,565,000).

The Group's revenue by geographical location is determined by the destination to which the goods are delivered.

	2011 **RMB'000**	2010 RMB'000
PRC	**4,187,733**	3,848,448
Overseas	**459,196**	400,913
Total	**4,646,929**	4,249,361

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

4 Other revenue and net income/(loss)

	2011 RMB'000	2010 RMB'000
Other revenue		
Interest income	**16,450**	9,906
Government grants	**11,947**	10,133
Others	**26**	38
	28,423	20,077
Other net income/(loss)		
Exchange loss	**(4,824)**	(7,126)
Gain on sales of materials	**7,803**	363
Others	**30**	–
	3,009	(6,763)

Government grants were received from local authorities for the Group's contributions to local communities and its achievement in export sales. The grants, which were unconditional, also included refunds of value added tax from local governments.

5 Profit before income tax

Profit before income tax is arrived at after charging:

	2011 RMB'000	2010 RMB'000
(a) Finance expenses:		
Interest on bank borrowings	**1,552**	–
(b) Staff costs:		
Contributions to defined contribution retirement plans	**8,436**	3,345
Equity-settled share-based payments expenses (note 25)	**4,729**	8,707
Salaries, wages and other benefits	**359,863**	255,490
	373,028	267,542
(c) Other items:		
Amortization of lease prepayments	**343**	343
Auditors' remuneration	**2,842**	2,746
Depreciation	**31,499**	21,598
Operating lease charges in respect of properties	**7,914**	4,768
Cost of inventories #	**2,814,467**	2,633,051
Loss on disposal of property, plant and equipment	**605**	3,029

Cost of inventories for the year ended 31 December 2011 includes RMB273,498,000 (2010: RMB190,234,000) relating to staff costs, depreciation and amortization expenses and operating lease charges, which amount is included in the respective total amounts disclosed separately above in notes 5(b) and (c) for each of these types of expenses.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

6 Income tax in the consolidated statement of comprehensive income

(a) Income tax in the consolidated statement of comprehensive income represents:

	2011 RMB'000	2010 RMB'000
Current tax – PRC income tax		
Provision for the year	169,348	166,270
Deferred tax		
(Origination)/reversal of temporary differences	(10,478)	9,585
	158,870	175,855

Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands or BVI.

No provision has been made for Hong Kong Profits Tax as the Group did not earn any income subject to Hong Kong Profits Tax for the year ended 31 December 2011.

Pursuant to the income tax rules and regulations of the PRC, provision for PRC corporate income tax is calculated based on the statutory rate of 25% of the assessable profits of the PRC subsidiaries comprising the Group. During the year, three PRC subsidiaries are entitled to tax concessions and subject to the tax at 50% of the statutory rate under the relevant tax rules and regulations.

In addition, from 1 January 2008, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business in the PRC but whose relevant income is not effectively connected with the establishment or a place of business in the PRC, will be subject to withholding tax at the rate of 10% (unless reduced by treaty) on various types of passive income such as dividends derived from sources within the PRC. As all of the Group's foreign-invested enterprises are directly and wholly held by a Hong Kong incorporated subsidiary, a rate of 5% is applicable to the calculation of this withholding tax under the double tax arrangement between Hong Kong and the mainland of the PRC.

(b) Reconciliation between income tax and accounting profit at applicable tax rates:

	2011 RMB'000	2010 RMB'000
Profit before income tax	936,551	998,123
Notional tax on profit before income tax, calculated at the standard tax rates applicable to the respective tax jurisdiction	238,573	255,310
Effect of lower tax rates applicable to subsidiaries as a result of preferential tax policy as described in note 6(a)	(102,663)	(116,204)
Tax effect of non-deductible expenses	23,419	28,219
Tax effect of non-taxable income	185	(7,265)
Effect of withholding tax	12,023	15,795
Effect on deferred tax balances at 1 January resulting from a change in tax rate	(12,667)	–
Income tax	158,870	175,855

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

7 Directors' remuneration

Details of Directors' remuneration of the Company are set out below:

Year ended 31 December 2011

	Fee RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit scheme RMB'000	Equity-settled share-based payments RMB'000	Bonuses RMB'000	Total RMB'000
Executive Directors						
Mr Xu Jingnan	–	1,207	16	–	–	1,223
Mr Xu Zhihua	–	1,007	16	–	500	1,523
Mr Xu Zhida	–	907	16	–	500	1,423
Sub-total	–	3,121	48	–	1,000	4,169
Non-executive Directors						
Ms Wu Tigao	–	180	–	–	–	180
Mr Shen Nanpeng	–	180	–	–	–	180
Mr Zhu Linan	–	180	–	–	–	180
Sub-total	–	540	–	–	–	540
Independent Non-executive Directors						
Mr Wang Mingquan	–	100	–	110	–	210
Dr Xiang Bing	–	180	–	110	–	290
Dr Ouyang Zhonghui	–	100	–	–	–	100
Dr Rock Jin	–	15	–	–	–	15
Sub-total	–	395	–	220	–	615
Total	–	4,056	48	220	1,000	5,324

Year ended 31 December 2010

	Fee RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit scheme RMB'000	Equity-settled share-based payments RMB'000	Bonuses RMB'000	Total RMB'000
Executive Directors						
Mr Xu Jingnan	–	1,207	16	–	–	1,223
Mr Xu Zhihua	–	1,007	16	–	500	1,523
Mr Xu Zhida	–	907	16	–	500	1,423
Sub-total	–	3,121	48	–	1,000	4,169
Non-executive Directors						
Ms Wu Tigao	–	180	–	–	–	180
Mr Shen Nanpeng	–	180	–	–	–	180
Dr Hu Zhanghong	–	157	–	–	–	157
Mr Zhu Linan	–	180	–	–	–	180
Sub-total	–	697	–	–	–	697
Independent Non-executive Directors						
Mr Wang Mingquan	–	100	–	110	–	210
Dr Xiang Bing	–	180	–	110	–	290
Dr Rock Jin	–	180	–	110	–	290
Sub-total	–	460	–	330	–	790
Total	–	4,278	48	330	1,000	5,656

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

8 Individual with highest emoluments

Of the five individuals with the highest emoluments, three (2010: three) are Directors whose remuneration is disclosed in note 7 above. The aggregate of the emoluments in respect of the remaining two individuals for 2011 (2010: two) are as follows:

	2011 RMB'000	2010 RMB'000
Salaries and other emoluments	2,295	3,085
Equity-settled share-based payments	276	274
Contributions to defined contribution retirement plans	10	11
	2,581	3,370

The emoluments of the two individuals (2010: two) with the highest emoluments are within the following bands:

	2011 Number of individuals	2010 Number of individuals
HK$1 to HK$1,000,000	1	–
HK$1,000,001 to HK$1,500,000	–	–
Over HK$1,500,000	1	2

9 Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB14,625,000 (2010: RMB5,871,000) which has been dealt with in the financial statements of the Company.

10 Dividends

(a) Dividends attributable to equity shareholders of the Company in respect of the current year

	2011 RMB'000	2010 RMB'000
Interim dividend declared and paid of HK3 cents per ordinary share (2010: HK7 cents per ordinary share)	51,608	128,600
Final dividend proposed after the end of the reporting period of HK11 cents per ordinary share (2010:HK10 cents per ordinary share)	187,354	176,897
	238,962	305,497

The final dividend proposed after the end of the reporting period has not been recognized as a liability at the end of the reporting period.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

10 Dividends (continued)

(b) Dividends attributable to equity shareholders of the Company in respect of the previous financial year, approved and paid during the year

	2011 RMB'000	2010 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK10 cents per ordinary share (2010: HK12 cents per ordinary share)	175,557	220,650

11 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit for the year attributable to equity shareholders of the Company of RMB777,681,000 (2010: RMB822,268,000) and the weighted average of issued ordinary shares of 2,097,997,000 (2010: 2,097,903,000 shares) during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit for the year attributable to equity shareholders of the Company of RMB777,681,000 (2010: RMB822,268,000) and the weighted average number of shares in issue adjusted for the potential dilutive effect caused by the share options granted under the share option scheme (see note 25) assuming they were exercised during the year.

Weighted average number of ordinary shares (diluted)

	2011 '000 shares	2010 '000 shares
Weighted average number of ordinary shares	2,097,997	2,097,903
Effect of deemed issue of shares under the Company's share option scheme	379	973
Weighted average number of ordinary shares (diluted)	2,098,376	2,098,876

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

12 Property, plant and equipment

		The Group				
	Note	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Total RMB'000
Cost:						
At 1 January 2010		188,899	64,349	4,026	18,131	275,405
Additions		25,843	25,047	5,020	5,913	61,823
Transfer from construction in progress	13	60,809	307	–	–	61,116
Disposals		–	(5,478)	(700)	(123)	(6,301)
At 31 December 2010		275,551	84,225	8,346	23,921	392,043
Additions		20,349	31,817	3,332	12,888	68,386
Transfer from construction in progress	13	60,907	–	–	175	61,082
Disposals		–	(1,170)	–	(208)	(1,378)
At 31 December 2011		**356,807**	**114,872**	**11,678**	**36,776**	**520,133**
Accumulated depreciation:						
At 1 January 2010		8,618	15,600	936	5,964	31,118
Charge for the year		9,892	7,351	869	3,486	21,598
Written back on disposals		–	(2,088)	(388)	(63)	(2,539)
At 31 December 2010		18,510	20,863	1,417	9,387	50,177
Charge for the year		15,243	9,481	1,748	5,027	31,499
Written back on disposals		–	(579)	–	(105)	(684)
At 31 December 2011		**33,753**	**29,765**	**3,165**	**14,309**	**80,992**
Net book value:						
At 31 December 2010		257,041	63,362	6,929	14,534	341,866
At 31 December 2011		**323,054**	**85,107**	**8,513**	**22,467**	**439,141**

Buildings with carrying amount of RMB148,749,000 (2010: RMB156,036,000) have been pledged to banks as security for bills payable and bank facilities as at 31 December 2011 (see note 23).

13 Construction in progress

		The Group	
	Note	**2011 RMB'000**	2010 RMB'000
At 1 January		**54,174**	61,266
Additions		**49,760**	54,024
Transfer to property, plant and equipment	12	**(61,082)**	(61,116)
At 31 December		**42,852**	54,174

Construction in progress comprises costs incurred on property, plant and equipment not yet completed at the respective ends of the reporting periods.

14 Lease prepayments

	The Group	
	2011	2010
	RMB'000	RMB'000
Cost:		
At 1 January and 31 December	17,084	17,084
Accumulated amortization:		
At 1 January	1,170	827
Charge for the year	344	343
At 31 December	1,514	1,170
Net book value:		
At 31 December	15,570	15,914

Lease prepayments represent prepayments of premiums for land use rights to the PRC authorities. The Group is granted land use rights for a period of 50 to 70 years and the relevant leasehold lands are located in the PRC.

Lease prepayments with carrying amount of RMB11,887,000 (2010: RMB14,534,000) were pledged to banks as security for bills payable and bank facilities as at 31 December 2011 (see note 23).

15 Deposits and prepayments for purchase of non-current assets

	The Group	
	2011	2010
	RMB'000	RMB'000
Prepayments for acquisition of land use rights	117,727	15,090
Prepayments for acquisition of software	4,898	1,100
Deposits and prepayments for acquisition of property and equipment	1,000	4,827
	123,625	21,017

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

16 Intangible assets

	The Group		
	Trademarks RMB'000	**Software** RMB'000	**Total** RMB'000
Cost:			
At 1 January 2011	12,255	1,735	13,990
Additions	2,051	937	2,988
At 31 December 2011	**14,306**	**2,672**	**16,978**
Accumulated amortization:			
At 1 January 2011	–	316	316
Charge for the year	–	397	397
At 31 December 2011	**–**	**713**	**713**
Net book value:			
At 31 December 2010	12,255	1,419	13,674
At 31 December 2011	**14,306**	**1,959**	**16,265**

The amortization charge for the year is included in administrative expenses in the consolidated statement of comprehensive income.

17 Inventories

	The Group	
	2011 **RMB'000**	2010 RMB'000
Raw materials	**59,509**	52,267
Work in progress	**130,193**	104,106
Finished goods	**231,525**	178,643
	421,227	335,016

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

18 Investments in subsidiaries

	The Company	
	2011	2010
	RMB'000	RMB'000
Unlisted shares, at cost	**530,934**	552,549

Particulars of the subsidiaries are set out below:

Name of company	Place and date of incorporation/ establishment	Particulars of issued and fully paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Peak Investment Management Co., Limited	BVI 17 January 2008	US$1	100%	100%	–	Investment holding
Peak (Hong Kong) International Company Limited	Hong Kong 2 January 2003	HK$200,000	100%	–	100%	Investment holding
Quanzhou Peak Shoes Co., Ltd.*	PRC 23 July 1994	RMB196,880,000	100%	–	100%	Manufacturing and trading of sports products
Fujian Quanzhou Peak Sports Products Co., Ltd.*	PRC 10 August 2004	US$28,600,000	100%	–	100%	Manufacturing and trading of sports products
Peak (Jiangxi) Industry Co., Ltd.*	PRC 6 April 2006	US$32,900,000	100%	–	100%	Manufacturing and trading of sports products
Peak (China) Limited Company*	PRC 29 January 2007	RMB280,000,000	100%	–	100%	Manufacturing and trading of sports products
Xiamen Peak Sports Goods Co., Ltd.*	PRC 8 January 2010	US$25,300,000	100%	–	100%	Trading of sports products
Peak Sports Products USA, Inc.	US 7 July 2010	US$2,000,000	100%	–	100%	Trading of sports products
Peak (Shandong) Industry Co., Ltd*	PRC 22 April 2011	RMB19,485,000	100%	–	100%	Manufacturing and trading of sports products

* These entities are wholly foreign owned enterprises in the PRC.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

19 Trade and other receivables

(a) The Group

	2011 RMB'000	2010 RMB'000
Bills receivable	20,130	–
Trade receivables	975,939	695,638
Deposits and prepayments	73,872	31,759
Others	19,466	16,269
	1,089,407	743,666

All of the trade and other receivables are expected to be recovered within one year.

Set out below is an aging analysis of the total balance of the trade receivables and bills receivable at the end of the reporting period based on relevant invoice dates:

	2011 RMB'000	2010 RMB'000
Within 3 months	952,931	695,638
3 to 6 months	43,138	–
	996,069	695,638

The Group offers revolving credit to domestic distributors. This revolving credit provides a maximum limit for the amount that may be outstanding at any time. The limit is determined based on credit history, market conditions, prior year's purchases, estimated purchases for the current year, etc. In considering the amount of revolving credit, the Group also takes into account the funding needs of the distributors in expanding their retail network. The Group generally evaluates the credit limits granted to domestic distributors annually upon renewal of the relevant distribution agreements.

There were no trade debts that were considered past due.

(b) The Company

The balance as at 31 December 2011 represented amounts due from a subsidiary. These amounts are unsecured, non-interest bearing and are expected to be repaid within one year.

20 Pledged deposits

Bank deposits have been pledged to banks as security for bills payable and a bank loan (see notes 22 and 23).

21 Cash and cash equivalents

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand	**2,503,009**	2,565,827	**1,966**	40,772

As at 31 December 2011, the balances denominated in RMB that were placed with banks in the PRC and included in the cash and cash equivalents above amounted to RMB2,493,216,000 (2010: RMB2,456,022,000). Remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

22 Bank loans

As at 31 December 2011, all the bank loans were repayable within one year and carried a weighted average interest rate of 2.52% per annum.

Details of the bank loans as at 31 December 2011 are as follows:

	2011	2010
	RMB'000	RMB'000
Unsecured floating rate loans	**72,040**	–
Secured floating rate loan*	**89,177**	–
	161,217	–

* This bank loan was secured by a time deposit of RMB30,000,000 (see note 20).

23 Trade and other payables

(a) The Group

	2011	2010
	RMB'000	RMB'000
Bills payable	**227,272**	251,780
Trade payables	**80,113**	182,533
Other payables and accruals	**254,134**	174,011
	561,519	608,324

Bills payable as at 31 December 2011 were secured by the Group's property, plant and equipment, lease prepayments and bank deposits (see notes 12, 14 and 20).

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

23 Trade and other payables (continued)

(a) The Group (continued)

All of the trade and other payables are expected to be settled within one year.

Set out below is an aging analysis of the total balance of the trade payables and bills payable at the end of the reporting period based on relevant invoice dates:

	2011 RMB'000	2010 RMB'000
Within 3 months	191,369	288,143
3 to 6 months	116,016	146,070
6 months to 1 year	–	100
	307,385	434,313

(b) The Company

The balance as at 31 December 2011 represented amounts due to subsidiaries. These amounts are unsecured, non-interest bearing and are expected to be repaid within one year.

24 Employee retirement benefits

Defined contribution retirement plans

Pursuant to the relevant labour rules and regulations in the PRC, the Group's subsidiaries in the PRC participate in defined contribution retirement benefit schemes (the "Schemes") organized by the PRC municipal government authorities in Fujian and Jiangxi provinces whereby the Group is required to make contributions to the Schemes at the rate of 18% of the eligible employees' salaries. The local government authorities are responsible for the entire pension obligations payable to retired employees.

The Group does not have any material obligation for the payment of retirement benefits except for those schemes described above.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

25 Share-based payments

Pursuant to the shareholders' resolutions passed on 8 September 2009 and 18 May 2011, the Company adopted a share option scheme ("the Scheme") whereby the Directors of the Company are authorized, at their discretion, to invite any persons (including Directors, employees, suppliers, customers or other business partners) who have made valuable contribution to the Group to take up options to subscribe for the shares of the Company.

Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

(a) The terms and conditions of the grants are as follows:

Date of grant		Number of options granted	Vesting conditions	Contractual life of options
Options granted to directors:				
1 June 2010	Batch 4	180,000	1 year after the date of grant	5 years
1 June 2010	Batch 5	180,000	2 years after the date of grant	5 years
1 June 2010	Batch 6	240,000	3 years after the date of grant	5 years
Options granted to employees:				
9 February 2010	Batch 1	3,919,500	1 year after the date of grant	5 years
9 February 2010	Batch 2	3,919,500	2 years after the date of grant	5 years
9 February 2010	Batch 3	5,226,000	3 years after the date of grant	5 years
1 June 2010	Batch 4	639,000	1 year after the date of grant	5 years
1 June 2010	Batch 5	639,000	2 years after the date of grant	5 years
1 June 2010	Batch 6	852,000	3 years after the date of grant	5 years
		15,795,000		

(b) The number and weighted average exercise price of share options are as follows:

	Year ended 31 December 2011		Year ended 31 December 2010	
	Weighted average exercise price	**Number of options '000**	Weighted average exercise price	Number of options '000
Outstanding at the beginning of the year	**HK$5.2729**	**14,331**	–	–
Granted during the year:				
on 9 February 2010	–	–	HK$5.1960	13,065
on 1 June 2010	–	–	HK$5.6040	2,730
Exercised during the year	**HK$5.1960**	**(126)**	–	–
Forfeited during the year	**HK$5.1960**	**(1,165)**	HK$5.1960	(1,434)
	HK$5.6040	**(300)**	HK$5.6040	(30)
Outstanding at the end of the year	**HK$5.2729**	**12,740**	HK$5.2729	14,331
Exercisable at the end of the year	**HK$5.2731**	**3,808**	–	–

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

25 Share-based payments (continued)

(b) The number and weighted average exercise price of share options are as follows: (continued)

The weighted average closing price of the Company's shares at the dates of exercise for share options exercised during the year was HK$5.9469 (2010: not applicable).

The share options outstanding as at 31 December 2011 had an exercise price of HK$5.1960 or HK$5.6040 (31 December 2010: HK$5.1960 or HK$5.6040) and a weighted average remaining contractual life of 3.2 years (31 December 2010: 4.2 years).

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of the share options granted. The estimate of the fair value of the share options granted is measured based on a Black-Scholes-Merton Option Pricing Model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the Black-Scholes-Merton Option Pricing Model.

Fair value of share options and assumptions

	Batch 1	Batch 2	Batch 3	Batch 4	Batch 5	Batch 6
Fair value at measurement date (HK$)	1.2920	1.3850	1.4684	1.7189	1.8213	1.9123
Share price (HK$)	4.6900	4.6900	4.6900	5.7900	5.7900	5.7900
Exercise price (HK$)	5.1960	5.1960	5.1960	5.6040	5.6040	5.6040
Expected volatility	54.16%	54.16%	54.16%	48.99%	48.99%	48.99%
Expected option life	3 years	3.5 years	4 years	3 years	3.5 years	4 years
Expected dividends	3.326%	3.326%	3.326%	2.694%	2.694%	2.694%
Risk-free rate	0.930%	1.179%	1.427%	0.983%	1.134%	1.284%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the grants of the share options.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

26 Income tax in the consolidated statement of financial position

(a) Current tax liabilities in the consolidated statement of financial position represent:

	2011 RMB'000	2010 RMB'000
Provision for PRC income tax	**54,533**	63,077

(b) Recognized deferred tax assets and liabilities

Recognized deferred tax assets/(liabilities) are attributable to the following:

	The Group			
	Provision of incentive rewards and subsidies RMB'000	**Pre-operating expenses, accruals and others** RMB'000	**Withholding tax on dividends** RMB'000	**Total** RMB'000
Deferred tax arising from:				
At 1 January 2010	2,337	3,844	(31,239)	(25,058)
Charged to profit or loss	2,627	3,583	(15,795)	(9,585)
At 31 December 2010	4,964	7,427	(47,034)	(34,643)
Charged to profit or loss	13,911	8,591	(12,024)	10,478
At 31 December 2011	**18,875**	**16,018**	**(59,058)**	**(24,165)**

	2011 RMB'000	2010 RMB'000
Represented by:		
Deferred tax assets	**34,893**	12,391
Deferred tax liabilities	**(59,058)**	(47,034)
	(24,165)	(34,643)

(c) Deferred tax liabilities not recognized

At 31 December 2011, temporary differences relating to the undistributed profits of subsidiaries amounted to RMB1,553,317,000 (2010: RMB992,221,000). Deferred tax liabilities of RMB77,666,000 (2010: RMB49,611,000) have not been recognized in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

27 Share capital

(a) Authorized and issued share capital

	2011		2010	
	No. of shares '000	Amount HK$'000	No. of shares '000	Amount HK$'000
Authorized:				
Ordinary shares of HK$0.1 each	5,000,000	50,000	5,000,000	50,000

	2011			2010		
	No. of shares '000	Amount HK$'000	Amount RMB'000	No. of shares '000	Amount HK$'000	Amount RMB'000
Issued and fully paid:						
Ordinary shares of HK$0.1 each						
At 1 January	2,097,903	20,979	18,459	2,097,903	20,979	18,459
Shares issued pursuant to share option scheme	126	1	1	–	–	–
At 31 December	2,098,029	20,980	18,460	2,097,903	20,979	18,459

(b) Share issued pursuant to share option scheme

During the year ended 31 December 2011, options were exercised to subscribe for 126,000 ordinary shares in the Company at a consideration of HK$654,696 of which HK$1,260 was credited to share capital account and the balance of HK$653,436 was credited to the share premium account. HK$162,793 has been transferred from the share-based payment reserve to the share premium upon exercises of these options.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

28 Reserves

Details of the changes in the Company's individual components of reserves are set out below:

	Share premium RMB'000 (Note a)	Other reserve RMB'000 (Note c)	Exchange reserve RMB'000 (Note d)	Share-based payments reserve RMB'000 (Note e)	Accumulated losses RMB'000	Total RMB'000
At 1 January 2010	1,596,200	549,336	(799)	–	(8,216)	2,136,521
Total comprehensive income	–	–	(62,436)	–	(5,871)	(68,307)
Equity-settled share-based payments	–	–	–	8,707	–	8,707
Dividends	(349,250)	–	–	–	–	(349,250)
At 31 December 2010	1,246,950	549,336	(63,235)	8,707	(14,087)	1,727,671
Total comprehensive income	–	–	(76,280)	–	(14,625)	(90,905)
Equity-settled share-based payments	–	–	–	4,729	–	4,729
Dividends	(227,165)	–	–	–	–	(227,165)
Shares issued pursuant to share option scheme	687	–	–	(137)	–	550
Share options forfeited during exercise period	–	–	–	(294)	294	–
At 31 December 2011	**1,020,472**	**549,336**	**(139,515)**	**13,005**	**(28,418)**	**1,414,880**

(a) Share premium

The application of the share premium of the Company is governed by the Companies Law (Revised) of the Cayman Islands. The share premium is distributable to the shareholders of the Company provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(b) Statutory reserve

Pursuant to applicable PRC regulations, the PRC subsidiaries of the Group are required to appropriate 10% of their after-tax-profit (after offsetting prior year losses) to the statutory reserve until the reserve reaches 50% of the registered capital. The transfer to the reserve must be made before distribution of dividends to equity holders. The statutory reserve can be used upon approval by relevant authorities to offset the accumulated losses or to increase the registered capital of the subsidiary, provided that the balance of the reserve after such increase is not less than 25% of its registered capital.

(c) Other reserve

The other reserve of the Group represents the difference between the nominal value of the shares issued by the Company as a consideration to acquire Peak (Hong Kong) International Company Limited ("Peak Hong Kong") and the historical carrying value of Peak Hong Kong's share capital and share premium.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

28 Reserves (continued)

(d) Exchange reserve

The exchange reserve of the Group comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

(e) Share-based payment reserve

Share-based payment reserve represents the fair value of services provided by persons who have made valuable contribution to the Group and the Company has granted share options to those persons. The relevant services are recognized in accordance with IFRS 2, "Share-based payment".

(f) Distributable reserve

The distributable reserve of the Company as at 31 December 2011 was RMB1,414,880,000 (2010: RMB1,727,671,000).

(g) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for its shareholders and benefits for other stakeholders by pricing products commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose the Group defines net debt as interest-bearing loans less cash and capital is defined as the total equity. As at 31 December 2011, the Group had cash in excess of interest-bearing loans while the Group did not borrow any interest-bearing loans as at 31 December 2010. It is the management's intention to restrict the ratio below 50% in the long run. To achieve this end, the Group may adjust the amount of dividends to be paid to shareholders, issue new shares or raise new debts.

Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

29 Financial risk management and fair values

Exposure to credit, liquidity, interest rate, currency, commodity price and business risks arise in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables.

Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. The Group offers revolving credit to domestic distributors. This revolving credit provides for a maximum credit limit that may be outstanding at any one time based on, among others, credit history, market conditions, prior year's purchases and estimated purchases for the coming year. In considering the amount of revolving credit, the Group also takes into account the funding needs of the distributors in expanding their retail network. The Group generally evaluates the credit limits granted to domestic distributors annually upon renewal of the relevant distribution agreements.

At the end of the reporting period, 12% (2010: 10%) and 26% (2010: 26%) of the total trade receivables were due from the Group's largest customer and the five largest customers respectively.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statements of financial position after deducting any impairment allowance.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer terms.

(c) Interest rate risk

The Group's interest rate risk arises primarily from cash and deposits at bank and bank loans. As substantially all of the cash and deposits are fixed rate instruments, the interest rate risk of the cash and deposits is insignificant to the Group. The interest rates of the Group's bank loans are disclosed in note 22.

Sensitivity analysis

The following interest rate sensitivity analysis for the Group's bank loans has been determined assuming that the change in interest rates had occurred at the end of the reporting period. The impact on the Group's after-tax profit is estimated as an annualized impact on interest expense of such a change in interest rates.

A general increase of 100 basis points (i.e. 1%) in interest rates, with all other variables held constant, would have decreased the Group's after-tax profit by an amount as follows:

	2011	2010
	RMB'000	RMB'000
100 basis point increase	**(1,612)**	–

A general decrease of 100 basis points in interest rates would have had the equal but opposite effect on the after-tax profit by an amount shown above, with all other variables held constant.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

29 Financial risk management and fair values (continued)

(d) Currency risk

The Group is exposed to foreign currency risk primarily through bank deposits, bank loans, proceeds from export sales and settlement of accounts of overseas service providers that are denominated in currencies other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily US$ and HK$.

Included in assets and liabilities are the following amounts that are denominated in a currency other than the functional currency.

	2011 '000	2010 '000
Trade and other receivables		
US$	8,890	8,209
HK$	276	251
Cash and cash equivalents		
US$	5,489	1,109
HK$	1,350	4,421
Deposits with banks with more than three months to maturity when placed		
US$	5,900	6,450
Bank loans		
US$	5,000	–
Trade and other payables		
US$	5,714	2,867
HK$	205	548

Sensitivity analysis

The following foreign currency sensitivity has been calculated based on the major net foreign currency exposure of the Group as at the end of the reporting period, assuming 5% shift of RMB against US$/HK$ as follows:

A 5% strengthening of the RMB against US$/HK$ at 31 December 2011 would have increased/(decreased) the after-tax profit by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	2011 RMB'000	2010 RMB'000
Effect in RMB'000		
US$	(2,087)	(3,712)
HK$	(58)	(175)

A 5% weakening of the RMB against US$/HK$ at 31 December 2011 would have had the equal but opposite effect on the after-tax profit by the amounts shown above, on the basis that all other variables remain constant.

29 Financial risk management and fair values (continued)

(e) Commodity price risk

The major raw materials used in the production of the Group's products include cotton, polyesters and rubber. The Group is exposed to price fluctuations of these raw materials which are influenced by global as well as regional supply and demand conditions. Price fluctuations of raw materials could adversely affect the Group's financial performance. The Group historically has not entered into any commodity derivative instruments to hedge the potential commodity price changes.

(f) Business risk

The Group's primary business is the design, manufacture and distribution of branded sports products including footwear, apparel and related accessories. The Group's financial results are influenced by the rapidity of its designs to be copied by competitors and reproduced at much lower prices, as well as by the Group's ability to continue to create new designs that appeal to consumers, maintain an extensive distribution network, manufacture sufficient quantities to meet customer demand, and dispose of excess inventories without excessive losses. Based on these factors, the Group may experience significant fluctuations in its future financial results.

(g) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2011 and 2010 because of the short maturities of these instruments.

30 Commitments

(a) Capital commitments

Capital commitments outstanding as at 31 December 2011 that were not provided for in the financial statements were as follows:

	The Group	
	2011	2010
	RMB'000	RMB'000
Contracted for	**290,223**	16,769
Authorized but not contracted for	**51,387**	29,821
	341,610	46,590

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

30 Commitments (continued)

(b) Operating leases

The total future minimum lease payments under non-cancellable operating leases at the year end date are payable as follows:

	The Group	
	2011	2010
	RMB'000	RMB'000
Within 1 year	**9,449**	5,333
After 1 year but within 5 years	**21,132**	15,874
After 5 years	**6,741**	6,776
	37,322	27,983

The Group leases a number of properties under operating leases. The lease periods range from one to more than ten years. Some of the leases have options to renew upon expiry. None of the leases include contingent rentals.

31 Material related party transactions

(a) Key management personnel compensation

Remuneration for key management personnel of the Group, including amounts paid to the Company's Directors as disclosed in note 7, is as follows:

	2011	2010
	RMB'000	RMB'000
Short-term employee benefits	**6,660**	6,763
Equity-settled share-based payments	**496**	604
Contributions to defined contribution retirement plans	**57**	57
	7,213	7,424

The above remuneration is included in "staff costs" (note 5(b)).

(b) Lease of land and properties

During the year ended 31 December 2011, the Group leased certain land and properties from Fujian Peak Group Co., Ltd, which is controlled by a controlling shareholder of the Company. The rental expenses for the year ended 31 December 2011 were RMB2,259,000 (2010: RMB2,259,000).

The Directors of the Company are of the opinion that the above related party transaction was conducted on normal commercial terms and in the ordinary course of business.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

32 Immediate and ultimate controlling party

The Directors consider the immediate holding companies of the Company as at 31 December 2011 to be three entities incorporated in BVI and controlled by Mr. Xu Jingnan, Mr. Xu Zhihua, Mr. Xu Zhida and Ms. Wu Tigao (the "Xu's family"). Accordingly, the ultimate controlling parties of the Company as at 31 December 2011 to be the Xu's family. These entities do not provide financial statements available for public use.

33 Significant accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in condition and assumptions are factors to be considered when reviewing these consolidated financial statements. The principal accounting policies are set forth in note 1. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of these consolidated financial statements.

(a) Impairments

If circumstances indicate that the carrying value of an asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognized in profit or loss. The carrying amounts of assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount.

The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volume, sales revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volume, sales revenue and amount of operating costs.

(b) Net realizable value of inventories

Net realizable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market conditions and the historical experience of selling products with similar nature. It could change significantly as a result of changes in customer taste or competitor actions. The Group reassesses these estimates at the end of each reporting period.

(c) Impairment of trade and other receivables

The Group estimates the impairment allowances for trade and other receivables by assessing the recoverability based on credit history and prevailing market conditions. This requires the use of estimates and judgements. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such difference will affect the carrying amounts of trade and other receivables and thus the impairment loss in the period in which such estimate is changed. The Group reassesses the impairment allowances at the end of each reporting period.

33 Significant accounting estimates and judgements (continued)

(d) Depreciation and amortization

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. Intangible assets except for those with indefinite lives are amortized on a straight-line basis over the estimated useful lives. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortization expenses to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and take into account anticipated technological changes. The depreciation and amortization expenses for future periods are adjusted prospectively if there are significant changes from previous estimates.

34 Non-adjusting events after the reporting Period

After the end of the reporting period the Directors proposed a final dividend. Further details are disclosed in note 10(a).

35 Comparative figures

As a result of the deposits and prepayments for purchase of non-current assets disclosed as a separate line item in the consolidated statement of financial position as at 31 December 2011, certain comparative figures have been adjusted to conform to current year's presentation.

36 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2011

Up to the date of issue of these consolidated financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2011 and which have not been adopted in these consolidated financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application.

So far it has concluded that the adoption of them is unlikely to result in material impacts to the Group's results of operations and financial position.

Glossary

In this annual report, unless the context states otherwise, the following terms shall have the following meanings:

"AGM"	Annual General Meeting of the Company
"Board"	The Board of Directors of the Company
"CG Code"	The Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules
"Company"	Peak Sport Products Co., Limited
"Director(s)"	Director(s) of the Company
"ED(s)"	Executive Director(s) of the Company
"FIBA"	Fédération Internationale de Basketball
"Fujian Peak"	Fujian Peak Group Co., Ltd
"Group" or "Peak"	The Company and its subsidiaries altogether
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"INED(s)"	Independent Non-executive Director(s) of the Company
"Listing Rules"	Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
"NBA"	National Basketball Association
"NED(s)"	Non-executive Director(s) of the Company
"Peak Shoes"	Quanzhou Peak Shoes Co., Ltd
"PRC or China"	The People's Republic of China
"Prospectus"	The prospectus of the Company dated 16 September 2009 in relation to the Company's initial public offering
"SFO"	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time