I CAN PLAY

PEAK

Peak Sport Products Co., Limited

2012 | Annual Report

Mission

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

Vision

To become an internationally renowned brand of sports products 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

Xu Jingnan
Chairman

Chairman's statement

… We have worked to develop a clear and consistent brand image to highlight our unique advantages in the sportswear industry through internationalization and specialization first in basketball, followed by an expanding array of sports.

Dear respectful shareholders,

2012 was a challenging year for Peak because of the fragility of the domestic and international economies during the year. The slowdown in the domestic market for sports products left many brands, including ours, with excess channel inventory. During the year, we took measures to reduce inventory and adjust our order book, including the closure of small and less-efficient sales outlets. Nonetheless, we believe that demand for sports products will rebound after this cycle. Urbanization is the fundamental driver of growth in our industry, particularly in China's second-tier and third-tier cities, where we have focused our sales and marketing efforts. As we gradually diversify beyond our core basketball range of products into tennis, running and football, we are using sponsorship of celebrity players and close cooperation with the world's major sporting leagues and associations to raise brand visibility and deepen customer loyalty. At the end of 2012, we had spokesperson agreements with 15 NBA players and three NBA teams, as well as spokesperson agreements with 16 members of the WTA as we expand our influence in one of the world's most popular sports.

Result Overview

With that introduction, I am delighted to be able to share our audited annual results for the year ended 31 December 2012.

The turnover of the Group in 2012 totaled RMB2,902.9 million, a drop of 37.5% when compared to RMB4,646.9 million in 2011. Profit attributable to equity shareholders was RMB310.6 million, with basic earnings per share at RMB14.8 cents. The Board recommended a final dividend of HK3 cents per share and a special dividend of HK2 cents per share. Together with the interim dividend of HK5 cents per share, our dividend payout ratio for the year was approximately 55.0%.

Our Business in 2012

Since our establishment in 1991, the Group has been dedicated to building up a leading international sportswear brand. We have worked to develop a clear and consistent brand image to highlight our unique advantages in the sportswear industry through internationalization and specialization first in basketball, followed by an expanding array of sports. A key element of this strategy has been to forge alliances with the world's leading athletes and sporting organizations.

2012 was a productive year in brand promotion. In basketball, we cooperated with the NBA, FIBA and other well-known international sporting organizations. We invited a number of our NBA spokespersons to join the 2012 Peak Team China Tour, and sponsored the NBA Nation. At the end of 2012, we had spokesperson agreements with 15 NBA players and three teams — the Miami Heat, Houston Rockets, and Toronto Raptors. We have also entered into sponsorship arrangements with national basketball associations of several countries such as Germany, Australia and Serbia. Among major basketball competitions, we sponsored the 2012 Asian Professional Basketball Challenge and the Stanković Continental Champions' Cup for the eighth time. These sponsorships not only further increased the penetration of our promotion strategy in different segments, they also demonstrated our dedication to promoting the basketball sporting activities. In tennis, we strengthened our cooperation with WTA by sponsoring a number of tennis tournaments and tennis festival during 2012. At the end of 2012, we had 16 WTA spokespersons and we believe these sponsorships have further enhanced our influence in the tennis sector.

Beyond basketball and tennis, we also sponsored international tournaments on various sporting activities which further increased our brand reach in different sports segments. We sponsored the Tour de Qinghai Lake International Cycling Race for the seventh time, and delegations from seven countries including New Zealand and Slovenia to the 2012 London Olympic Games. We believe the sponsorship of Olympic Games has further raised brand visibility and deepened customer loyalty in global markets.

The Group has been developing international markets for its products for years. To build up an international brand is one of our goals and our adherence and dedication to such goal have been recognized and supported by various sectors in the community. The Group's international sales totaled RMB388.2 million in 2012, representing 13.4% of total turnover, against a backdrop of weakness in the global economy and slumping demand. We deepened our presence in international markets, opening our second authorised store in the US in February 2012. Peak's international achievement has been acknowledged by no less than the Chinese Premier Wen Jiabao, who visited Quanzhou, Fujian, in April 2012.

The Group's distribution channels underwent restructuring and optimization in 2012. The main goal of these adjustments is to enhance efficiency and responsiveness. We closed small and less-efficient retail outlets in order to put more emphasis on large outlets with economies of scale. We decreased the size of market managed by some distributors by introducing new distributors. We encouraged existing distributors to open more authorized Peak retail outlets and upgraded qualified retailers into distributors. All these measures enable both distributors and retailers to respond more quickly to market changes. During the year, we increased the number of distributors in our distribution network from 50 at the end of 2011 to 59 at the end of 2012. The number of retail outlets in China decreased from 7,806 at the end of 2011, to 6,483 at the end of 2012, representing a net decrease of 1,323.

Corporate Social Responsibility

We believe that good sportsmanship is a fundamental social value. As such, we invested in activities promoting athletic development and sportsmanship, including basketball training camps for young people to help them get in touch with the sport and understand the value. In 2012, we also made RMB6.4 million donations to charity.

Looking Ahead

In 2012, we saw excess inventory spreading in the sportswear industry as market demand fell. I expect a sustained consolidation of the sportswear industry because of uncertain economic conditions and a slow-down of growth in the sportswear industry in 2013. Nonetheless, I am still optimistic about the future of the industry as China's urbanization process accelerates, leading to changes in lifestyle, rising number of people participating in sporting activities and, above all, growing demand for sports products. The consolidation and increasing concentration of the industry present an expansion opportunity for the Group. I believe that the sportswear industry is likely to rebound very soon after the current cycle of active de-stocking and order adjustments.

Strategy

In 2013, we shall continue to promote both the international and unique attributes of our brand. We plan to deepen cooperation with international sporting organizations such as NBA, FIBA and others, and continue to build on our reputation as a basketball powerhouse while executing parallel strategies in other sports sectors, including tennis, running and football.

In overseas markets, we shall integrate resources, increase the intensity of brand promotion, and undertake market expansion.

In our manufacturing and production, we shall enhance the management of our supply chain through the identification and recruitment of contract manufacturers based on strict criteria. We continue to maintain our own production capacity to a certain level of our total production through building new production plants in order to respond more flexibly to market changes and control the production process effectively.

In our distribution network, we continue to focus development of retail outlets on the second-tier and third-tier cities, while optimizing and adjusting our distribution resources. In addition to working closely with distributors, the Group will upgrade its information management system to improve its market monitoring capacity, enabling fast and accurate response to retail market developments in our R&D, manufacturing, sales and other processes.

In terms of product R&D, the Group will continue to invest in new products, enhance the depth of its product lines and strengthen cooperation among its existing R&D workshops. We believe quality products and a good brand name help us build a solid customer base.

In terms of human resource management, the Group will continue to improve management systems and develop a strong corporate culture to attract talent. We plan to offer more staff training and promotion opportunities that will help our employees develop professionally as we grow.

Lastly, and on behalf of the Board, I offer my sincere thanks to our employees across all our business segments and divisions. I would also like to thank all our shareholders and business partners for the support and trust given to us so far. As management, we will endeavor to achieve greater results and to create value for our shareholders, our employees and society.

Chairman
Xu Jingnan

11 March 2013

Financial highlights

Turnover declined by **37.5%** to RMB2,902.9 million

Gross profit declined by **42.3%** to RMB1,058.2 million with gross profit margin at 36.5%

Profit for the year attributable to equity shareholders declined by **60.1%** to RMB310.6 million with net profit margin at 10.7%

Basic and diluted earnings per share amounted to **RMB14.8** cents

Final dividend of **HK3** cents (equivalent to RMB2.4 cents) per ordinary share and special dividend of **HK2** cents (equivalent to RMB1.6 cents) per ordinary share are proposed

Number of authorized Peak retail outlets reached **6,483**, representing a net decrease of 1,323 outlets

Five-year financial summary

	For the year ended 31 December				
	2012 (RMB million)	2011 (RMB million)	2010 (RMB million)	2009 (RMB million)	2008 (RMB million)
Profitability data					
Turnover	**2,902.9**	4,646.9	4,249.4	3,094.9	2,042.0
Gross profit	**1,058.2**	1,832.5	1,616.3	1,159.7	667.8
Net profit for the year	**310.6**	777.7	822.3	628.3	376.0
Basic earnings per share (RMB cents)	**14.80**	37.07	39.19	36.12	25.06
Diluted earnings per share (RMB cents)	**14.80**	37.06	39.18	36.12	25.06
Profitability ratios					
Gross profit margin	**36.5%**	39.4%	38.0%	37.5%	32.7%
Net profit margin	**10.7%**	16.7%	19.4%	20.3%	18.4%
Effective tax rate	**23.4%**	17.0%	17.6%	10.6%	8.5%
Return on equity (Note 1)	**7.6%**	20.7%	25.4%	33.3%	64.2%
Operating ratios (as a percentage of turnover)					
Advertising and promotion expenses	**14.0%**	14.2%	10.8%	11.3%	7.5%
Staff costs	**12.1%**	8.0%	6.3%	5.2%	5.5%
Research and development expenses	**1.6%**	1.0%	0.5%	0.3%	0.3%

	As at 31 December				
	2012 (RMB million)	2011 (RMB million)	2010 (RMB million)	2009 (RMB million)	2008 (RMB million)
Assets and liabilities data					
Non-current assets	**806.7**	672.3	438.0	337.8	269.2
Current assets	**4,241.9**	4,207.5	3,762.2	3,062.3	1,165.4
Current liabilities	**898.8**	777.3	671.4	366.7	567.9
Non-current liabilities	**66.7**	59.0	47.0	31.2	92.7
Shareholders' equity	**4,083.1**	4,043.5	3,481.8	3,002.2	774.0
Current ratio	**4.7**	5.4	5.6	8.4	2.1
Gearing ratio (Note 2)	**12.2%**	4.0%	0.0%	0.0%	26.1%
Net asset value per share (RMB yuan)	**1.95**	1.93	1.66	1.43	0.52

	For the year ended 31 December				
	2012 (day)	2011 (day)	2010 (day)	2009 (day)	2008 (day)
Working capital data					
Average inventory turnover days (Note 3)	**80**	49	38	36	43
Average trade receivables and bills receivable turnover days (Note 4)	**127**	66	63	70	74
Average trade payables and bills payable turnover days (Note 5)	**48**	48	46	42	79

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.

斗志改变未知

I CAN PLAY

A key element of the Group's strategy has been to forge alliances with the world's leading athletes and sporting organizations.

Management discussion and analysis

... There are still many opportunities for the industry to grow in coming years, which include urbanization of rural areas in China, increasing consumption of sports products per capita in China, and growing demand from unexploited international markets.

Market Overview

Global economic conditions

The world economy was still fragile in 2012. China experienced a further slowing down of its economy with GDP growth rate decreasing to 7.8% in 2012. A number of European countries were still haunted by debt crisis leading to a weak demand for goods and services in Europe during 2012. The economy of the U.S. was still beset by high unemployment and sluggish economy during the year. Although the U.S. rolled out two rounds of quantitative easing monetary policy during the second half of 2012, it is still doubtful whether such policy can help the country to attain a sustainable recovery in coming years. Many Asian countries also lost momentum in their economies due to decreases in the demand for goods and services from western countries during 2012.

Sportswear industry in China

The sportswear industry in China experienced restructuring during 2012 because of the over-estimation of the demand for sports products in preceding years and the slow-down of the economy in 2012. Most sportswear brands were troubled by inventory problems and clearing excessive inventories became the top priority in their business strategy during 2012. Despite the above setback of the sportswear industry, we believe the current restructuring is essential and will enhance the healthy development of the industry. Recently, positive signs such as decreased rentals for retail stores, exit of the industry by small players, stabilized salaries and wages for the retail sector have emerged, indicating a recovery of the industry is under way.

Prospects

Despite the prevailing uncertainties of the world economy, we expect that the quantitative easing monetary policy adopted by many governments in the world will bolster the consumption expenditure in many countries in 2013. In addition, the PRC central government reiterated in its policy address for 2013 that it would continue to expand domestic consumption through actively and steadily pushing forward urbanization in coming years. We believe that the sportswear industry in China will benefit from these policies and we continue to be positive about its future development. There are many opportunities for the industry to grow in coming years, which include urbanization of rural areas in China, increasing consumption of sports products per capita in China, and growing demand from unexploited international markets. We expect that through enhancement of our brand image, optimization of our distribution channels and further differentiation of our products, we shall recover from the current restructuring very soon and attain sustainable growth in coming years.

Management discussion and analysis (continued)

Financial Review

Turnover

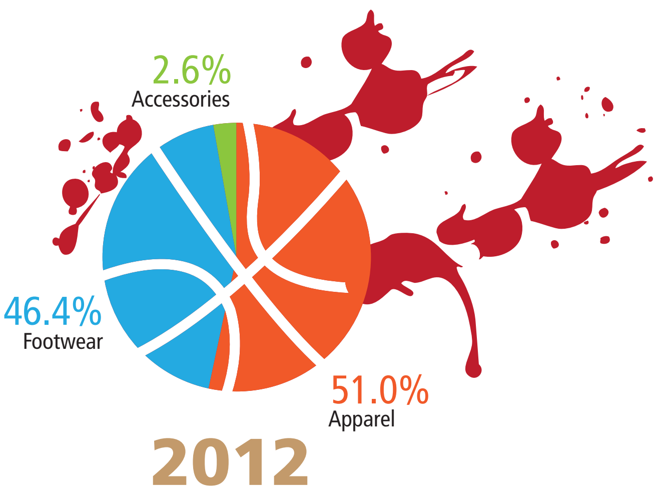
The Group's turnover for 2012 amounted to RMB2,902.9 million (2011: RMB4,646.9 million), representing a decline of 37.5% when compared to that for 2011. The decrease was mainly attributable to an industry-wide inventory correction and sluggish economic conditions which adversely affected the demand for sports products during the year.

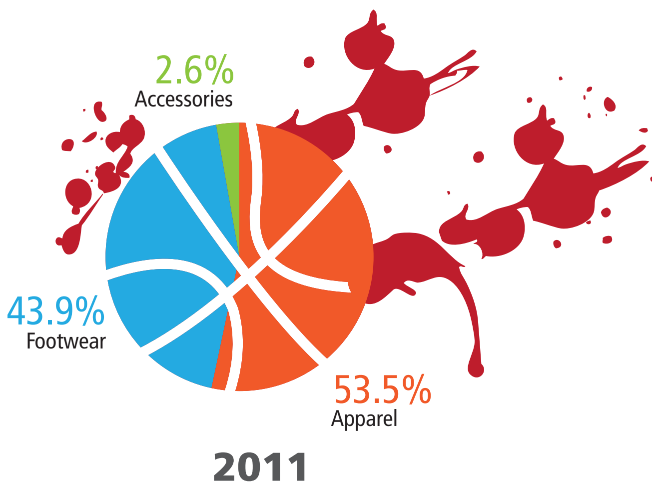
Analysis of turnover by product category:

	Year ended 31 December				
	2012		2011		
	RMB (million)	% of turnover	RMB (million)	% of turnover	Change (%)
Footwear	1,348.0	46.4	2,041.4	43.9	(34.0)
Apparel	1,481.0	51.0	2,486.7	53.5	(40.4)
Accessories	73.9	2.6	118.8	2.6	(37.8)
Total	2,902.9	100.0	4,646.9	100.0	(37.5)

As customers bought less apparel products than footwear products when they reduced expenditure on sports products during 2012, the ratio of turnover contributed by footwear products increased to 46.4% in 2012 from 43.9% in 2011 while the corresponding ratio for apparel products decreased to 51.0% in 2012 from 53.5% in 2011.

% of turnover





Management discussion and analysis (continued)

Analysis of turnover by geographical location:

	Year ended 31 December				
	2012		2011		
	RMB (million)	**% of turnover**	RMB (million)	% of turnover	Change (%)
Northern region (Note 1)	**619.9**	**21.4**	974.5	21.0	(36.4)
Eastern region (Note 2)	**886.2**	**30.5**	1,763.6	37.9	(49.8)
Southern region (Note 3)	**1,008.6**	**34.7**	1,449.6	31.2	(30.4)
China market	**2,514.7**	**86.6**	4,187.7	90.1	(40.0)
Asia	**131.6**	**4.5**	172.8	3.7	(23.8)
Africa	**110.7**	**3.8**	97.6	2.1	13.4
Europe	**66.2**	**2.3**	97.5	2.1	(32.1)
South America	**45.7**	**1.6**	62.3	1.4	(26.6)
North America	**31.3**	**1.1**	20.0	0.4	56.5
Australia	**2.7**	**0.1**	9.0	0.2	(70.0)
Overseas markets	**388.2**	**13.4**	459.2	9.9	(15.5)
Total	**2,902.9**	**100.0**	4,646.9	100.0	(37.5)

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, Tianjing, 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 86.6% of the total turnover while the overseas markets contributed 13.4% of the total turnover during 2012. The turnover derived from the China market and the overseas markets declined by 40.0% and 15.5% respectively when compared to those for 2011. The decrease in turnover derived from the China market was primarily attributable to the industry-wide inventory correction and sluggish economic conditions prevailing in 2012. The decrease in turnover derived from the overseas markets was mainly due to the slowdown in economic growth and hence decreased demand for sports products in markets such as Asia, Europe and South America during the year.

Gross profit

Analysis of contribution to gross profit by product category:

	Year ended 31 December				
	2012		2011		Change in gross profit margin
	Gross profit RMB (million)	**Gross profit margin (%)**	Gross profit RMB (million)	Gross profit margin (%)	(% points)
Footwear	**484.8**	**36.0**	794.5	38.9	(2.9)
Apparel	**549.8**	**37.1**	993.5	40.0	(2.9)
Accessories	**23.6**	**31.9**	44.5	37.5	(5.6)
Total	**1,058.2**	**36.5**	1,832.5	39.4	(2.9)

The gross profit margins for footwear and apparel products in 2012 decreased by 2.9% points each when compared to those for 2011. Such decreases were mainly due to increases in the cost of production and in the amount of various rebates that the Group offered to distributors so as to support them to withstand the rationalization of the sportswear industry during the year. These rebates included performance bonus, rental subsidy, incentives for early settlement of debts and special discount on selected products.

Management discussion and analysis (continued)

Selling price and volume

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

	Year ended 31 December					
	2012		2011		Change	
	Quantity sold (million)	**Average unit selling price (RMB)**	Quantity sold (million)	Average unit selling price (RMB)	Quantity sold (%)	Average unit selling price (%)
Footwear (pair)	**15.1**	**89.3**	22.8	89.5	(33.8)	(0.2)
Apparel (piece)	**24.7**	**60.0**	41.5	59.9	(40.5)	0.2

Notes:

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

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.

There have not been any material changes in the average unit selling prices of both footwear and apparel products during 2012 when compared to those for 2011. Accordingly, the decrease in the Group's turnover during 2012 was mainly attributable to the decrease in the sales volume of the Group's products.

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)
2012	**6,483**	**561,865**	**86.7**	**7,145**	**589,663**	**352**	**4.3**
2011	7,806	617,461	79.1	7,515	585,276	557	7.2
Changes (%)	(16.9)	(9.0)	9.6	(4.9)	0.7	(36.8)	(40.3)

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 86.7 square metres as at 31 December 2012 from 79.1 square metres as at 31 December 2011, 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 the year decreased by 36.8% and 40.3% respectively when compared to those for 2011. Such decreases were in line with the decline in turnover derived from the China market. The decline in turnover was in turn due to the decrease in the demand for sports products caused by the industry-wide inventory correction and sluggish economic conditions during the year.

Management discussion and analysis (continued)

Cost of sales

Analysis of cost of sales by production method:

	Year ended 31 December 2012 RMB (million)	2012 % of total	2011 RMB (million)	2011 % of total	Change (%)
Self-production					
Raw materials	**602.3**	**65.1**	714.5	68.7	(15.7)
Direct labour	**189.7**	**20.5**	189.9	18.2	(0.1)
Overhead	**132.9**	**14.4**	136.0	13.1	(2.3)
Total	**924.9**	**100.0**	1,040.4	100.0	(11.1)
Cost of sales					
Self-production	**924.9**	**50.2**	1,040.4	37.0	(11.1)
OEM	**506.0**	**27.4**	625.9	22.2	(19.2)
Subcontracting arrangements	**413.8**	**22.4**	1,148.2	40.8	(64.0)
Total	**1,844.7**	**100.0**	2,814.5	100.0	(34.5)

The decrease in the costs of certain raw materials during 2012 caused a decrease in the ratio of the cost of raw materials to total cost of self-production to 65.1% from 68.7% for 2011.

The ratio of the total cost of self-production to total cost of sales increased to 50.2% in 2012 from 37.0% in 2011. 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 2012 increased to 64.2% and 36.7% from 54.0% and 25.2% for 2011 respectively.

Other revenue and other net income

Other revenue for 2012 increased to RMB33.2 million (2011: RMB28.4 million) mainly because interest income derived from bank deposits increased as a result of placement of more excess working capital in time deposits by the Group during the year. Other net income increased to RMB11.8 million (2011: RMB3.0 million) mainly due to increased exchange gains arising from settlement of trade transactions by overseas customers during the year.

Selling and distribution expenses

Total selling and distribution expenses for 2012 amounted to RMB460.8 million (2011: RMB712.8 million), representing a decrease of 35.4% when compared to those for 2011. The decrease was mainly attributable to decreased advertising and promotion activities, the reduction of which was in line with the decrease in the Group's turnover during the year.

Administrative expenses

Total administrative expenses for 2012 amounted to RMB228.5 million (2011: RMB213.0 million), representing an increase of 7.3% when compared to those for 2011. The increase was a net effect caused mainly by the following items when compared to those of 2011: (i) increased bank charges regarding the arrangement for bank loans; (ii) increased research and development expenses; (iii) increased depreciation charges for new office buildings and staff quarters; (iv) increased charitable donations; (v) a write-down of inventories; and (vi) decreased education surcharge and city construction tax, the reduction of which was in line with the decrease in the Group's turnover during the year.

Finance expenses

The increase in finance expenses was caused by increases in both short-term bank loans and relevant interest rates during 2012. These short-term bank loans were primarily used for settlement of advertising and promotion expenses denominated in foreign currencies and payment of dividends.

Income tax

Income tax expenses decreased by 40.3% to RMB94.9 million for 2012 from RMB158.9 million for 2011. The decrease was in line with the decrease in operating profits during the year.

Net profit and net profit margin

Net profit decreased by 60.1% to RMB310.6 million for 2012 from RMB777.7 million for 2011 while net profit margin decreased to 10.7% for 2012 from 16.7% for 2011. The decrease in net profit during 2012 was primarily a result of: (i) a decrease in gross profit; (ii) a decrease in selling and distribution expenses; and (iii) a decrease in income tax, which together with item (ii) only partially offset the impact of item (i). The decrease in net profit margin during 2012 was primarily a result of: (i) a decrease in gross profit margin; (ii) an increase in the ratio of selling and distribution expenses to turnover mainly caused by increased staff costs of relevant departments; and (iii) an increase in the ratio of administrative expenses to turnover mainly caused by relatively stable staff costs of relevant departments, increased research and development expenses, increased bank charges for arranging loans, and increased depreciation charges for new office buildings and staff quarters.

Management discussion and analysis (continued)

Working capital ratios

The average inventory turnover days for the year ended 31 December 2012 increased to 80 days from 49 days for the year ended 31 December 2011 mainly because some of our distributors requested us to delay the delivery of their ordered products due to unsatisfactory market conditions.

As our distributors have been experiencing a rationalization of the sportswear industry and sluggish demand during the year, the Group allowed them to settle their debts later than before. As a result, the average trade receivables and bills receivable turnover days increased to 127 days for the year ended 31 December 2012 from 66 days for the year ended 31 December 2011.

The average trade payables and bills payable turnover days for the year ended 31 December 2012 remained unchanged at 48 days when compared to that for the year ended 31 December 2011.

Liquidity and capital resources

The net cash inflow from operating activities of the Group for the year ended 31 December 2012 amounted to RMB180.5 million (2011: RMB310.8 million). The decrease in the net cash inflow from operating activities was mainly due to a reduction in the Group's sales revenue and a decrease in the balance of trade payables as at 31 December 2012 when compared to those as at 31 December 2011. As at 31 December 2012, 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 RMB2,762.7 million, representing a net increase of RMB65.8 million when compared to the position as at 31 December 2011.

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

	Year ended 31 December 2012 RMB million
Net cash inflow from operating activities	180.5
Net capital expenditure	(182.5)
Dividends paid	(272.2)
Net proceeds from bank loans	335.0
Other net cash inflow	5.0
Net increase in cash and bank deposits	65.8

The Group borrowed bank loans during the year ended 31 December 2012. All these bank loans were repayable within one year and primarily used for the settlement of advertising and promotion expenses denominated in foreign currencies and payment of dividends of the Company.

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.

Management discussion and analysis (continued)

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 as the total equity. As at 31 December 2012, the Group had cash in excess of interest-bearing loans. 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.

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 and bank loans which were denominated in Hong Kong dollars or 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 as at 31 December 2012:

	Carrying amount as at 31 December	
	2012	2011
	RMB'000	RMB'000
Buildings	**110,051**	148,749
Bank deposits	**300,766**	82,259
Lease prepayments	**10,307**	11,887

Management discussion and analysis (continued)

Operations Review

Distribution network

The network of authorized Peak retail outlets, which components are owned and operated either by our distributors or by retail outlet operators, has been providing an effective retail channel for our products throughout China. To prepare for our future growth and further enhance our brand image, the Group is optimizing our distribution network by closing down small and less-efficient retail outlets while opening larger retail outlets in 2012. As at 31 December 2012, the total number of authorized Peak retail outlets was 6,483 (31 December 2011: 7,806), representing a net decrease of 1,323 outlets.

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

	Number of retail outlets as at 31 December		
	2012	2011	change (%)
Northern region	**1,904**	2,065	(7.8)
Eastern region	**2,330**	3,199	(27.2)
Southern region	**2,249**	2,542	(11.5)
Total	**6,483**	7,806	(16.9)

Note: Please refer to page 16 for details of classification of geographical regions.

Analysis of authorized Peak retail outlets in China by type of city:

	Number of retail outlets as at 31 December		
	2012	2011	Change (%)
First-tier city	**342**	437	(21.7)
Second-tier city	**1,126**	1,578	(28.6)
Third-tier city	**5,015**	5,791	(13.4)
Total	**6,483**	7,806	(16.9)

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, most of authorized Peak retail outlets are located in the second-tier and third-tier cities. During the year, the Group has been optimizing our distribution channel by closing down less-efficient retail outlets.

Analysis of authorized Peak retail outlets in China by store category:

	Number of retail outlets as at 31 December		
	2012	2011	Change (%)
Flagship Store	**21**	25	(16.0)
Basic Store	**3,938**	4,969	(20.7)
Department Store or Shopping Mall Store	**2,455**	2,745	(10.6)
Basketball Specialty Store	**69**	67	3.0
Total	**6,483**	7,806	(16.9)

Management discussion and analysis (continued)

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 stores are either street-level outlets or shopping mall stores and offer mainly premium basketball sports products 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 are crucial to the success of our distribution network.

China market

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.

We select our distributors according to a range of factors such as retail experience in sports products, 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 the distributor an exclusive right to distribute our products in a specified area 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, credit terms, discounts offered and rewards. Subject to our written approval, our distributors may appoint retail outlet operators. We do not enter into agreements with such retail outlet operators except for licensing 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 the year, the Group continued to expand the coverage of our computerized management information system ("MIS"), which collected real-time operational data and feedback from authorized Peak retail outlets connected to the system. As at 31 December 2012, 1,921 retail outlets were connected to our MIS.

As an incentive for our distributors to expand the network of authorized Peak retail outlets and to maintain consistency of store image and layout, we provide certain renovation work to retail outlets and rental subsidies to retail outlet operators for opening retail outlets with high rentals in prime locations. We also offer performance bonuses (or rewards) 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 the year, we participated in the following international exhibitions and trade fairs:

— International Trade Fair for Sports Equipments and Fashion in Munich, Germany;
— China Import and Export Fair in Guangzhou, China;
— China Sourcing Fair in Dubai, the United Arab Emirates;
— Brands of China African Showcase in Dar es Salaam, Tanzania;
— Asia Expo Singapore in Marina Bay Sands, Singapore;
— China Import and Export Commodities Exhibition in Kuala Lumpur, Malaysia; and
— China Brands Exhibition in Budapest, Hungary.

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 the basketball sports category 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 the basketball sports category, the Group has rolled out our new marketing strategy focusing on three other sports categories (i.e. running, tennis and football) in addition to basketball in recent years. 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 had an 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 the basketball sports category 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 also entered into sponsorship agreements with the NBA's Houston Rockets, Miami Heat and Toronto Raptors under which the Group can, among other things, display the Peak signage at the home stadiums of the three teams.

As at 31 December 2012, 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 (listed by alphabetical order):

NBA players	NBA teams
Anthony Morrow	Atlanta Hawks
Beno Udrih	Milwaukee Bucks
C. J. Watson	Brooklyn Nets
Carl Landry	Golden State Warriors
Chase Budinger	Minnesota Timberwolves
Dorell Wright	Philadelphia 76ers
George Hill	Indiana Pacers
Gordon Hayward	Utah Jazz
JaVale McGee	Denver Nuggets
Jeremy Tyler	Golden State Warriors
Kyle Lowry	Toronto Raptors
Patrick Patterson	Houston Rockets
Sam Young	Indiana Pacers
Samuel Dalembert	Milwaukee Bucks
Shane Battier	Miami Heat

Management discussion and analysis (continued)

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 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.

National Basketball Federations

The Group has associations with a number of national basketball federations which are responsible for managing the national teams of their own countries. Under the relevant sponsorship agreements, the Group is required, among other things, to supply relevant national teams with sports products in specified games and matches. During 2012, these national basketball federations were:

— Basketball Australia
— Basketball Federation of Montenegro
— Basketball Federation of Serbia
— Basketball New Zealand
— Cameroon Basketball Federation
— Cote d'Ivoire Basketball Federation
— German Basketball Federation
— Icelandic Basketball Federation
— Lebanese Basketball Federation

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 in all matches, trips, commercial and charitable events organized by WCBA during the 2011–2012 season.

2012 ABA Championship

2012 ABA Championship was held in September 2012. 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.

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 2012 Peak Team China Tour kicked-off in Beijing on 14 August 2012. The Group invited several of our NBA spokespersons to participate in the tour. These spokespersons interacted with Chinese basketball fans in nearly 20 cities, including Beijing, Guangzhou, Nanjing and Shenzhen. Both the Peak brand and NBA players gained intense media exposure throughout the tour.

NBA Nation

NBA Nation is an interactive basketball event officially launched by NBA. The event, which involves basketball as well as elements of entertainment, provides an excellent platform to deliver the best of the NBA experience to basketball fans. This was the first year that the event was held in China and the event took place across 20 cities including Changsha, Shanghai and Guangzhou in June 2012. As the official marketing partner of the NBA Nation, the Group supplied all sports products for the event and the event provided a great opportunity to further promote both NBA and the Peak brand.

Other basketball sponsorships

The Group also sponsored the following basketball events in 2012:

— The 17th Quanzhou 100 Teams/1000 Matches Basketball Competition (泉州百隊千場籃球賽) held in July;
— The 13th Xiamen-Peak Basketball Camp (匹克廈門籃球夏令營) held in July;
— The Shenzhen Longgang Continental Men's Basketball Championship (深圳龍崗洲際職業男籃挑戰賽) held in September;
— The Shanghai University Students Tournament (上海大學生籃球精英賽) held in October; and
— The 4th Quanzhou University Students League (泉州大學生籃球聯賽) held in November.

Tennis promotion partners

With a view to attracting more female customers and boosting the female sportswear sales, the Group has gradually been strengthening our promotion in the tennis sector. 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 our tennis sports products. Accordingly, the Group utilizes promotion partners which can manifest the internationalism and professionalism of the Peak brand to promote our tennis sports products.

Management discussion and analysis (continued)

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, which make up the WTA Tour in 2012:

— ASB Classic (Auckland, New Zealand);
— Brisbane International (Brisbane, Australia);
— Apia International Sydney (Sydney, Australia);
— Moorilla Hobart International (Hobart, Australia);
— PTT Pattaya Women's Open (Pattaya, Thailand);
— Guangzhou International Women's Open (Guangzhou, China); and
— BMW Malaysian Open (Kuala Lumpur, Malaysia).

The Group, among other things, obtains 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 partner of the WTA Tour Festival and organized interactive games and tennis-related activities for tennis fans in Guangzhou and Beijing, China in summer 2012.

Endorsed tennis athletes

To increase our brand awareness and further enhance the influence of Peak in the women's tennis sector, the Group had endorsement contracts with the following international tennis players as at 31 December 2012 (listed by alphabetical order):

Tennis players	Country
Alla Kudryavtseva	Russia
Andreja Klepač	Slovenia
Catalina Castaño	Colombia
Ekaterina Dzehalevich	Belarus
Galina Voskoboeva	Kazakhstan
He Sirui	China
Julia Abigail Cohen	USA
Katalin Marosi	Hungary
Klaudia Jans-Ignacik	Poland
Margalita Chakhnashvili	Georgia
Maria Abramović	Croatia
Maria Kondratieva	Russia
Mervana Jugic-Salkić	Bosnia-Herzegovina
Nina Bratchikova	Russia
Olga Govortsova	Belarus
Vesna Dolonc	Serbia

Running promotion partners

In line with the new marketing strategy, the Group has been strengthening the promotion of our running footwear. The Group's new series of running shoes successfully boosted the recognition of the Peak brand in the running sector. The promotion partners of our running footwear included CCTV, Guangdong Sports TV, Anhui 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 our football sports products. A number of promotion activities for football carried out during the year were targeted not only at the domestic market but also specific overseas markets.

Iraq Football Association

The Group was the official and sole sponsor for the Iraq Football Association in 2012. Under the relevant 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 2012, the Group sponsored five Chinese football league teams, including Shenyang Dongjin and Beijing Baxishengshi.

Other promotion partners and events

National Olympic Committees

The Group entered into sponsorship agreements with a number of national Olympic committees, under which the Group, among other things, supplied sports products for the national teams in certain sports games. The Group sponsored the following national Olympic committees in the 2012 London Olympic Games:

— The National Olympic Committee of New Zealand
— The National Olympic Committee of Iraq
— The National Olympic Committee of Cyprus
— The National Olympic Committee of Slovenia
— The National Olympic Committee of Algeria
— The National Olympic Committee of Lebanon
— The National Olympic Committee of Jordan

2012 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 seven consecutive years since 2006.

Production capacity

Our products are manufactured either by the Group's own production facilities or through outsourcing arrangements with contract manufacturers. We believe that maintaining our own production capabilities has several advantages including better control over the production process, having the flexibility and ability to respond promptly to market changes, and better bargaining power over contract manufacturers.

Footwear production facilities

The Group currently has three footwear production facilities at Fengze in Fujian Province, Hui'an in Fujian Province and Shang'gao in Jiangxi Province. We also outsource a portion of our footwear production to contract manufacturers. The total footwear production volume for 2012 was approximately 13.7 million pairs, of which approximately 64.2% were produced in-house and approximately 35.8% were produced through outsourcing to contract manufacturers. We have a plan to increase our annual production capacity for footwear products to approximately 17.0 million pairs when our plant at Shang'gao attains full production capacity by the end of 2015.

Apparel production facilities

The Group currently has three apparel production facilities at Fengze in Fujian Province, Hui'an in Fujian Province and Shang'gao in Jiangxi Province. We also outsource a major portion of our apparel production to contract manufacturers. The total apparel production volume for 2012 was approximately 27.8 million pieces, of which approximately 36.7% were produced in-house and approximately 63.3% were produced through outsourcing to contract manufacturers. We have a plan to increase our annual production capacity for apparel products to approximately 20.2 million pieces when our plants at Hui'an and Shang'gao attain full production capacity by the end of 2014.

Analysis of production capacity by location and product category:

		Footwear production facilities			**Apparel production facilities**		
Location		**Fengze Quanzhou Fujian Province (full production)**	**Hui'an Quanzhou Fujian Province (full production)**	**Shang'gao Yichun Jiangxi Province**	**Fengze Quanzhou Fujian Province (full production)**	**Hui'an Quanzhou Fujian Province**	**Shang'gao Yichun Jiangxi Province**
Commencement date of production		Aug 1994	Jul 2011	Jun 2008	Feb 2004	Sep 2008	Jan 2012
Estimated annual production capacity(Note) (pair/piece)	2011	3.0 million	1.5 million	8.5 million	2.7 million	9.0 million	N/A
	2012	**3.0 million**	**2.0 million**	**6.0 million**	**3.0 million**	**10.5 million**	**0.4 million**
Actual production volume (pair/piece)	2011	3.0 million	1.6 million	8.6 million	2.4 million	7.7 million	N/A
	2012	**2.3 million**	**1.5 million**	**5.0 million**	**2.3 million**	**7.5 million**	**0.4 million**
Expected time of full production		N/A	N/A	2015	N/A	2014	2014
Expected production capacity upon full production (pair/piece)		N/A	N/A	12.0 million	N/A	16.4 million	0.8 million

Note: Estimated annual production capacity is an estimate we make in each year taking into account a number of factors and assumptions, including, among others, number of production lines, amount of equipment and personnel, rate of production per worker per hour, number of hours and days our workers work per month, and seasonal impact on production. As these factors and assumptions may vary over time, 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 2012, 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 designing more innovative and stylish products to satisfy the needs of different consumer segments all over the world. During the year, the Group introduced 591 new footwear products, 1,191 new apparel products and 451 new accessory products to consumers.

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 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 completing certain production processes for us. Under the OEM arrangements, we provide OEMs with the designs and specifications of our products and recommend suppliers to them to procure raw materials for their production. OEMs are responsible for all the production processes and produce finished goods for us. The OEM arrangements allow us to devote less of our management time on monitoring the whole production processes 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 processes.

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. As at 31 December 2012, the Group's total headcount was approximately 8,900.

We care for the career development of our staff and provide various kinds of training courses 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.

We provide systematic training to our front-line sales staff, distributors and retail outlet operators regarding Peak's product knowledge and selling and promotion skills. During the year, we held 32 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 optimistic about the future development of the sportswear industry. 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 to be 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 the basketball sports category 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 tournament organizers such as NBA and FIBA and other promotion partners including teams, events and individual athletes to extend our brand reach throughout the world.

Optimization of distribution channels

To prepare for the future development of the sportswear industry, the Group will continue to optimize our distribution channels. Regarding our retail network, the Group will continue to open, through our distributors and retail outlet operators, more larger retail outlets and close down small and less efficient retail outlets in 2013. 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 2013. 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, such distributor can concentrate its resources to better manage 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, better bargaining power over contract manufacturers, and the flexibility and ability to respond promptly to market changes. Accordingly, the Group will invest approximately RMB150 million to construct and purchase new machinery and equipment for our production facilities in 2013. To alleviate the impact of rising labour cost around the coastal regions of China, the Group is going to build another apparel plant at Heze in Shandong Province ("Shandong Project"). The estimated annual production capacity of the new plant is about 30 million pieces of apparel with total capital expenditure amounting to about RMB1 billion. Because of the recent unfavourable economic conditions, the Group has delayed the construction of the new plant. We estimate that the Shangdong Project will take at least five more years for its completion.

Corporate governance report

The Board is pleased to present this Corporate Governance Report in the Company's annual report for the year ended 31 December 2012.

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 former Code on Corporate Governance Practices for the period from 1 January to 31 March 2012, and the CG Code for the period from 1 April to 31 December 2012.

In the opinion of the Board, the Company has complied with all the code provisions set out in the CG Code and the former CG code during the year ended 31 December 2012, except for the deviation from the code provision A.6.7 (see section (G) below). 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 is responsible for performing corporate governance functions set out in code provision D.3.1 of the CG Code. During the year under review, the Board has performed such corporate governance functions as follows: (i) reviewed and developed the Group's policies and practices on corporate governance in response to the implementation of the CG Code; (ii) reviewed and monitored the training and continuous professional development of Directors and senior management; (iii) reviewed and monitored the Group's policies and practices on compliance with legal and regulatory requirements; (iv) developed, reviewed and monitored the compliance with the Model Code and the employees' written guidelines for securities transactions; and (v) reviewed the Group's compliance with the CG Code and disclosure in the Corporate Governance Report.

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. 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 2012 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	*(Member of the Audit Committee, Remuneration Committee and Nomination Committee)*

Mr. Xu Jingnan, Mr. Xu Zhihua, Mr. Xu Zhida and Ms. Wu Tigao are members of the same family with Mr. Xu Jingnan being the spouse of Ms. Wu Tigao and father of both Mr. Xu Zhihua and Mr. Xu Zhida. Biographical details of the current Directors and the relationship among them are also set out in the section headed "Directors and senior management" on pages 54 to 57 of this annual report.

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 NEDs and INEDs possess different business and professional backgrounds. Throughout the year ended 31 December 2012, the Board has met the requirements of Listing Rules 3.10 and 3.10A of having three independent non-executive directors (representing one-third of the Board) with one of them possessing appropriate accounting and related financial management expertise.

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.

(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 considering, reviewing and approving the financial and operating performance, matters on corporate governance and 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 2012, the Board held four meetings. Details of individual attendance of each Director at these meetings are set out below:

Director	**Meeting attended/held**	**Attendance (%)**
EDs		
Mr. Xu Jingnan *(Chairman)*	4/4	100
Mr. Xu Zhihua	4/4	100
Mr. Xu Zhida	4/4	100
NEDs		
Ms. Wu Tigao	4/4	100
Mr. Shen Nanpeng	2/4	50
Mr. Zhu Linan	4/4	100
INEDs		
Dr. Xiang Bing	3/4	75
Mr. Wang Mingquan	4/4	100
Dr. Ouyang Zhonghui	4/4	100

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. Board papers and related materials are made available to the Directors not less than three days before the intended date of a Board meeting to enable the Directors to make informed decisions on Board matters. 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

Code provision A.2.1 of the CG Code provides that the roles of Chairman and Chief Executive 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 and Re-election of Directors

All directors, including the NEDs and the INEDs, are appointed for a term of three years and are 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 Jingnan, Mr. Shen Nanpeng and Dr. Ouyang Zhonghui, being one-third of the Directors, shall retire by rotation at the forthcoming 2013 AGM. The above retiring Directors, being eligible, will offer themselves for re-election at the 2013 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.

(A.6) Induction and Continuing Development for Directors

Each newly appointed Director shall receive 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 refresh their knowledge and to facilitate the discharge of their duties. Continuing briefings to Directors are arranged whenever necessary. In addition, reading materials on legal and regulatory updates are provided to Directors from time to time for their studying and reference.

For the year ended 31 December 2012, all Directors complied with the code provision A.6.5 of the CG Code on continuous professional training through participating in the following activities:

Director	**Activity**
Mr. Xu Jingnan	B, D
Mr. Xu Zhihua	B, D
Mr. Xu Zhida	A, B
Ms. Wu Tigao	A, B
Mr. Shen Nanpeng	A, B, C, D
Mr. Zhu Linan	A, B
Dr. Xiang Bing	B, C
Mr. Wang Mingquan	A, B
Dr. Ouyang Zhonghui	A, B, C, D

Key:
A: As an attendee to seminars/conferences organized by independent third parties
B: As an attendee to briefings on regulatory updates given by the Company Secretary
C: As a presenter in seminars/conferences organized by independent third parties
D: Reading technical bulletins, periodicals and other publications on subjects relevant to the Group

(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. All the Directors 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 2012 and up to the date of this annual report.

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 2012 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. The Company has implemented compliance procedures which, among other things, include requiring Directors to 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 now available on the Hong Kong Stock Exchange's website www.hkexnews.hk and the Company's website (except for the written terms of reference of the Executive Committee which is 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 comprises three members, namely Dr. Xiang Bing, Mr. Wang Mingquan and Dr. Ouyang Zhonghui, who are all INEDs. 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 2012, the Audit Committee held four meetings. Details of individual attendance of each member at these meetings are set out below:

Audit Committee Member	Meeting attended/held	Attendance (%)
Dr. Xiang Bing *(Chairman)*	3/4	75
Mr. Wang Mingquan	4/4	100
Dr. Ouyang Zhonghui	4/4	100

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

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

The Audit Committee has performed the following major works during the year ended 31 December 2012:

- Review and discussion of the annual report and accounts for the year ended 31 December 2011, and the related accounting principles and practices adopted by the Group;
- Review of the independence of the external auditor and recommendation of its re-appointment at the Company's 2012 AGM;
- Discussion of the nature, plan and scope of the Group's audit for the year ended 31 December 2012;
- Review and discussion of the half-year report and accounts for the six months ended 30 June 2012, and the related accounting principles and practices adopted by the Group; and
- Review and discussion of the internal control system.

In addition, the Audit Committee considered the compliance of the non-competition undertaking provided by the Company's controlling shareholders and their affiliates (each a "Covenantor" and collectively, "Covenantors") during the year ended 31 December 2012.

Pursuant to a deed of non-competition (the "Non-competition Deed") made between the Company (for itself and on behalf of its subsidiaries) and the Covenantors dated 8 September 2009, the Covenantors are, among other things, not permitted to carry on, participate, acquire or hold any right or interest, directly or indirectly, in any business which is in any respect in competition directly or indirectly with or similar to the Group's business (the "Restricted Business") within Hong Kong and the PRC and such other parts of the world where any member of the Group carries on business from time to time (the "Restricted Territories"). In addition, when any of the Covenantors is offered or becomes aware of any business investment or commercial opportunity directly or indirectly relating to the Restricted Business in any of the Restricted Territories, the Covenantor should notify the Company and refer such business opportunity to the Company for consideration. The Covenantor should not invest or participate in any business opportunity unless such opportunity has been rejected by the Company in writing and the principal terms of which the Covenantor invests or participates are no more favourable than those made available to the Company.

During the year, Mr. Xu Zhihua, an ED and a Covenantor, notified the Company of an investment opportunity regarding acquisition of a controlling interest in an enterprise (the "Target") which engages in online selling of customized footwear products. As part of the Target's business (i.e. selling athletic footwear) may compete with the Group's business and Mr. Xu Zhihua indicated that he would invest in the Target if the Company had decided not to invest in the Target, the Audit Committee considered the investment opportunity. After reviewing relevant documents and information of the Target, the Audit Committee resolved that the Group would not invest in the Target.

All the Covenantors have declared, following specific enquiry by the Audit Committee, that they have complied with the non-competition undertaking as set out in the Non-competition Deed during the year ended 31 December 2012.

The Audit Committee reviewed the compliance of the non-competition undertaking and considered that all the Covenantors complied with such undertaking during the year ended 31 December 2012.

(B.3) Remuneration Committee

The Remuneration Committee comprises five members, being one ED, Mr. Xu Jingnan, one NED, Mr. Shen Nanpeng, and three INEDs, Dr. Xiang Bing, Mr. Wang Mingquan and Dr. Ouyang Zhonghui. 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 make recommendations to the Board on 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 make recommendations to the Board on the remuneration packages of individual Director (both executive and non-executive) and senior management (i.e. the model described in the code provision B.1.2(c)(ii) was adopted).

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 the remuneration or compensation packages of the Directors and senior management with reference to the remuneration packages adopted by comparable companies, time commitment and responsibilities of relevant personnel and performance of the Group.

During the year ended 31 December 2012, the Remuneration Committee held one meeting. Details of individual attendance of each member at the meeting are set out below:

Remuneration Committee Member	Meeting attended/held	Attendance (%)
Dr. Xiang Bing *(Chairman)*	0/1	0
Mr. Wang Mingquan	1/1	100
Mr. Shen Nanpeng	0/1	0
Mr. Xu Jingnan	1/1	100
Dr. Ouyang Zhonghui	1/1	100

At the aforesaid Remuneration Committee meeting, the remuneration packages and year-end bonuses of all the Directors and senior management 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. The Remuneration Committee then made recommendations to the Board on the remuneration of each Director and senior management in 2013 and their year-end bonuses in 2012. Details of the remuneration of Directors are set out in note 7 to the consolidated financial statements on page 90 of this annual report. Details of remuneration paid to members of senior management for the year ended 31 December 2012 fall within the following bands:

Remuneration	Number of individuals
HK$1,000,000 or below	6
HK$2,000,001 to HK$2,500,000	1

(B.4) Nomination Committee

The Nomination Committee comprises three INEDs, namely Dr. Xiang Bing, Mr. Wang Mingquan and Dr. Ouyang Zhonghui. The chairman of the Nomination Committee is 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 reappointment 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.

During the year ended 31 December 2012, the Nomination Committee held one meeting. Details of individual attendance of each member at the meeting are set out below:

Nomination Committee Member	Meeting attended/held	Attendance (%)
Mr. Wang Mingquan *(Chairman)*	1/1	100
Dr. Xiang Bing	1/1	100
Dr. Ouyang Zhonghui	1/1	100

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 2012 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 financial statements of the Company and the Group 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 2012 and of the profit and cash flows of the Group for the year then ended. In preparing the above 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 68 of this annual report.

The Board's endeavors to present 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 2012, the remuneration paid and payable to KPMG, the Company's external auditor, amounted to RMB2.9 million for audit services to the Group and RMB1.0 million for non-audit services. The non-audit services related to review of the Group's interim financial report and assistance in the Group's review of its internal control system.

(D) Company Secretary

The Board appoints its Company Secretary in accordance with the Company's Articles of Association and in compliance with the requirements of the Listing Rules. Biographical details of the current Company Secretary is set out in the section headed "Directors and senior management" on pages 54 to 57 of this annual report. The Company Secretary complied with the professional training requirement as set out in the Listing Rule 3.29 during the year ended 31 December 2012.

(E) 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 2012, the Board conducted a review of 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.

(F) Shareholders' Rights

The Company's shareholders may convene an extraordinary general meeting or put forward proposals at shareholders' meetings according to the following procedures:

(1) Shareholder(s) holding not less than one-tenth of the paid-up capital of the Company may request the Board to convene an extraordinary general meeting pursuant to Article 58 of the Company's Articles of Association by sending a written requisition to the Board or the Company Secretary at the Company's principal place of business in Hong Kong. The objects of the meeting must be stated in the written requisition.

(2) If a shareholder wishes to put forward proposals at a shareholders' meeting, the shareholder, who has satisfied the shareholding requirements set out in (1) above, may follow the same procedures as described in (1) above by sending a written requisition to the Board or the Company Secretary at the Company's principal place of business in Hong Kong. The shareholder should state his/her proposals in the written requisition and submit the written requisition as early as practicable to enable the Company Secretary to make necessary arrangement.

(3) If a shareholder wishes to propose a person other than a retiring director for election as a director of the Company at a general meeting, pursuant to Article 85 of the Company's Articles of Association, the shareholder (other than the person to be proposed) should prepare a written notice duly signed by him/her of his/her intention to propose a person for the election and a notice duly signed by the person to be proposed of his/her willingness to be elected. These notices should be lodged at the Company's principal place of business in Hong Kong or its share registrar at least 7 days prior to the date of the general meeting. Where the notices are submitted after the dispatch of the notice of the general meeting, the period for the lodgment of the notices should commence on the day after the dispatch of the notice of the general meeting and end not later than 7 days prior to the date of the general meeting.

During the year under review, the Company has not made any changes to the Articles of Association. An up-to-date version of the Articles of Association is available on the websites of the Company and the Hong Kong Stock Exchange. Shareholders may refer to the Articles of Association for further details of the rights of shareholders.

(G) Investor Relations and Communications with Shareholders

The Company highly values its relationship with its shareholders and other stakeholders. It 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 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 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.

- All resolutions put to the vote of a general meeting 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.

The shareholders' communication policy is available on the Company's website www.peaksport.com under the "Investor Relations/Corporate Governance" section.

During the year ended 31 December 2012, the Board held one shareholders' meeting, being the 2012 AGM held on 14 May 2012. Details of individual attendance of each Director at the 2012 AGM are set out below:

Director	**Shareholders' meeting attended/held**	**Attendance (%)**
EDs		
Mr. Xu Jingnan *(Chairman)*	1/1	100
Mr. Xu Zhihua	1/1	100
Mr. Xu Zhida	1/1	100
NEDs		
Ms. Wu Tigao	0/1	0
Mr. Shen Nanpeng	1/1	100
Mr. Zhu Linan	0/1	0
INEDs		
Dr. Xiang Bing	0/1	0
Mr. Wang Mingquan	1/1	100
Dr. Ouyang Zhonghui	1/1	100

Code provision A.6.7 of the CG Code stipulates that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the view of shareholders. Ms. Wu Tigao, Mr. Zhu Linan and Dr. Xiang Bing were unable to attend the 2012 AGM due to their unavoidable business engagement.

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.

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 enhance corporate governance

The Group believes that good corporate governance practices are very important for maintaining and promoting investor confidence and for the sustainable growth of the Group. The Group has therefore made continued efforts to uplift its quality of corporate governance. It has established a highly effective system of internal controls and adopted a series of measures to ensure its safety and effectiveness. As a result, the Group is able to safeguard its assets and protect the interests of its shareholders.

Starting from 2011, the Group appoints independent corporate advisory firm to review its risk and internal controls every year from the perspective of its organizational structure, operations, financial function, etc. A report with recommendations on improvement is issued after each review for reference. In addition, the Group pays much emphasis on using electronic information system to enhance management efficiency. It has engaged an external software supplier to develop customized application software so as to further enhance the Group's management information system.

To grow with our staff

The Group strives to resolve safety issues in its production workshops that may be hazardous to the health of its workers. It monitors and assesses safety measures periodically and carries out emergency drills half-yearly. The Group also provides training on safety matters for its employees so as to reduce the occurrence of accidents.

The Group places much emphasis on the career development of its employees. It organizes various professional education and training activities to enhance business skills and professional ethics of its employees. The Group also holds training sessions on knowledge about Peak branded products and marketing techniques for employees from the Group's marketing department, its distributors and third party retail outlets operators. These training sessions received good responses from participants.

The Group is dedicated to creating a good working environment through continuous improvement in employee benefits such as refurbishment of staff dormitory and improvement of facilities at staff canteens. The Group organizes various recreational and entertainment activities for its employees to enrich their lives at leisure. The Group also allows its employees to form a labour union and women's association. In addition to fighting benefits for their members, these organizations provide assistance to employees (such as raising funds for the families of deceased employees) as to enable them to pass through difficult time in life.

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 modules on management for environmental protection, including directions, strategies, implementation, operation, inspection, appraisal, etc. The Group carries out inspection on the operation of its system on environmental management twice a year. In addition, it also conducts a review of compliance of rules and regulations on environmental protection regarding research and development of new products, production processes, and related management practices and activities every year. A compliance review report is issued for reference.

The Group strictly controls the discharge of sewage, exhaust gas and residual materials during its daily production processes. It also actively implements measures on the reduction of noises and separation of residual materials for different treatments. All these controls and measures have enabled the Group to comply with relevant rules and regulations of the state and local authorities on sewage, noises and residual materials. In addition, the Group carries out an inspection of its environmental management in all production workshops every month to reduce the impact on the environment arising from the production processes.

Further, the Group takes account of environmental protection issues in developing and designing new products. It only uses materials which have passed relevant physical and safety tests and complied with relevant rules and regulations. In its day-to-day operations, the Group advocates "paperless office" and actively promotes electronic management information system. In addition, the Group concerns about the responsibilities of its suppliers on environmental protection. The Group signs with all suppliers contracts having an environmental protection clause that all suppliers are required to submit certified inspection reports on materials used and/or products manufactured issued by inspection institutions approved by the state before the suppliers deliver their products to the Group.

To participate in charitable activities

As 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 actively participating in community and charitable activities.

During the year, to enable children in areas of poverty to participate sports activities, the Group supported the charitable activity "Donate pairs of athletic shoes to kids" organized by Chinese Youth and Children Charity and Rescue Association by donating 3,000 pairs of athletic shoes to children in areas of poverty in the central and western parts of China. The Group also supported "2012 Basketball season for primary schools of Hope by Yao's Fund" by supplying apparel and footwear to participants and volunteers in competitions to enable the children in all primary schools of Hope throughout China has an opportunity to know more about basketball sports activities and related sports spirit. In addition, the Group organizes its employees to participate in volunteer services after work hours, such as cleaning public parks to maintain good environment.

Further, the Group also arranges and supports its promotion partners and endorsed athletes to participate in charitable activities. For example, it sponsors the Youth Basketball Training Camp of Toronto Raptors which encourages and attracts the youth in Toronto to play basketball games. It also arranged its endorsed NBA players to teach children from remote areas basketball skills and to distribute Peak's products to them so that these children were able to experience the glamour of basketball sports activities.

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 2012, the Group's total contribution for charitable purposes amounted to RMB6.4 million.

Directors and senior management

Executive Directors

Mr. Xu Jingnan, aged 57, 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 12th Fujian Provincial People's Congress, a member of the 15th Quanzhou Municipal People's Congress, the vice-chairman of the Committee of the People's Political Consultative Conference in Fengze District, the vice-chairman of Federation of Fujian Industry and Commerce and the vice-chairman of Quanzhou General Chamber of Commerce. 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 34, 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 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 Outstanding Young Entrepreneur 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 32, 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 58, 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 45, 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. Currently, Mr. Shen is also a director of the following listed companies:

Name of listed company	Stock code	Place of listing
E-House (China) Holdings Limited	EJ	New York
Ctrip.com International Limited	NASDAQ:CTRP	New York
Home Inns and Hotels Management Inc.	NASDAQ:HMIN	New York
Focus Media Holding Limited	NASDAQ:FMCN	New York
Le GaGa Holdings Limited	NASDAQ:GAGA	New York
Mecox Lane Limited	NASDAQ:MCOX	New York
QIHOO 360 Technology Co. Ltd.	QIHU	New York

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. Mr. Shen resigned as a director of Feihe International, Inc. (a company listed on the New York Stock Exchange) in March 2012 and of China Nuokang Bio-Pharmaceutical Inc. (a company listed on NASDAQ Stock Market) in February 2013. He is also a director of China Real Estate Information Corporation and its shares were delisted from NASDAQ Stock Market in April 2012. In addition, Mr. Shen is the sole shareholder and director of SNP China Enterprises Limited, and a director of SC China Holding Limited and Sequoia Capital China Advisors Limited (wholly-owned subsidiaries of SNP China Enterprises Limited). With effect from 12 December 2012, SNP China Enterprises Limited, SC China Holding Limited and Sequoia Capital China Advisors Limited had ceased to be substantial shareholders of the Company.

Mr. Zhu Linan, aged 50, 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). 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 Top Capital Magazine, "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. Mr. Zhu has resigned as a non-executive director of Foshan Saturday Shoes Co., Ltd. (a company listed on the Shenzhen Stock Exchange) with effect from 7 January 2013.

Independent Non-executive Directors

Dr. Xiang Bing, aged 50, 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 66, 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 65, 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 48, 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 36, 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 47, 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 48, 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 36, 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 32, 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 44, 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.

Report of the directors

The Directors are pleased to submit the annual report together with the audited consolidated financial statements for the year ended 31 December 2012.

Registered office

The Company is incorporated and domiciled in the Cayman Islands and its registered office is located 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 distributing of sports products 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

The percentages of turnover for the year attributable to the Group's major customers are as follows:

The largest customer	15.9%
Five largest customers in aggregate	31.1%

At no time during the year did the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) have any interest in these major customers.

During the year, the Group purchased less than 30% of its raw materials and supplies from its five largest suppliers.

Consolidated financial statements

The profit of the Group for the year ended 31 December 2012 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 69 to 111.

Transfer to reserves

Profits attributable to shareholders, before dividends, of RMB310,577,000 (2011: RMB777,681,000) have been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity.

An interim dividend of HK5 cents per ordinary share for the six months ended 30 June 2012 (2011: HK3 cents per ordinary share) was paid on 26 September 2012. The Directors recommended the payments of a final dividend of HK3 cents per ordinary share (2011: HK11 cents per ordinary share) and a special dividend of HK2 cents per ordinary share (2011: nil) in respect of the year ended 31 December 2012, totaling RMB85,008,000 (2011: RMB186,436,000), subject to the approval of the shareholders at the AGM to be held on 7 May 2013. The proposed final dividend and special dividend are expected to be paid on 23 May 2013 to shareholders whose names appear on the register of members of the Company on 15 May 2013.

Charitable donations

Charitable donations made by the Group during the year amounted to RMB6,435,000.

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 2012, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to RMB1,134,311,000 (2011: RMB1,414,880,000).

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 2012.

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

In accordance with Article 84 of the Articles of Association, Mr. Xu Jingnan, Mr. Shen Nanpeng and Dr. Ouyang Zhonghui, being one-third of the Directors who are subject to retirement by rotation, will retire and, being eligible, offer themselves for re-election at the 2013 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 2012, 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

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	823,907,020	39.27%
Ms. Wu Tigao	Interest held by controlled corporation	1	823,907,020	39.27%
Mr. Xu Zhida	Interest held by controlled corporation	2	276,460,000	13.18%
Mr. Xu Zhihua	Interest held by controlled corporation	3	273,060,000	13.02%
Mr. Shen Nanpeng	Interest held by controlled corporations	4	76,516,451	3.65%

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. These shares were held by the following three investment funds managed by Sequoia Capital China Advisors Limited, a wholly owned subsidiary of SNP China Enterprises Limited: 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 partner of these investment funds was Sequoia Capital China Growth Fund Management I, L.P. SC China Holding Limited, a wholly owned subsidiary of SNP China Enterprises Limited, was the general partner of 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 these shares in which SNP China Enterprises Limited had deemed interest as mentioned above pursuant to the SFO.

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

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 these 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 2012.

Save as disclosed above and in the section below headed "Share option scheme", as at 31 December 2012, 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 section below 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 198,109,339 shares, representing approximately 9.4% of the issued share capital of the Company as at the date of this annual report.

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 2012 are as follows:

Name or category of option holder	Date of grant	Exercise price per share	Outstanding as at 1/1/2012	Number of options Granted during the year	Exercised during the year	Cancelled during the year	Forfeited during the year	Outstanding as at 31/12/2012	Exercise period (Note 1)
Independent Non-executive Directors									
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	
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	1 June 2010	HK$5.604	90,000	—	—	—	—	90,000	A
(Sales Officer			90,000	—	—	—	—	90,000	B
(International Sales))			120,000	—	—	—	—	120,000	C
			300,000	—	—	—	—	300,000	
Employees of the Group									
In aggregate	9 February 2010	HK$5.196	3,088,000	—	—	—	(269,200)	2,818,800	D
			3,108,000	—	—	—	(268,200)	2,839,800	E
			4,144,000	—	—	—	(377,600)	3,766,400	F
			10,340,000	—	—	—	(915,000)	9,425,000	
In aggregate	1 June 2010	HK$5.604	510,000	—	—	—	(39,000)	471,000	A
			510,000	—	—	—	(39,000)	471,000	B
			680,000	—	—	—	(52,000)	628,000	C
			1,700,000	—	—	—	(130,000)	1,570,000	
			12,740,000	—	—	—	(1,045,000)	11,695,000	

Notes:

1. 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.

2. 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.

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

As at 31 December 2012, 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	823,907,020	39.27%
Brilliant Lead Group Limited	Beneficial owner	2	276,460,000	13.18%
Ms. Wu Bingrui	Interest held by spouse	3	276,460,000	13.18%
Alpha Top Group Limited	Beneficial owner	4	273,060,000	13.02%

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".

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 2012.

Save as disclosed above, as at 31 December 2012, 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

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.

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 54 to 57.

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 2013 AGM. A resolution for the re-appointment of KPMG as the auditor of the Company is to be proposed at the 2013 AGM.

On behalf of the Board
Xu Jingnan
Chairman
Hong Kong, 11 March 2013

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 69 to 111, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated 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 2012 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

11 March 2013

Consolidated statement of comprehensive income

for the year ended 31 December 2012
(Expressed in Renminbi)

	Note	2012 RMB'000	2011 RMB'000
Turnover	3	2,902,916	4,646,929
Cost of sales		(1,844,737)	(2,814,467)
Gross profit		1,058,179	1,832,462
Other revenue	4	33,177	28,423
Other net income	4	11,838	3,009
Selling and distribution expenses		(460,753)	(712,784)
Administrative expenses		(228,457)	(213,007)
Profit from operations		413,984	938,103
Finance expenses	5(a)	(8,460)	(1,552)
Profit before income tax	5	405,524	936,551
Income tax	6	(94,947)	(158,870)
Profit for the year attributable to equity shareholders of the Company		310,577	777,681
Other comprehensive income for the year			
Exchange differences on translation of financial statements of foreign operations		(757)	5,961
Total comprehensive income for the year attributable to equity shareholders of the Company		309,820	783,642
Earnings per share (RMB cents)	11		
— Basic		14.80	37.07
— Diluted		14.80	37.06

The notes on pages 75 to 111 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 2012
(Expressed in Renminbi)

	Note	2012 RMB'000	2011 RMB'000
Non-current assets			
Property, plant and equipment	*12*	**494,623**	439,141
Construction in progress	*13*	**48,051**	42,852
Lease prepayments	*14*	**93,991**	15,570
Deposits and prepayments for purchase of non-current assets	*15*	**111,961**	123,625
Intangible assets	*16*	**20,316**	16,265
Deferred tax assets	*26(b)*	**37,714**	34,893
		806,656	672,346
Current assets			
Inventories	*17*	**386,357**	421,227
Trade and other receivables	*19(a)*	**1,092,894**	1,089,407
Pledged deposits	*20*	**300,766**	82,259
Deposits with banks with more than three months to maturity when placed		**225,000**	111,625
Cash and cash equivalents	*21*	**2,236,890**	2,503,009
		4,241,907	4,207,527
Current liabilities			
Bank loans	*22*	**496,224**	161,217
Trade and other payables	*23(a)*	**372,673**	561,519
Amount due to a related party	*31(c)*	**1,257**	—
Current tax liabilities	*26(a)*	**28,663**	54,533
		898,817	777,269
Net current assets		**3,343,090**	3,430,258
Total assets less current liabilities		**4,149,746**	4,102,604
Non-current liabilities			
Deferred tax liabilities	*26(b)*	**66,662**	59,058
		66,662	59,058
Net assets		**4,083,084**	4,043,546
Equity			
Share capital	*27*	**18,460**	18,460
Reserves	*28*	**4,064,624**	4,025,086
Total equity		**4,083,084**	4,043,546

Approved and authorized for issue by the Board of Directors on 11 March 2013.

Xu Jingnan
Director

Xu Zhihua
Director

The notes on pages 75 to 111 form part of these financial statements.

Statement of financial position

at 31 December 2012
(Expressed in Renminbi)

	Note	2012 RMB'000	2011 RMB'000
Non-current assets			
Investments in subsidiaries	*18*	532,845	530,934
Current assets			
Other receivables	*19(b)*	935,002	1,121,703
Cash and cash equivalents	*21*	853	1,966
		935,855	1,123,669
Current liabilities			
Bank loans	*22*	254,607	161,217
Other payables	*23(b)*	61,322	60,046
		315,929	221,263
Net current assets		619,926	902,406
Total assets less current liabilities		1,152,771	1,433,340
Net assets		1,152,771	1,433,340
Equity			
Share capital	*27*	18,460	18,460
Reserves	*28*	1,134,311	1,414,880
Total equity		1,152,771	1,433,340

Approved and authorized for issue by the Board of Directors on 11 March 2013.

Xu Jingnan
Director

Xu Zhihua
Director

The notes on pages 75 to 111 form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2012
(Expressed in Renminbi)

	Share capital RMB'000 *(Note 27)*	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 2011	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 payment	—	—	—	—	—	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**
Appropriation to statutory reserve	**—**	**—**	**40,232**	**—**	**—**	**—**	**(40,232)**	**—**
Dividends	**—**	**(272,201)**	**—**	**—**	**—**	**—**	**—**	**(272,201)**
Equity-settled share-based payment	**—**	**—**	**—**	**—**	**—**	**1,919**	**—**	**1,919**
Transfer between reserves in respect of share options forfeited after vesting date	**—**	**—**	**—**	**—**	**—**	**(552)**	**552**	**—**
Total comprehensive income	**—**	**—**	**—**	**—**	**(757)**	**—**	**310,577**	**309,820**
At 31 December 2012	**18,460**	**748,271**	**320,189**	**81,354**	**1,482**	**14,372**	**2,898,956**	**4,083,084**

The notes on pages 75 to 111 form part of these financial statements.

Consolidated cash flow statement

for the year ended 31 December 2012
(Expressed in Renminbi)

	Note	2012 RMB'000	2011 RMB'000
Operating activities			
Profit before income tax		405,524	936,551
Adjustments for:			
— Depreciation	5(c)	38,598	31,499
— Amortization of lease prepayments	5(c)	1,139	343
— Finance expenses	5(a)	8,460	1,552
— Interest income	4	(24,275)	(16,450)
— Loss on disposal of property, plant and equipment	5(c)	307	605
— Amortization of intangible assets	16	615	397
— Foreign exchange losses		5,598	1,134
— Equity-settled share-based payment expenses		1,919	4,729
— Write down of inventories	17(b)	16,428	—
Operating profit before changes in working capital		454,313	960,360
Decrease/(increase) in inventories		18,442	(86,211)
Decrease/(increase) in trade and other receivables		8,481	(343,876)
Decrease in trade and other payables		(184,703)	(41,583)
Cash generated from operations		296,533	488,690
Income tax paid		(116,034)	(177,893)
Net cash generated from operating activities		180,499	310,797
Investing activities			
Payment for property, plant and equipment		(109,085)	(119,542)
Proceeds from sale of property, plant and equipment		68	89
Payment for lease prepayments		(67,570)	(102,637)
Payment for intangible assets		(5,886)	(6,786)
Interest received		18,489	14,586
Increase of deposits with banks with more than three months to maturity when placed		(113,375)	(68,909)
Increase in pledged deposits		(218,507)	(28,296)
Net cash used in investing activities		(495,866)	(311,495)

Consolidated cash flow statement (continued)

for the year ended 31 December 2012
(Expressed in Renminbi)

	Note	2012 RMB'000	2011 RMB'000
Financing activities			
Proceeds from shares issued under share option scheme		—	551
Proceeds from bank loans		455,689	161,217
Repayment of bank loans		(120,682)	—
Interest paid		(8,460)	(1,552)
Net advances from a related party		1,257	—
Dividends paid to equity shareholders		(272,201)	(227,165)
Net cash generated from/(used in) financing activities		55,603	(66,949)
Net decrease in cash and cash equivalents		(259,764)	(67,647)
Cash and cash equivalents at 1 January		2,503,009	2,565,827
Effect of foreign exchange rate changes		(6,355)	4,829
Cash and cash equivalents at 31 December	*21*	2,236,890	2,503,009

The notes on pages 75 to 111 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 1(c) 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 2012 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 2.

1 Significant accounting policies (continued)

(c) Changes in accounting policies

The IASB has issued several amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the amendment titled "IFRS 7 Financial instruments: Disclosures - Transfers of financial assets" is relevant to the Group's consolidated financial statements. The amendment has no material impact on the Group's consolidated financial statements as the amendment was consistent with policies already adopted by the Group.

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

(d) 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(j)).

(e) Property, plant and equipment

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

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.

1 Significant accounting policies (continued)

(f) 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(j)). 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(u)). 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.

(g) 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(j)). Amortization of lease prepayments is charged to profit or loss on a straight-line basis over respective periods of the leases.

(h) 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(j)).

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.

(i) Operating lease charges

Lease payments made under an operating lease 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.

1 Significant accounting policies (continued)

(j) 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.

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;

1 Significant accounting policies (continued)

(j) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

- 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.

- **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.

(k) 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.

1 Significant accounting policies (continued)

(k) Inventories (continued)

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.

(l) 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(j)), 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.

(m) 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.

(n) 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.

(o) 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.

(p) 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.

1 Significant accounting policies (continued)

(p) Employee benefits (continued)

(ii) Share-based payment

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.

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).

(q) 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 recognised. 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)

(q) 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.

(r) 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.

1 Significant accounting policies (continued)

(s) 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, rebates, value added taxes and other sales taxes. 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.

(t) 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.

(u) 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.

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.

1 Significant accounting policies (continued)

(v) Dividends

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

(w) 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.

(x) 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.

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

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.

2 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.

2 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.

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, rebates, value added taxes and other sales taxes, and is analyzed as follows:

	2012 RMB'000	2011 RMB'000
Footwear	**1,348,004**	2,041,341
Apparel	**1,481,056**	2,486,734
Accessories	**73,856**	118,854
	2,902,916	4,646,929

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 RMB462,222,000 for the year ended 31 December 2012 (2011: RMB549,825,000).

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

	2012 RMB'000	2011 RMB'000
PRC	**2,514,682**	4,187,733
Overseas	**388,234**	459,196
	2,902,916	4,646,929

4 Other revenue and net income

	2012 RMB'000	2011 RMB'000
Other revenue		
Interest income	24,275	16,450
Government grants	8,669	11,947
Others	233	26
	33,177	28,423
Other net income		
Exchange gain/(loss)	5,372	(4,824)
Gain on sales of materials	6,217	7,803
Others	249	30
	11,838	3,009

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:

	2012 RMB'000	2011 RMB'000
(a) Finance expenses:		
Interest on bank borrowings	8,460	1,552
(b) Staff costs:		
Contributions to defined contribution retirement plans	7,757	8,436
Equity-settled share-based payments expenses	1,919	4,729
Salaries, wages and other benefits	342,398	359,863
	352,074	373,028
(c) Other items:		
Amortization of lease prepayments	1,139	343
Auditors' remuneration	3,861	2,842
Depreciation	38,598	31,499
Operating lease charges in respect of properties	11,376	7,914
Cost of inventories#	1,844,737	2,814,467
Loss on disposal of property, plant and equipment	307	605

5 Profit before income tax (continued)

Cost of inventories for the year ended 31 December 2012 includes RMB253,519,000 (2011: RMB273,498,000) relating to staff costs, depreciation and amortization expenses and operating lease charges, which amount is included in the respective total amounts disclosed separately in notes 5(b) and (c) above for each of these types of expenses.

6 Income tax in the consolidated statement of comprehensive income

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

	2012 RMB'000	2011 RMB'000
Current tax — PRC income tax		
Provision for the year	90,164	169,348
Deferred tax		
Origination and reversal of temporary differences	4,783	(10,478)
	94,947	158,870

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 that was subject to Hong Kong Profits Tax for the years ended 31 December 2012 and 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 subsidiaries in the PRC comprising the Group. During the year, two PRC subsidiaries of the Group are entitled to tax concessions and subject to the corporate income 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 the Group's subsidiaries in the PRC are foreign-invested enterprises directly and wholly owned 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.

6 Income tax in the consolidated statement of comprehensive income (continued)

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

	2012 RMB'000	2011 RMB'000
Profit before income tax	**405,524**	936,551
Notional tax on profit before income tax, calculated at the standard tax rates applicable to the respective tax jurisdictions	**107,756**	238,573
Effect of lower tax rates applicable to subsidiaries as a result of preferential tax policy as described in note 6(a)	**(37,074)**	(102,663)
Tax effect of non-deductible expenses	**19,375**	23,419
Tax effect of non-taxable income	**—**	185
Effect of withholding tax	**7,604**	12,023
Effect on deferred tax balances at 1 January resulting from a change in tax rate	**(2,714)**	(12,667)
Income tax	**94,947**	158,870

7 Directors' remuneration

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

Year ended 31 December 2012

	Fees RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit scheme RMB'000	Equity-settled share-based payment 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	—	61	—	161
Dr. Xiang Bing	—	180	—	61	—	241
Dr. Ouyang Zhonghui	—	100	—	—	—	100
Sub-total	—	380	—	122	—	502
Total	—	4,041	48	122	1,000	5,211

7 Directors' remuneration (continued)

Year ended 31 December 2011

	Fees RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit scheme RMB'000	Equity-settled share-based payment 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

8 Individual with highest emoluments

Of the five individuals with the highest emoluments, three (2011: three) are Directors whose remuneration is disclosed in note 7 above. The aggregate of the emoluments in respect of the remaining two individuals for 2012 (2011: two) are as follows:

	2012 RMB'000	2011 RMB'000
Salaries and other emoluments	**2,412**	2,295
Equity-settled share-based payments	**134**	276
Contributions to defined contribution retirement plans	**11**	10
	2,557	2,581

The emoluments of the two individuals (2011: two) with the highest emoluments fall within the following bands:

	2012 Number of individuals	2011 Number of individuals
HK$1 to HK$1,000,000	**1**	1
HK$1,500,001 to HK$2,000,000	**—**	1
HK$2,000,001 to HK$2,500,000	**1**	—

9 Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB10,610,000 (2011: RMB14,625,000) 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

	2012 RMB'000	2011 RMB'000
Interim dividend declared and paid of HK5 cents per ordinary share (2011: HK3 cents per ordinary share)	**85,765**	51,608
Final dividend proposed after the end of the reporting period of HK3 cents per ordinary share (2011: HK11 cents per ordinary share)	**51,005**	187,354
Special dividend proposed after the end of the reporting period of HK2 cents per ordinary share (2011: nil)	**34,003**	—
	170,773	238,962

10 Dividends (continued)

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

The final and special dividends proposed after the end of the reporting period have not been recognized as a liability at the end of the reporting period.

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

	2012 **RMB'000**	2011 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK11 cents per ordinary share (2011: HK10 cents per ordinary share)	**186,436**	175,557

11 Earnings per share

(a) Basic earnings per share

The calculation of the basic earnings per share is based on the profit for the year attributable to equity shareholders of the Company of RMB310,577,000 (2011: RMB777,681,000) and the weighted average number of issued ordinary shares of 2,098,029,000 (2011: 2,097,997,000 shares) during the year.

Weighted average number of ordinary shares

	2012 **'000 shares**	2011 '000 shares
Issued ordinary shares	**2,098,029**	2,097,903
Effect of shares options exercised	**—**	94
Weighted average number of ordinary shares	**2,098,029**	2,097,997

(b) Diluted earnings per share

The calculation of the diluted earnings per share is based on the profit for the year attributable to equity shareholders of the Company of RMB310,577,000 (2011: RMB777,681,000) and the weighted average number of shares in issue during the year.

11 Earnings per share (continued)

(b) Diluted earnings per share (continued)

Weighted average number of ordinary shares (diluted)

	2012 '000 shares	2011 '000 shares
Weighted average number of ordinary shares	2,098,029	2,097,997
Effect of deemed issue of shares under the Company's share option scheme	—	379
Weighted average number of ordinary shares (diluted)	2,098,029	2,098,376

The diluted earnings per share for the year ended 31 December 2012 is the same as the basic earnings per share for the same period as taking into account the deemed issue of ordinary shares under the share options scheme (see note 25) would have an anti-dilutive effect in calculating the diluted earnings per share.

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 2011		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
Additions		1,589	13,905	439	9,880	25,813
Transfer from construction in progress	*13*	68,524	—	—	118	68,642
Disposals		—	(254)	(689)	(152)	(1,095)
At 31 December 2012		**426,920**	**128,523**	**11,428**	**46,622**	**613,493**
Accumulated depreciation:						
At 1 January 2011		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
Charge for the year		17,163	11,984	1,567	7,884	38,598
Written back on disposals		—	(162)	(508)	(50)	(720)
At 31 December 2012		**50,916**	**41,587**	**4,224**	**22,143**	**118,870**
Net book value:						
At 31 December 2011		323,054	85,107	8,513	22,467	439,141
At 31 December 2012		**376,004**	**86,936**	**7,204**	**24,479**	**494,623**

12 Property, plant and equipment (continued)

Buildings with carrying amount of RMB110,051,000 (2011: RMB148,749,000) have been pledged to banks as security for bills payable as at 31 December 2012 (see note 23).

13 Construction in progress

		The Group	
	Note	**2012 RMB'000**	2011 RMB'000
At 1 January		**42,852**	54,174
Additions		**73,841**	49,760
Transfer to property, plant and equipment	*12*	**(68,642)**	(61,082)
At 31 December		**48,051**	42,852

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

14 Lease prepayments

	The Group	
	2012 RMB'000	2011 RMB'000
Cost:		
At 1 January	**17,084**	17,084
Additions	**79,560**	—
At 31 December	**96,644**	17,084
Accumulated amortization:		
At 1 January	**1,514**	1,170
Charge for the year	**1,139**	344
At 31 December	**2,653**	1,514
Net book value:		
At 31 December	**93,991**	15,570

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 RMB10,307,000 (2011: RMB11,887,000) were pledged to banks as security for bills payable as at 31 December 2012 (see note 23).

15 Deposits and prepayments for purchase of non-current assets

	The Group	
	2012	2011
	RMB'000	RMB'000
Prepayments for acquisition of land use rights	**105,737**	117,727
Prepayments for acquisition of software	**6,118**	4,898
Deposits and prepayments for acquisition of property and equipment	**106**	1,000
	111,961	123,625

16 Intangible assets

	The Group		
	Trademarks	**Software**	**Total**
	RMB'000	RMB'000	RMB'000
Cost:			
At 1 January 2012	14,306	2,672	16,978
Additions	3,700	966	4,666
At 31 December 2012	**18,006**	**3,638**	**21,644**
Accumulated amortization:			
At 1 January 2012	—	713	713
Charge for the year	—	615	615
At 31 December 2012	**—**	**1,328**	**1,328**
Net book value:			
At 31 December 2011	14,306	1,959	16,265
At 31 December 2012	**18,006**	**2,310**	**20,316**

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

17 Inventories

(a) Inventories in the consolidated statement of financial position comprise:

	The Group	
	2012	2011
	RMB'000	RMB'000
Raw materials	**45,633**	59,509
Work in progress	**88,244**	130,193
Finished goods	**252,480**	231,525
	386,357	421,227

(b) The analysis of the amount of inventories recognized as an expense and included in profit or loss is as follows:

	The Group	
	2012	2011
	RMB'000	RMB'000
Carrying amount of inventories sold recognised in cost of sales	**1,844,737**	2,814,467
Write down of inventories in administrative expenses	**16,428**	—
	1,861,165	2,814,467

18 Investments in subsidiaries

	The Company	
	2012	2011
	RMB'000	RMB'000
Unlisted shares, at cost	**532,845**	530,934

(Expressed in Renminbi unless otherwise indicated)

18 Investments in subsidiaries (continued)

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	RMB51,123,000	100%	—	100%	Manufacturing and trading of sports products

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

19 Trade and other receivables

(a) The Group

	2012 RMB'000	2011 RMB'000
Bills receivable	**53,140**	20,130
Trade receivables	**968,371**	975,939
Deposits and prepayments	**41,663**	73,872
Others	**29,720**	19,466
	1,092,894	1,089,407

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

As at 31 December 2012, the Group had endorsed bank acceptance bills totalling RMB305,880,000 (2011: RMB82,700,000), which were derecognised as financial assets. These bank acceptance bills matured within six months from the date of issue.

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:

	2012 RMB'000	2011 RMB'000
Within 3 months	**622,819**	952,931
3 to 6 months	**362,159**	43,138
6 months to 1 year	**36,533**	—
	1,021,511	996,069

The Group offers a revolving credit to each domestic distributor. This revolving credit sets a maximum amount that a distributor can owes the Group at any one time. In determining the amount of a revolving credit for a distributor, the Group takes into account factors including the credit history, prior year's purchases, estimated purchases for the current year, and funding need to expand the retail network of a distributor, and market conditions. The Group generally evaluates the revolving credit of a domestic distributor annually upon renewal of relevant distribution agreement.

There were no trade debts that were considered past due.

(b) The Company

The balance as at 31 December 2012 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 bank loans (see notes 22 and 23).

21 Cash and cash equivalents

	The Group		The Company	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Cash at bank and in hand	**2,236,890**	2,503,009	**853**	1,966

As at 31 December 2012, the balances denominated in RMB that were placed with banks in the PRC and included in the cash and cash equivalents above amounted to RMB2,217,667,000 (2011: RMB2,493,216,000). Remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

22 Bank loans

As at 31 December 2012, all the bank loans were repayable within one year and carried a weighted average interest rate of 2.72% per annum (2011: 2.52%).

Details of the bank loans as at 31 December 2012 are as follows:

	The Group		The Company	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Unsecured floating rate loans	**40,542**	72,040	**40,542**	72,040
Secured floating rate loans*	**366,488**	89,177	**214,065**	89,177
Secured fixed rate loan*	**89,194**	—	**—**	—
	496,224	161,217	**254,607**	161,217

* These bank loans of the Group and the Company were secured by time deposits of RMB281,850,000 (2011: RMB30,000,000) and RMB182,813,000 (2011: RMB30,000,000) respectively (see note 20).

23 Trade and other payables

(a) The Group

	2012 RMB'000	2011 RMB'000
Bills payable	94,580	227,272
Trade payables	77,564	80,113
Other payables and accruals	200,529	254,134
	372,673	561,519

Bills payable as at 31 December 2012 were secured by the Group's property, plant and equipment, lease prepayments and bank deposits (see notes 12, 14 and 20).

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:

	2012 RMB'000	2011 RMB'000
Within 3 months	124,942	191,369
3 to 6 months	47,100	116,016
6 months to 1 year	102	—
	172,144	307,385

(b) The Company

The balance as at 31 December 2012 represented amounts due to subsidiaries. These amounts are unsecured, non-interest bearing and have no fixed term of repayment.

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, Jiangxi and Shandong provinces whereby the Group is required to make contributions to the Schemes at the rate of 18% or 19% 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.

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 and 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.

Details of the movements of the options granted under the Scheme are as follows:

	Year ended 31 December 2012		Year ended 31 December 2011	
	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**	**12,740**	HK$5.2729	14,331
Exercised during the year	**—**	**—**	HK$5.1960	(126)
Forfeited during the year	**HK$5.1960**	**(915)**	HK$5.1960	(1,165)
	HK$5.6040	**(130)**	HK$5.6040	(300)
Outstanding at the end of the year	**HK$5.2752**	**11,695**	HK$5.2729	12,740
Exercisable at the end of the year	**HK$5.2752**	**7,021**	HK$5.2731	3,808

The share options outstanding as at 31 December 2012 had an exercise price of HK$5.1960 or HK$5.6040 (2011: HK$5.1960 or HK$5.6040) and a weighted average remaining contractual life of 2.2 years (2011: 3.2 years).

26 Income tax in the consolidated statement of financial position

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

	2012 RMB'000	2011 RMB'000
Provision for PRC income tax	**28,663**	54,533

26 Income tax in the consolidated statement of financial position (continued)

(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	Pre-operating expenses, accruals and others	Withholding tax on dividends	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax arising from:				
At 1 January 2011	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)
Charged to profit or loss	(4,727)	7,548	(7,604)	(4,783)
At 31 December 2012	**14,148**	**23,566**	**(66,662)**	**(28,948)**

	2012	2011
	RMB'000	RMB'000
Represented by:		
Deferred tax assets	**37,714**	34,893
Deferred tax liabilities	**(66,662)**	(59,058)
	(28,948)	(24,165)

(c) Deferred tax liabilities not recognized

At 31 December 2012, temporary differences relating to the undistributed profits of subsidiaries amounted to RMB1,763,330,000 (2011: RMB1,553,317,000). Deferred tax liabilities of RMB88,167,000 (2011: RMB77,666,000) 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.

27 Share capital

Authorized and issued share capital

	2012 No. of shares '000	2012 Amount HK$'000	2011 No. of shares '000	2011 Amount HK$'000
Authorized:				
Ordinary shares of HK$0.1 each	**5,000,000**	**50,000**	5,000,000	50,000

	2012 No. of shares '000	2012 Amount HK$'000	2012 Amount RMB'000	2011 No. of shares '000	2011 Amount HK$'000	2011 Amount RMB'000
Issued and fully paid:						
Ordinary shares of HK$0.1 each						
At 1 January	**2,098,029**	**20,980**	**18,460**	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**	2,098,029	20,980	18,460

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 payment reserve** RMB'000 *(Note e)*	**Accumulated losses** RMB'000	**Total** RMB'000
At 1 January 2011	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 payment	—	—	—	4,729	—	4,729
Dividends	(227,165)	—	—	—	—	(227,165)
Shares issued pursuant to share option scheme	687	—	—	(137)	—	550
Shares 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
Total comprehensive income	—	—	323	—	(10,610)	(10,287)
Equity-settled share-based payment	—	—	—	1,919	—	1,919
Dividends	(272,201)	—	—	—	—	(272,201)
Shares options forfeited during exercise period	—	—	—	(552)	552	—
At 31 December 2012	**748,271**	**549,336**	**(139,192)**	**14,372**	**(38,476)**	**1,134,311**

28 Reserves (continued)

(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 a 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.

(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

The 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 2012 was RMB1,134,311,000 (2011: RMB1,414,880,000).

(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.

28 Reserves (continued)

(g) Capital management (continued)

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 2012, the Group had cash in excess of interest-bearing loans. 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.

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 a revolving credit to each domestic distributor. This revolving credit sets a maximum amount that a distributor can owes the Group at any one time. In determining the amount of a revolving credit for a distributor, the Group takes into account factors including the credit history, prior year's purchases, estimated purchases for the current year, and funding need to expand the retail network of a distributor, and market conditions. The Group generally evaluates the revolving credit of a domestic distributor annually upon renewal of relevant distribution agreement.

At the end of the reporting period, 22% (2011: 12%) and 37% (2011: 27%) of the total trade receivables and bills receivable were due from the Group's largest customer and the five largest customers respectively.

As set out in note 19, at 31 December 2012, the Group had endorsed bank acceptance bills totalling RMB305,880,000 (2011: RMB82,700,000), which were derecognized as financial assets. The transferees have recourse to the Group in case of default by the issuing banks. In such cases, the Group would have to repurchase these bank acceptance bills at face value. The Group's maximum loss in case of default is RMB305,880,000 for these endorsed bills.

Nonetheless, the Group only accepts bank acceptance bills issued by major banks in the PRC and considers that the credit risk associated with such bank acceptance bills to be insignificant.

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

29 Financial risk management and fair values (continued)

(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 head office 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 bank loans. 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 a 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:

	2012 RMB'000	2011 RMB'000
100 basis point increase	(4,962)	(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 the amount shown above, with all other variables held constant.

(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$, HK$ and AU$.

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

29 Financial risk management and fair values (continued)

(d) Currency risk (continued)

	2012 '000	2011 '000
Trade and other receivables		
US$	10,924	8,890
HK$	257	276
Cash and cash equivalents		
US$	2,297	5,489
HK$	1,305	1,350
Deposits with banks with more than three months to maturity when placed		
US$	—	5,900
Pledged deposits		
US$	4,500	—
AU$	6,550	—
Bank loans		
US$	24,250	5,000
HK$	110,000	—
Trade and other payables		
US$	3,317	5,714
HK$	485	205

Sensitivity analysis

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

A 5% strengthening of the RMB against US$/HK$/AU$ at 31 December 2012 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.

	2012 RMB'000	2011 RMB'000
Effect in RMB'000		
US$	4,180	(2,087)
HK$	4,416	(58)
AU$	(1,605)	—

A 5% weakening of the RMB against US$/HK$/AU$ at 31 December 2012 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.

(e) Commodity price risk

The major raw materials used in the production of the Group's products include cotton, polyester 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.

29 Financial risk management and fair values (continued)

(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 2012 and 2011 because of the short maturities of these instruments.

30 Commitments

(a) Capital commitments

Capital commitments outstanding as at 31 December 2012 that were not provided for in the consolidated financial statements were as follows:

	The Group	
	2012	2011
	RMB'000	RMB'000
Contracted for	**227,431**	290,223
Authorized but not contracted for	**23,575**	51,387
	251,006	341,610

(b) Operating leases

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

	The Group	
	2012	2011
	RMB'000	RMB'000
Within 1 year	**6,798**	9,449
After 1 year but within 5 years	**17,746**	21,132
After 5 years	**3,436**	6,741
	27,980	37,322

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:

	2012 RMB'000	2011 RMB'000
Short-term employee benefits	**9,175**	6,660
Equity-settled share-based payments	**415**	496
Contributions to defined contribution retirement plans	**65**	57
	9,655	7,213

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

(b) Lease of land and properties

During the year ended 31 December 2012, the Group leased certain land and properties from Fujian Peak Group Co., Ltd, which is controlled by controlling shareholders of the Company. The rental expenses for the year ended 31 December 2012 were RMB2,259,000 (2011: 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.

(c) Transactions and balances with related parties

During the year ended 31 December 2012, the Group had amounts due to entities controlled by the Company's controlling shareholders, Mr. Xu Jingnan and Mr. Xu Zhihua, with a maximum balance of RMB54,924,000.

As at the end of reporting period, the Group had the following balance with the entity controlled by Mr. Xu Jingnan:

	2012 RMB'000	2011 RMB'000
Amount due to a related party	**1,257**	—

The amount due to the related party as at 31 December 2012 was unsecured, non-interest bearing and had no fixed term of repayment.

32 Immediate and ultimate controlling party

The Directors consider that the immediate holding companies of the Company as at 31 December 2012 are the 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 party of the Company as at 31 December 2012 is the Xu's family. These three entities in BVI do not provide financial statements for public use.

33 Non-adjusting events after the reporting Period

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

34 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2012

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 2012 and which have not been adopted in these consolidated financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
IFRS 10, *Consolidated financial statements*	1 January 2013
IFRS 13, *Fair value measurement*	1 January 2013
IAS 27, *Separate financial statements (2011)*	1 January 2013
Revised IAS 19, *Employee benefits*	1 January 2013
Amendments to IFRS 7, *Financial instruments: Disclosures — offsetting financial assets and financial liabilities*	1 January 2013
Amendments to IAS 32, *Financial instruments: Presentation — offsetting financial assets and financial liabilities*	1 January 2014
IFRS 9, *Financial instruments*	1 January 2015

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 Corporate Governance Code and Corporate Governance Report 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"	Federation 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

Peak Sport Products Co., Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1968

www.peaksport.com