



2014 ANNUAL REPORT



Peak Sport Products Co., Limited
匹克體育用品有限公司

Stock Code: 1968

MISSION

TO FACILITATE THE DEVELOPMENT OF GLOBAL SPORTS BUSINESS AND TO PROVIDE QUALITY SPORTS PRODUCTS AND SERVICES FOR THE BETTERMENT OF HUMAN HEALTH

Tony Parker
of San Antonio Spurs

VISION

TO BECOME AN INTERNATIONALLY RENOWNED SPORTSWEAR BRAND 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

| | |
|-----|--|
| 2 | Corporate information |
| 5 | Chairman's statement |
| 8 | Financial highlights |
| 9 | Five-year financial summary |
| 10 | Management discussion and analysis |
| 35 | Corporate governance report |
| 48 | Corporate social responsibility report |
| 50 | Directors and senior management |
| 53 | Report of the directors |
| 62 | Independent auditor's report |
| 64 | Consolidated financial statements |
| 116 | Glossary |

TONY PARKER II – CHRISTMAS

Basketball shoes



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 Director

Ms. Wu Tigao (吳提高)

Independent Non-executive Directors

Dr. Xiang Bing (項兵)
Mr. Wang Mingquan (王明權)
Mr. Feng Lisheng (馮力生)

BOARD COMMITTEES

Audit Committee

Dr. Xiang Bing (項兵) (*Chairman*)
Mr. Wang Mingquan (王明權)
Mr. Feng Lisheng (馮力生)

Remuneration Committee

Dr. Xiang Bing (項兵) (*Chairman*)
Mr. Wang Mingquan (王明權)
Mr. Feng Lisheng (馮力生)
Mr. Xu Jingnan (許景南)

Nomination Committee

Mr. Wang Mingquan (王明權) (*Chairman*)
Dr. Xiang Bing (項兵)
Mr. Feng Lisheng (馮力生)

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

A portrait of Xu Jingnan, Chairman of Peak Sport Products Co., Limited. He is a middle-aged man with dark hair, wearing a dark blue pinstriped suit jacket, a light blue shirt, and a striped tie. He is standing in a large sports arena with purple seats and a basketball hoop in the background. The arena is illuminated with bright lights, and there are banners for 'SPORT' and 'GENERAL SPONSOR' visible. A small Peak logo is pinned to his jacket.

XU JINGNAN
Chairman

CHAIRMAN'S STATEMENT

Dear respectful shareholders,

On behalf of the Board of Directors, I am delighted to share the Group's audited annual results for the year ended 31 December 2014.

In 2014, the Chinese economy progressed in a stable manner after several dips in the bottoming-out during the year. Against the background of the economic transformation, private consumption steadily held upward momentum. The global economy was able to stabilize itself after some volatility and swings, as the external environment for the Chinese enterprises improved notably. Reborn and stronger after several tough years, the sportswear companies in China seized opportunities to achieve greater results and to initiate a new chapter of growth.

As the overall inventory level of the industry has returned to normal, efficiency at the retail end has also improved considerably. Our retail discount rate, channel inventory and the total number of retail outlets have stabilized at a satisfactory level. The industry has bottomed out and a promising prospect has emerged in the horizon. We believe a new round of growth is imminent.

The turnover of the Group in 2014 totaled RMB2,841.4 million, an increase of 8.7% when compared to RMB2,612.9 million in 2013. Profit attributable to shareholders was RMB320.7 million, up 31.3% compared to RMB244.3 million in 2013. Basic earnings per share was at RMB15.28 cents. The Board recommended a final dividend of HK8 cents per share. Together with the interim dividend of HK4 cents per share, our dividend payout ratio for the year was approximately 62.3%.

OUR BUSINESS IN 2014

Since the establishment of our brand in 1991, the Group has been dedicated to build up a clear and consistent brand image through our strategy of brand internationalization and product professionalization, highlighting our unique advantages in the sportswear industry. After over 20 years of diligent focus, Peak has created a clear vision of building its own global brand and accomplished a number of key fundamental frameworks around the world including internationalization of its corporate name, trademark registration, management standards, brand image and capital funding. In recent years, Peak has been actively preparing for the next stage of brand upgrade and internationalization of markets, continuing our efforts to execute our marketing strategy based on "devotion, professionalism, consistency" from our specialization in basketball sector to other sectors such as tennis and running.

I concluded 3 major characteristics which helped Peak taking the lead in bottoming out the industry cycle: at the brand level, we are more concentrated, precise, devoted and efficient than our competitors; at the product level, we are persistent in terms of the professionalism of our products and innovation in product technology and design; and at the channel level, we pursue lean management and a flattening channel structure in order to make unit output more efficient. At the same time, we also adjusted our strategy which focused on expansion to a more sophisticated management approach in order to better cope with the coming stage of stable growth in sportswear industry.

CHAIRMAN'S STATEMENT (CONTINUED)

During 2014, the Group maintained alliances with the world's renowned athletes and sports associations. At the end of 2014, we had spokesperson agreements with eight NBA players including the NBA All-Star player Tony Parker and sponsored three NBA teams: Houston Rockets, Miami Heat and San Antonio Spurs. We have also entered into sponsorship arrangements with national basketball associations of eight countries including Germany, Australia and Serbia. In the NBA Finals which was held in June 2014, Peak-sponsored Miami Heat and San Antonio Spurs were able to sweep both the first and second titles. As the global marketing partner of FIBA, Peak is also proud to see our sponsored Serbian men's basketball team and the Australian women's basketball team won the first runner-up and second runner-up titles in the FIBA Basketball World Cup held in Spain in September 2014 and in the FIBA World Championship for Women held in Turkey in October 2014, respectively. In tennis, we had 22 WTA spokespersons at the end of 2014. We believe these sponsorships have further enhanced our influence in the tennis sector. In addition, our sponsored Olympic delegations of Slovenia and New Zealand had excellent performance at Sochi Winter Olympics in early 2014. Peak aims to further leverage the brand awareness in the international market and to strengthen customer loyalty through a new round of Olympic marketing campaign.

Besides strengthening efforts in recruiting distributors in new markets, the Group has been consolidating its competitive advantages in overseas markets during the year. The Group's overseas sales totaled RMB652.6 million in 2014, representing 23.0% of total turnover. Peak has sold its products to over 70 countries and regions of the globe and becomes the leading Chinese sportswear brand with the highest overseas sales proportion.

Regarding the distribution channels, the Group's "flattening structure" strategy yielded significant results in 2014 and was conducive to the Group's refined management of its markets. The Group actively adjusted and increased the number of distributors and upgraded qualified retailers into distributors. As a result, the number of the Group's distributors increased from 66 at the end of 2013 to 88 at the end of 2014. Meanwhile, the Group encouraged existing distributors to open more authorized Peak retail outlets so that they can respond more promptly to market changes. In terms of channel management, the Group adopted various measures, including consolidating some retail outlets of relatively low efficiency and small size and changing the order model to increase the proportion of supplement orders, to actively manage the inventory level and to improve the visibility of orders. As a result, the operational health of the Group improved. After all these channel adjustments, the number of retail outlets in China decreased from 6,012 at the end of 2013 to 6,004 at the end of 2014, representing a net decrease of 8. The number of retail outlets directly run by our distributors in our retail network represents 36.3% of the total outlets.

LOOKING AHEAD

Peak successfully bottomed out and marched on in 2014. The Group achieved a mid-teens growth in terms of the total amount of sales fair orders in the third quarter of 2015 sales fair which was held in December 2014, marking the sixth consecutive quarter of growth. What's more, it also indicates that Peak has embraced a new round of growth ahead. Meanwhile, the competition circumstances in the industry normalize gradually as the rising market concentration signals the imminent end of the structural adjustment which the industry underwent in the past few years. The order status and retail discount curve we have observed also support such conclusion. Against the background of new type of urbanization and an economy growth model which emphasizes domestic demand, the sportswear industry will further utilize its strengths and opportunities provided by the new national fitness campaign in 2015. In addition, the sportswear companies will expand in the core markets and emerging niche markets to realize quality growth. We think the national fitness strategy proposed by the State Council will serve as a major institutional guarantee for the sports and other related industries. It is expected that the sportswear industry will be able to embrace a huge market consisting of 500 million people in the future. According to a projection, multi-layers of professional and amateur sports organizations will thrive, coverage of sports infrastructures and facilities in rural areas will expand, free access to public stadiums and facilities will enable a quick popularization of sports activities across China. All these will provide strong and powerful demand for sportswear products.

STRATEGY

In 2015, we shall seize any opportunities to further promote both the international and professional attributes of our brand. We believe large sports events offer the best arena for international brands to flex their muscles. Similarly, the Group's marketing campaigns yielded fruitful results in a series of influential games in 2014, such as the Australian Open, the Sochi Winter Olympics and the Basketball World Cup in Spain. We were the promotion partner of five National Olympic Committees including New Zealand, Slovenia, Lebanon, Jordan and Cyprus as well as the official sponsor for the Basketball World Cup. The national basketball teams of eight countries including Australia, Serbia and Germany under Peak's sponsorship participated in the Basketball World Cup and achieved remarkable results. I believe we can generate excellent promotion results for Peak's brand and products through the performance and continuous media exposure of the delegations, national teams and outstanding athletes sponsored by Peak. Besides, the gradual opening up of the broadcasting market for sports events in China is favorable to us in terms of marketing resources allocation and coordination, maximizing the efficiency.

In terms of marketing resources, Peak will also make great strides on a new path. Through the brand new "Star Strategy", we plan to carry out an advanced stage of comprehensive sports resources marketing strategy. On one hand, we will deepen our cooperation with the NBA players and the NBA teams we sponsored, cooperate with more All-Star level NBA players and enhance Peak's market awareness as well as its image of professionalism among consumers. Such endeavors are consistent with our product structure and consumer value creation system. On the other hand, Peak's will enhance its internationalization efforts on a global scale so that we shall not overly rely on a particular region or sports resource. Under the background of globalization, we shall adjust our marketing resources according to market circumstances in different regions and niche markets in order to cope with new changes. In addition, Peak will incorporate the idea of "good value for money" into its strategy of marketing resources allocation, given that the market of sports resources has been fully developed nowadays. By doing so, Peak aims to forge itself into a professional, friendly and affordable international brand for mass market. The internationalization of our sports resources definitely helps us explore more markets.

In our distribution network, we continue to focus on the second-tier and third-tier cities in China, while optimizing and adjusting our distribution resources. In addition to working closely with our distributors, the Group will speed up the process of upgrading its information management system to improve its market monitoring capacity, enabling fast and accurate responses 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 technology and innovation as well as strengthen cooperation among its existing R&D workshops. We believe quality products and superior technologies can help us build a solid customer base and attract more new customers. In addition to the existing patents, the Group has received three new patents for shoes and apparel products in 2014 to address the actual needs of consumers and to enhance Peak's competitiveness in sports science and technology. The patents mentioned above also lay the foundation for further technology advancement in our new products in the next three to five years and some of the patents are expected to be utilized in near future. Meanwhile, we will strategically introduce some outstanding external research teams to give new impetus to our products and to further lift the overall research capability of the Group.

Lastly, and on behalf of the Board, I offer my sincere thanks to the loyalty, devotion and contribution of our employees across all our business segments and divisions made during the year. 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 2015

FINANCIAL HIGHLIGHTS

Turnover

RMB **2,841.4** million

Gross profit margin

38.0%

Payout ratio

62.3%

Profit for the year attributable to shareholders

RMB **320.7** million

Number of authorized Peak retail outlets

6,004

Financial performance

- Turnover for the year increased by 8.7% to RMB2,841.4 million
- Turnover for the second half of the year increased by 7.7% when compared to the same period in 2013
- Gross profit for the year increased by 16.4% to RMB1,079.0 million
- Gross profit margin for the year increased by 2.5 percentage points to 38.0%
- Profit for the year attributable to shareholders increased by 31.3% to RMB320.7 million
- Net profit margin for the year increased by 2 percentage points to 11.3%
- Profit for the second half of the year attributable to shareholders grew by 29.3% when compared to the same period in 2013
- Basic and diluted earnings per share amounted to RMB15.28 cents and RMB15.27 cents respectively
- Final dividend of HK8 cents (equivalent to RMB6.3 cents) per ordinary share was proposed
- 62.3% payout of profit attributable to shareholders (including interim dividend of HK4 cents per ordinary share)

Operational performance

- Number of authorized Peak retail outlets totaled 6,004, representing a net decrease of 8 outlets as compared to 2013
- Average floor area per retail outlet was flat at 90.0 square metres
- Number of distributors in China increased to 88 from 66

FIVE-YEAR FINANCIAL SUMMARY

| | 2014 RMB (million) | For the year ended 31 December | | | |
|---|-----------------------|--------------------------------|-----------------------|-----------------------|-----------------------|
| | | 2013 RMB (million) | 2012 RMB (million) | 2011 RMB (million) | 2010 RMB (million) |
| <i>Profitability data</i> | | | | | |
| Turnover | 2,841.4 | 2,612.9 | 2,902.9 | 4,646.9 | 4,249.4 |
| Gross profit | 1,079.0 | 926.6 | 1,058.2 | 1,832.5 | 1,616.3 |
| Net profit for the year | 320.7 | 244.3 | 310.6 | 777.7 | 822.3 |
| Basic earnings per share (RMB cents) | 15.28 | 11.64 | 14.80 | 37.07 | 39.19 |
| Diluted earnings per share (RMB cents) | 15.27 | 11.64 | 14.80 | 37.06 | 39.18 |
| <i>Profitability ratios</i> | | | | | |
| Gross profit margin | 38.0% | 35.5% | 36.5% | 39.4% | 38.0% |
| Net profit margin | 11.3% | 9.3% | 10.7% | 16.7% | 19.4% |
| Effective tax rate | 34.4% | 37.4% | 23.4% | 17.0% | 17.6% |
| Return on equity (Note 1) | 7.7% | 6.0% | 7.6% | 20.7% | 25.4% |
| <i>Operating ratios (as a percentage of turnover)</i> | | | | | |
| Advertising and promotion expenses | 10.6% | 10.7% | 14.0% | 14.2% | 10.8% |
| Staff costs | 15.8% | 13.9% | 12.1% | 8.0% | 6.3% |
| Research and development expenses | 2.2% | 2.3% | 1.6% | 1.0% | 0.5% |

| | 2014 RMB (million) | As at 31 December | | | |
|--------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | | 2013 RMB (million) | 2012 RMB (million) | 2011 RMB (million) | 2010 RMB (million) |
| <i>Assets and liabilities data</i> | | | | | |
| Non-current assets | 790.3 | 824.3 | 806.7 | 672.3 | 438.0 |
| Current assets | 5,084.0 | 4,624.0 | 4,241.9 | 4,207.5 | 3,762.2 |
| Current liabilities | 1,190.3 | 1,010.0 | 898.8 | 777.3 | 671.4 |
| Non-current liabilities | 437.4 | 316.5 | 66.7 | 59.0 | 47.0 |
| Shareholders' equity | 4,246.6 | 4,121.8 | 4,083.1 | 4,043.5 | 3,481.8 |
| Current ratio | 4.3 | 4.6 | 4.7 | 5.4 | 5.6 |
| Gearing ratio (Note 2) | 24.8% | 18.6% | 12.2% | 4.0% | 0.0% |
| Net asset value per share (RMB yuan) | 2.02 | 1.96 | 1.95 | 1.93 | 1.66 |

| | 2014 (day) | For the year ended 31 December | | | |
|---|---------------|--------------------------------|---------------|---------------|---------------|
| | | 2013 (day) | 2012 (day) | 2011 (day) | 2010 (day) |
| <i>Working capital data</i> | | | | | |
| Average inventory turnover days (Note 3) | 74 | 81 | 80 | 49 | 38 |
| Average trade debtors and bills receivable turnover days (Note 4) | 114 | 135 | 127 | 66 | 63 |
| Average trade creditors and bills payable turnover days (Note 5) | 41 | 45 | 48 | 48 | 46 |

Notes:

- Return on equity is equal to the net profit for the year divided by the average of the opening and closing equity.
- The calculation of gearing ratio is based on the total bank loans divided by the equity.
- Average inventory turnover days is equal to the average of the opening and closing inventory divided by the cost of sales and multiplied by the number of days for the year.
- Average trade debtors and bills receivable turnover days is equal to the average of the opening and closing trade debtors and bills receivable divided by the turnover and multiplied by the number of days for the year.
- Average trade creditors and bills payable turnover days is equal to the average of the opening and closing trade creditors and bills payable divided by the cost of sales and multiplied by the number of days for the year.

MANAGEMENT DISCUSSION AND ANALYSIS

Market overview

Global economic conditions

The global economy experienced diverging trends in 2014. The economic recovery on the global scale progressed slowly, entering a “new normal” shaped by fatigued and unbalanced growth statuses across nations. Central banks of major economies also diverged in setting tones for their monetary policy. The possibility of an accelerated growth of the U.S. economy rose measurably and the overall economic condition is sufficiently supportive for a bettering labor market. As a result, the market consensus forecasts that the Federal Reserve will raise the benchmark interest rate in the mid-2015 at the earliest. On the other hand, the crisis in the Euro-zone reemerged. The industrial and services output data of the core countries diverged. The social and political instabilities in the non-core countries further encumber debt redemption and the recovery. As a result, additional quantitative easing measures are imminent. In addition, the economy of Japan stepped backward again towards recession and the government launched additional stimulus packages in order to bring the economy back on track. Against such background, the emerging countries are under increased pressure to adjust their economic structure. Meanwhile, China has also been facing increasing challenges derived from external risk factors including the lack of a new generally accepted framework for the global trade, the high global debt level, the possibility of intensified regional conflicts and unrest, and the spillover effects of the diverging monetary policies adopted by different nations.

In 2014, China’s major economic indicators landed in a reasonable range. With a GDP growth of 7.4%, the economy of China fully embraced the “new normal” which implies a lower economic growth rate, less dependence on export and infrastructure, but more focus on growth in terms of quality and sustainability. As a result, the real estate industry trended structurally downwards and investment in associated sectors also slowed down significantly. Meanwhile, the government has responded with new macroeconomic policies which aim to maintain growth while accelerating the transition of the economic structure. Despite lower growth rate, those policies created successfully 13 million new jobs in China which bolstered domestic consumption. In 2014, the consumer market in China was stable while online shopping prospered but the growth at the traditional retail channels shrank significantly. The new characteristics of the consumer market in China have brought new requirements and challenges to the sportswear industry in China, especially the operation at retail ends.

Sportswear industry in China

Despite a slower growth rate in domestic investment in 2014, the total value for the retail sales of consumer goods achieved stable growth. The urban-to-rural income ratio and consumption structure were further optimized, which were supportive for the steady increase of consumers for professional sportswear and therefore advantageous for the Group’s focus on the expansion of professional sportswear market. The sportswear industry has reversed the downward trend which prevailed for the past two years, as various major sportswear companies, including Peak, have showed signs of recovery. Moreover, the excessive inventory problem which troubled the industry for a prolonged period has been solved as channel inventory days for the listed companies of the sportswear industry are improving. Meanwhile, we see competition becomes more rationalized as a considerable number of smaller sportswear companies have exited the market and major branded companies have enhanced their investment in product research and development in order to increase the level of product differentiation. In terms of distribution network, there is a consensus that the second-tier and third-tier cities have greater growth potential than the first-tier cities due to the acceleration of urbanization. Nevertheless, e-commerce has made a certain impact on the industry’s existing business model which relies primarily on a wholesale distribution system. As a result, sportswear companies have been exploring rising opportunities of e-commerce while adjusting the distribution and ordering model according to their business objectives.

MONSTER 2.3

Basketball shoes



A full-page photograph of basketball player George Hill in mid-air, holding a basketball in his right hand. He is wearing a grey jersey and red shorts. The background is a dynamic, abstract composition of flowing orange and red light trails, creating a sense of motion and energy.

George Hill
of Indiana Pacers

**MANAGEMENT DISCUSSION AND ANALYSIS
(CONTINUED)**



Carl Landry
of Sacramento Kings

Prospects

China's economy still faces multiple risk factors and great downward pressure. However, we believe that the transformation of the economic structure, the new urbanization process and the upgrading of consumption patterns will deliver new growth impetus for the economy in the medium to long term. The People's Bank of China announced the first benchmark interest rate cut in two years at the end of November of 2014, which indicates that the central government is determined to make efforts to reduce the financing costs of enterprises in China. At the same time, the central government has enhanced the scope and scale of fiscal and industrial policies, providing essential institutional conditions for the long-term development of the economy and the society. In October 2014, The State Council unveiled its strategy on the sports sector in a document titled "Opinions on Accelerating the Development of Sports Industry and Promoting Sports Consumption". The document has clearly stated that promoting fitness of the citizens, boosting the sports industry and the associated consumption will become one of the government's national strategies. According to the document, the value of the sports sector may exceed RMB5 trillion by 2025. In addition, average sports field size per capita will reach two square meters and the population who regularly exercise will reach 500 million by then. Such market is large enough to support a robust sports industry. Along with the enhancement and upgrade of infrastructure and supporting facilities and the popularization of healthy lifestyle, we believe the Chinese sportswear companies will be the major beneficiaries of such policy thanks to their solid distribution networks among the second-tier and third-tier cities and regions linking the rural and urban areas, and the unique business pattern of those regions at which the Chinese sportswear companies can fully utilize their strengths in products and positioning.

HURRICANE III

Basketball shoes



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Financial review

Turnover

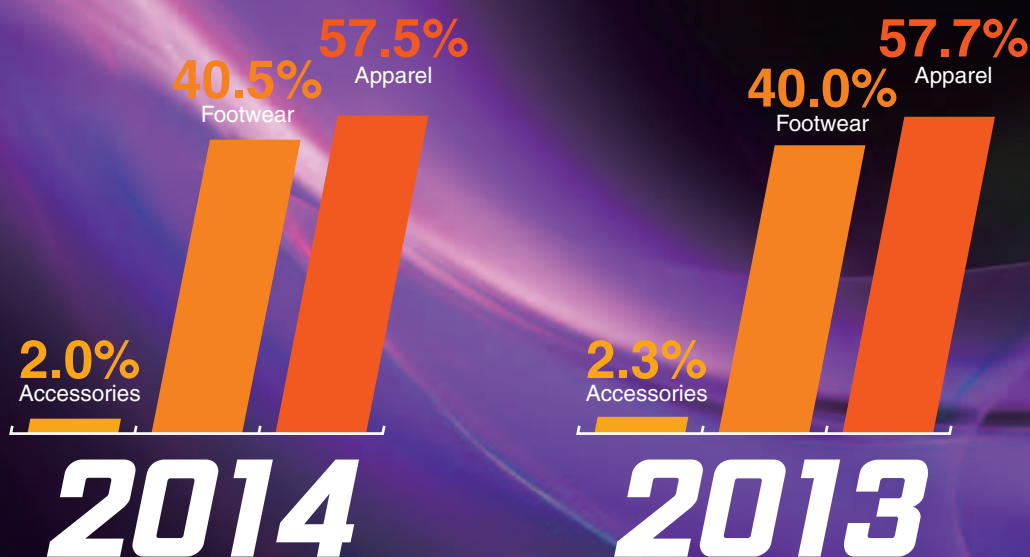
The Group's turnover for 2014 amounted to RMB2,841.4 million (2013: RMB2,612.9 million), representing an increase of 8.7% when compared to that for 2013. The increase was mainly attributable to an increase in the revenue derived from both the domestic market and overseas markets during the year.

Analysis of turnover by product category:

| | Year ended 31 December | | | | |
|-------------|------------------------|---------------|---------------|---------------|------------|
| | 2014 | | 2013 | | Change (%) |
| | RMB (million) | % of turnover | RMB (million) | % of turnover | |
| Footwear | 1,150.1 | 40.5 | 1,044.3 | 40.0 | 10.1 |
| Apparel | 1,633.2 | 57.5 | 1,508.5 | 57.7 | 8.3 |
| Accessories | 58.1 | 2.0 | 60.1 | 2.3 | (3.3) |
| Total | 2,841.4 | 100.0 | 2,612.9 | 100.0 | 8.7 |

There have not been any material changes in the ratios of turnover contributed by different kinds of product category during 2014.

% of turnover



Analysis of turnover by geographical location:

| | 2014 | | 2013 | | Change (%) |
|--------------------------|----------------|---------------|---------------|---------------|------------|
| | RMB (million) | % of turnover | RMB (million) | % of turnover | |
| Southern region (Note 1) | 842.5 | 29.6 | 829.1 | 31.7 | 1.6 |
| Eastern region (Note 2) | 719.0 | 25.3 | 695.1 | 26.6 | 3.4 |
| Northern region (Note 3) | 627.3 | 22.1 | 556.1 | 21.3 | 12.8 |
| China market | 2188.8 | 77.0 | 2,080.3 | 79.6 | 5.2 |
| Europe | 292.7 | 10.3 | 125.5 | 4.8 | 133.2 |
| Asia | 219.0 | 7.7 | 249.0 | 9.5 | (12.0) |
| North America | 55.8 | 2.0 | 42.7 | 1.6 | 30.7 |
| Africa | 48.0 | 1.7 | 64.2 | 2.5 | (25.2) |
| South America | 29.9 | 1.1 | 44.3 | 1.7 | (32.5) |
| Australasia | 7.2 | 0.2 | 6.9 | 0.3 | 4.3 |
| Overseas markets | 652.6 | 23.0 | 532.6 | 20.4 | 22.5 |
| Total | 2,841.4 | 100.0 | 2,612.9 | 100.0 | 8.7 |

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

1. Southern region includes Fujian, Guangdong, Hainan, Guangxi, Guizhou, Chongqing, Sichuan, Yunnan and Tibet.
2. Eastern region includes Shandong, Jiangsu, Shanghai, Zhejiang, Henan, Anhui, Hubei, Hunan and Jiangxi.
3. Northern region includes Heilongjiang, Jilin, Liaoning, Inner Mongolia, Hebei, Beijing, Tianjing, Shanxi, Shaanxi, Gansu, Ningxia, Qinghai and Xinjiang.



GALAXY 1
Basketball shoes

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The China market contributed 77.0% of the total turnover while the overseas markets contributed 23.0% of the total turnover during 2014. The turnover derived from the China market and overseas markets increased by 5.2% and 22.5% respectively when compared to those in 2013.

The increase in turnover derived from the China market was primarily attributable to an improvement in the efficiency of the Group's distribution channel through increasing the number of distributors during 2014. The increases in the turnover derived from different regions in the China market in 2014 were mainly due to: (i) an introduction of more distributors and expansion of retail network in the Northern region; and (ii) an introduction of more distributors in the Southern and Eastern regions. The introduction of more distributors in the regions improved the overall sales performance of the regions because new distributors had more incentive to explore or adopt new methods to manage its assigned areas than preceding underperforming distributors.

The increase in the turnover derived from the overseas markets in 2014 was mainly caused by: (i) a strong growth in sales in a number of European countries notably the Netherlands, France, Germany and Slovakia due to effective sponsorship and promotion in those countries; (ii) decreased sales in Asia mainly due to political disturbances in a number of Middle East countries and decreased re-export demand from Hong Kong and Singapore; (iii) increased demand from North America mainly due to improving economic conditions in the US and introduction of new distributors in the region; (iv) decreased sales in South America mainly due to deterioration of economic conditions in the region and imposition of foreign exchange control which severely restrict imports in some countries such as Brazil, Argentina and Venezuela; (v) decreased sales in Africa mainly due to political disturbances in Egypt and the outbreaks of Ebola disease in a number of countries in the region; and (vi) small growth in Australasia mainly due to an appointment of a new distributor in Australia.

Tony Parker
of San Antonio Spurs



Gross profit

Analysis of contribution to gross profit by product category:

| | 2014 | | 2013 | | Change in gross profit margin (% points) |
|--------------|----------------------------|-------------------------|----------------------------|-------------------------|--|
| | Gross profit RMB (million) | Gross profit margin (%) | Gross profit RMB (million) | Gross profit margin (%) | |
| Footwear | 420.3 | 36.5 | 367.8 | 35.2 | 1.3 |
| Apparel | 637.2 | 39.0 | 536.3 | 35.6 | 3.4 |
| Accessories | 21.5 | 37.1 | 22.5 | 37.4 | (0.3) |
| Total | 1,079.0 | 38.0 | 926.6 | 35.5 | 2.5 |

The gross profit margins of footwear and apparel products in 2014 increased by 1.3 percentage points and 3.4 percentage points respectively when compared to those in 2013. Such increases were mainly due to the fact that the Group ceased to offer special discounts on its products to distributors during 2014. The Group offered considerable special discounts to its distributors on many footwear and apparel products in 2013 in order to clear excessive inventories. As most special discounts were offered on apparel products in 2013, the gross profit margin of apparel products increased more than that of footwear products in 2014.



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 | | | | | |
|------------------|----------------------------|--|----------------------------|--|----------------------|--------------------------------------|
| | 2014 | | 2013 | | Change | |
| | Quantity sold (million) | Average unit selling price (RMB) | Quantity sold (million) | Average unit selling price (RMB) | Quantity sold (%) | Average unit selling price (%) |
| Footwear (pairs) | 12.3 | 93.5 | 11.6 | 90.0 | 6.0 | 3.9 |
| Apparel (pieces) | 23.5 | 69.5 | 24.7 | 61.1 | (4.9) | 13.7 |

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.

The average unit selling price ("ASP") for footwear products increased by 3.9% during 2014 mainly because: (i) the Group sold more basketball and running footwear products which ASP were higher than the ASP for the Group's other popular footwear products during the year when compared to those in 2013; and (ii) the Group ceased to offer special discounts on footwear products to its distributors during 2014. The ASP for apparel products increased by 13.7% during 2014 mainly because: (i) the demand from the overseas markets for cotton-padded jackets (a relatively high value product category) increased during the year; and (ii) the Group ceased to offer special discounts on apparel products to its distributors during the year. The Group offered special discounts on some footwear products and many apparel products in order to clear excessive inventories during 2013.

The increase in the quantity of footwear products sold in 2014 was mainly attributable to an increase in the demand of basketball and running footwear products in the China market during the year. Such increased demand was mainly due to the Group's effective marketing and promotion efforts during 2014. The quantity of apparel products sold in 2014 decreased mainly because the Group ceased to offer special discounts on apparel products during the year and such special discounts had boosted the quantity sold for apparel products in 2013.

LIGHTNING III – YEAR OF THE SHEEP

Basketball shoes



Average 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) |
| 2014 | 6,004 | 540,064 | 90.0 | 6,008 | 540,836 | 364 | 4.0 |
| 2013 | 6,012 | 541,607 | 90.1 | 6,248 | 551,736 | 333 | 3.8 |
| Change (%) | (0.1) | (0.3) | (0.1) | (3.8) | (2.0) | 9.3 | 5.3 |

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 turnover per authorized Peak retail outlet in China during 2014 increased by 9.3% and the average turnover per unit retail floor area in China during 2014 increased by 5.3% when compared to those in 2013. These ratios indicate that the operating efficiency of the Group's retail network has been improving.

Cost of sales

Analysis of cost of sales by production method:

| | Year ended 31 December | | | | |
|-----------------------------|------------------------|------------|---------------|------------|------------|
| | 2014 | | 2013 | | Change (%) |
| | RMB (million) | % of total | RMB (million) | % of total | |
| Self-production | | | | | |
| Raw materials | 720.3 | 65.5 | 543.9 | 64.6 | 32.4 |
| Direct labour | 248.6 | 22.6 | 181.3 | 21.5 | 37.1 |
| Overhead | 130.9 | 11.9 | 117.4 | 13.9 | 11.5 |
| Total | 1,099.8 | 100.0 | 842.6 | 100.0 | 30.5 |
| Cost of sales | | | | | |
| Self-production | 1,099.8 | 62.4 | 842.6 | 50.0 | 30.5 |
| Subcontracting arrangements | 498.5 | 28.3 | 397.1 | 23.5 | 25.5 |
| OEM | 164.1 | 9.3 | 446.6 | 26.5 | (63.3) |
| Total | 1,762.4 | 100.0 | 1,686.3 | 100.0 | 4.5 |

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

As the Group sold more high value products (e.g. basketball footwear, cotton-padded jackets) which had high material cost during 2014 when compared to that in 2013, it caused a higher ratio of raw materials to total cost of self-production in 2014. An increase in the per unit direct labour cost due to adjustments to wages in response to market conditions during 2014 caused an increase in the ratio of direct labour to total cost of self-production when compared to that in 2013.

With the easing of the labour shortage in 2014, the Group had greater self-production capacity, and accordingly, outsourced less of its production to contract manufacturers. The Group utilized less OEM than subcontracting arrangements to manufacture its products during the year because it could have a better control over the quality of the products and delivery times when using subcontracting arrangements.

Other revenue

Other revenue for 2014 increased to RMB72.2 million (2013: RMB54.3 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. The increase in the amount of government grants also contributed to the increase in other revenue.

Selling and distribution expenses

Total selling and distribution expenses for 2014 amounted to RMB359.4 million (2013: RMB333.7 million), representing an increase of 7.7% when compared to those for 2013. The increase was mainly attributable to increased staff costs and subsidies to distributors during the year.

Administrative expenses

Total administrative expenses for 2014 amounted to RMB291.5 million (2013: RMB251.5 million), representing an increase of 15.9% when compared to those for 2013. The increase was mainly caused by the following items when compared to those for 2013: (i) increased staff costs; (ii) increased property and land use right taxes upon issuance of relevant title documents by government authorities; and (iii) increased provision for doubtful debts for distributors during 2014.

Finance expenses

The increase in finance expenses was caused by an increase in the balances of short-term and long-term bank loans during 2014. These bank loans were primarily used for the settlement of advertising and promotion expenses denominated in foreign currencies and payment of dividends.

Income tax

Income tax expenses increased by 15.2% to RMB168.1 million for 2014 from RMB145.9 million for 2013 mainly due to an increase in the profits from operations as a result of an increase in the revenue derived from both the China market and overseas markets.

Net profit and net profit margin

Net profit increased by 31.3% to RMB320.7 million for 2014 from RMB244.3 million for 2013. Such increase in net profit during 2014 was primarily a net result of: (i) an increase in the gross profit; (ii) an increase in the other revenue; (iii) an increase in the selling and distribution expenses; and (iv) an increase in the administrative expenses.

Net profit margin increased to 11.3% for 2014 from 9.3% for 2013. Such increase in net profit margin during 2014 was primarily a net result of: (i) an increase in the gross profit margin; (ii) an increase in the ratio of other revenue to turnover mainly caused by an increase in the interest income derived from bank deposits; and (iii) an increase in the ratio of administrative expenses to turnover mainly caused by the increases in the staff costs and provision for doubtful debts.

Working capital ratios

The average inventory turnover days for the year ended 31 December 2014 decreased to 74 days from 81 days for the year ended 31 December 2013. The shortening of the turnover days was attributable to the Group's enhanced control over its inventory during 2014.

As distributors experienced a rationalization of the sportswear industry in 2013, the Group allowed some of them to have more time to settle their debts in that year. As market conditions started to improve in 2014, the Group gradually tightened the credit control over these distributors during 2014. As a result, the average trade debtors and bills receivable turnover days decreased to 114 days for the year ended 31 December 2014 from 135 days for the year ended 31 December 2013.

The average trade creditors and bills payable turnover days for the year ended 31 December 2014 decreased to 41 days from 45 days for the year ended 31 December 2013.

Liquidity and capital resources

The net cash inflow from operating activities of the Group for the year ended 31 December 2014 amounted to RMB384.0 million (2013: inflow of RMB506.8 million). Such net cash inflow which was higher than the profit attributable to shareholders of the Company reflected a healthy cash generating capability of the Group during 2014. As at 31 December 2014, 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 RMB3,751.8 million, representing a net increase of RMB471.1 million when compared to the position as at 31 December 2013.

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

| | Year ended 31 December 2014 RMB'000 |
|---|---|
| Net cash inflow from operating activities | 384,001 |
| Net capital expenditure | (24,806) |
| Dividends paid | (200,069) |
| Net proceeds from bank loans | 286,317 |
| Other net cash inflow | 25,651 |
| Net increase in cash and bank deposits | 471,094 |

The Group had bank borrowings as at 31 December 2014. All these bank borrowings were repayable within two years 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.

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

MANAGEMENT DISCUSSION AND ANALYSIS (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 bank deposits, and capital as the total equity. As at 31 December 2014, the Group had cash and bank deposits 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 control the growth of 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 debtors) will decline accordingly. The Group has not used any forward contracts, currency borrowings or other means to hedge our foreign exchange exposure. Nevertheless, the management will continue to monitor the foreign exchange exposure and adopt prudent measures as appropriate.

Pledge of assets

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

| | Carrying amount as at 31 December | |
|-------------------|-----------------------------------|-----------------|
| | 2014 RMB'000 | 2013 RMB'000 |
| Buildings | 97,212 | 103,631 |
| Bank deposits | 502,072 | 347,507 |
| Lease prepayments | 9,848 | 10,078 |



Business 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 continued to optimize our distribution network by closing down small and less efficient retail outlets while opening larger retail outlets in 2014. As at 31 December 2014, the total number of authorized Peak retail outlets was 6,004, representing a net decrease of eight outlets when compared to that at the end of 2013.

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

| | Number of retail outlets as at 31 December | | |
|-----------------|--|-------|------------|
| | 2014 | 2013 | Change (%) |
| Southern region | 2,099 | 2,122 | (1.1) |
| Eastern region | 1,999 | 2,062 | (3.1) |
| Northern region | 1,906 | 1,828 | 4.3 |
| Total | 6,004 | 6,012 | (0.1) |

Note: Please refer to page 15 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 | | |
|--------------------|--|-------|------------|
| | 2014 | 2013 | Change (%) |
| First-tier cities | 165 | 227 | (27.3) |
| Second-tier cities | 700 | 760 | (7.9) |
| Third-tier cities | 5,139 | 5,025 | 2.3 |
| Total | 6,004 | 6,012 | (0.1) |

The second-tier and third-tier cities in China have been the Group's focused markets in recent years because of their faster economic growth and less intense competition when compared to the first-tier cities. Accordingly, most of authorized Peak retail outlets are located in the second-tier and third-tier cities.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

| | Number of retail outlets as at 31 December | | |
|--|--|--------------|--------------|
| | 2014 | 2013 | Change (%) |
| Flagship Store | 20 | 20 | 0.0 |
| Basic Store | 3,637 | 3,626 | 0.3 |
| Department Store or Shopping Mall Outlet | 2,284 | 2,303 | (0.8) |
| Basketball Specialty Outlet | 63 | 63 | 0.0 |
| Total | 6,004 | 6,012 | (0.1) |

The authorized Peak retail outlets are classified into the above 4 categories. Flagship stores are street-level stores situated in prime locations in major cities and each flagship store has a floor area of at least 200 square metres. Basic stores are also street-level stores but do not satisfy the above criteria for flagship stores. Basketball specialty outlets are either street-level stores or shopping mall outlets 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 business.

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.

The measures taken by the Group to reform its distribution system since 2013 has yielded encouraging results. We took further steps in our “Channel Flattening” strategy by actively increasing the number of distributors. On one hand, we upgraded some retailers with excellent performance to distributors; on the other hand, we introduced new distributors with strong retail experience in order to better manage the retail business. The Group also encouraged existing distributors to open more authorized retail outlets so that they could respond more promptly to any market changes. As a result, the number of distributors of the Group grew from 66 at the end of 2013 to 88 at the end of 2014. In terms of channel management, the Group has taken various measures to actively manage the inventory and order visibility, such as changing the ordering model with increased replenishment order ratio to further optimize the inventory level of the distribution channel. In addition, the Group sent out field assessment teams to monitor and evaluate the performance of our distributors including their management capability, financial strengths, manpower allocation to retail outlets, location of the outlets, and other key factors on a long-term basis. For distributors with persistent poor performance, the Group took measures including reallocating or slashing their distribution areas and introducing new distributors in order to boost performance.

The Group's computerized management information system ("MIS") has linked to all distributors and their self-operated retail outlets. Through active utilization of MIS, we have deepened our knowledge on critical information such as channel inventory, retail end discounts and market demand. On the other hand, distributors can also make replenishment orders in time according to the information collected to increase their sales. During 2014, the Group continued to expand the coverage of its MIS and actively collected and analyzed real-time operational data and feedbacks from the authorized retail outlets already connected to the MIS. As at 31 December 2014, 2,756 retail outlets were connected to the MIS. In addition to strengthening our efforts in broadening the MIS coverage, we also sent out dedicated teams to provide instructions on how to use the MIS and relevant trainings to distributors and retail outlet operators.

In terms of regional marketing, in addition to further strengthening and developing its traditional strongholds in the markets of Southern China, the Group also made good progress in the markets of Northern China. This reflects that the distribution network reform has fostered the initiative of distributors in setting up their own retail outlets in undiscovered markets.

Overseas markets

We have been exporting our products to overseas markets since early 90's. At present, we sell the Peak branded products to overseas customers in more than 70 countries and regions. These overseas customers include distributors, retailers, sports teams and clubs. We invite our overseas customers to attend our sales fairs held in China together with our domestic distributors. In addition, we participate in international exhibitions, overseas sales and trade fairs to introduce and promote our products to our existing and potential overseas customers every year. In order to strengthen the communication with our overseas customers, we have been enhancing the contents of our corporate website in recent years.

E-commerce

We believe e-commerce is an effective and efficient way to further promote our brand and products beyond geographical boundaries. In addition to Peak's official online store (www.epeaksport.com), our reach has extended to other well-known third party e-commerce platforms including amazon.cn, dangdang.com, JD.com, paipai.com, Tmall.com, vjia.com and yhd.com. Although e-commerce currently contributes only a low proportion in the total sales of the Group, the speed at which it grows is very fast. At present, the products offered in the Group's online channels consist mainly of new, medium and high end products. Therefore, the average spending per customer and the gross margin in the online channels are relatively higher when compared to those in physical stores. With rising fixed-line internet and mobile internet penetration, we believe e-commerce will be one of the major platforms for the Group to establish brand image and brand awareness. In future, e-commerce will become an important part in the Group's development strategy.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Brand promotion and marketing strategy

We believe that marketing and promotion of our brand are crucial to the 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, event organizers 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 two other sports categories (i.e. running and tennis) 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, event organizers 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 the coming years.

NBA teams and players

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

As at 31 December 2014, the Group endorsed a total of eight NBA players. With these players, we had presence in eight teams out of the 30 NBA teams as follows (listed by alphabetical order):

| NBA players | NBA teams |
|------------------|------------------------|
| Andrew Nicholson | Orlando Magic |
| Anthony Morrow | Oklahoma City Thunder |
| Beno Udrih | Memphis Grizzlies |
| Carl Landry | Sacramento Kings |
| Chase Budinger | Minnesota Timberwolves |
| George Hill | Indiana Pacers |
| Miles Plumlee | Phoenix Suns |
| Tony Parker | San Antonio Spurs |

FIBA

The Group has had an association with FIBA since 2008 and has become the official and exclusive footwear partner of FIBA worldwide and the exclusive sportswear (apparel and headwear) partner of FIBA in Asia since 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 tournament 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 association with a number of national basketball federations which are responsible for managing 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 2014, these national basketball federations were as follows:

- Basketball Australia;
- Basketball Federation of Montenegro;
- Basketball Federation of Serbia;
- Basketball New Zealand;
- Cameroon Basketball Federation;
- Cote d'Ivoire Basketball Federation;
- German Basketball Federation; and
- Iran Basketball Federation.

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 games in China. The 2014 Peak Team China Tour was kicked-off in Beijing on 26 August 2014. The Group invited several of our NBA spokespersons to participate in the tour. These spokespersons interacted with Chinese basketball fans in more than 10 cities, including Beijing, Guangzhou, Chengdu and Xiamen. Both the Peak brand and NBA players have gained intensive 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. The event took place across more than 10 cities including Beijing, Shanghai and Guangzhou from July to September 2014. Being the official marketing partner of the NBA Nation in 2014, 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 2014:

- The First Dalian Evening Newspaper — The Peak Cup for the Dalian Amateur Basketball Competition (大連晚報—「匹克杯」2014年首屆大連業餘籃球聯賽) held from May to June;
- The 7th 2014 DBA Fanmou Cup for the Shanghai University Student Basketball League (2014年第七屆DBA梵謀杯上海市大學生籃球精英賽) held from May to June;
- The 19th Quanzhou 100 Teams/1000 Matches Basketball Competition (泉州市第十九屆「中國匹克杯」百隊千場籃球賽) held from July to August;
- The 15th Xiamen-Peak Basketball Summer Camp (廈門市第十五屆匹克籃球夏令營) held from July to August; and
- The 6th 2014 Peak Cup for the Quanzhou University Student Basketball League (2014年匹克杯泉州市第六屆大學生籃球聯賽) held in December.

Tennis promotion partners

With a view to attracting more female customers and boosting 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 with WTA, which is the worldwide circuit of women's professional tennis. Pursuant to the relevant agreement, the Group is the official footwear and apparel partner for the following tournaments, which make up the WTA Tour during 2014:

- ASB Classic (Auckland, New Zealand);
- Brisbane International (Brisbane, Australia);
- Apia International Sydney (Sydney, Australia);
- Hobart International (Hobart, Australia);
- PTT Pattaya Women's Open (Pattaya, Thailand);
- Guangzhou International Women's Open (Guangzhou, China);
- BMW Malaysian Open (Kuala Lumpur, Malaysia);
- Ningbo International Tennis Open (Ningbo, China);
- Tianjin Open (Tianjin, China); and
- WTA Finals (Singapore).

The Group, among other things, obtains a license 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 Beijing, Guangzhou and Wuhan from September to October 2014.

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 2014 (listed in alphabetical order):

| Tennis players | Country |
|------------------------|------------|
| Agnes Szatmari | Romania |
| Aleksandrina Naydenova | Bulgaria |
| Anastasiya Shleptsova | Belarus |
| Ao Lehan | China |
| Ekaterina Bychkova | Russia |
| Galina Voskoboeva | Kazakhstan |
| He Sirui | China |
| Hulya Esen | Turkey |
| Julia Cohen | USA |
| Kamila Kerimbayeva | Kazakhstan |
| Klaudia Jans-Ignacik | Poland |
| Liu Xinrui | China |
| Lutfiye Esen | Turkey |
| Lenka Juriková | Slovakia |
| Margarita Lazareva | Russia |
| Olga Govortsova | Belarus |
| Teodora Mircic | Serbia |
| Vesna Dolonc | Serbia |
| Wang Ziyi | China |
| Yu Lu | China |
| Zhao Xueqi | China |
| Zuzana Luknarova | Slovakia |

Running promotion partners

In line with our new marketing strategy, the Group consistently strengthens the promotion of our running footwear. The promotion partners of our running footwear include CCTV, Guangdong Sports TV and a number of sports magazines. The Group has also launched an interactive online platform specifically for our running footwear. We attract online users to buy sports products at our retail outlets by offering online games and prizes to them.

2014 International Association of Athletics Federations (“IAAF”) World Challenge Beijing

The Group signed up as the official partner of 2014 IAAF World Challenge Beijing in March 2014 and sponsored a series of activities including the official road running event “Love Running Love Beijing”. Leveraging the platform of IAAF World Challenge, Peak launched “Fly II”, a new generation of running shoes powered by a self-developed “ZSPRING” (多核彈力系統), and running apparel with “P-ICE” (冰感科技) technology for 2014 summer. The new products are highly praised by the running community. Through the prize-based online contest “Run Without Boundaries: Run Easy, Easy Run”, the Group effectively promoted its running series products and further enhanced the brand awareness and competitiveness in the running sector.

Other promotion partners and events

National Olympic Committees

The Group entered into sponsorship agreements with a number of national Olympic committees. Under the agreements, the Group is committed to provide sports products in certain sports games to the national Olympic teams. As at 31 December 2014, the Group sponsored the following national Olympic committees:

- The National Olympic Committee of Cyprus;
- The National Olympic Committee of Jordan;
- The National Olympic Committee of Lebanon;
- The National Olympic Committee of New Zealand; and
- The National Olympic Committee of Slovenia.

2014 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. The competition is recognized by the International Cycling Association and is held from July to August every year mainly in Qinghai Province with participation of top cyclists from five continents of the world. The Group has become the collaborative partner and the sole supplier of sports products to the officials of the competition for nine consecutive years since 2006.

POSE

Running shoes



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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, greater 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 2014 was approximately 12.8 million pairs, of which approximately 83.6% were produced in-house and approximately 16.4% were produced through outsourcing to contract manufacturers.

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 2014 was approximately 23.2 million pieces, of which approximately 50.0% were produced in-house and approximately 50.0% were produced through outsourcing to contract manufacturers.

Analysis of production capacity by location and product category:

| Location | Footwear production facilities | | | Apparel production facilities | | | |
|--|--|--|---|--|---------------------------------------|---|-----------------------------------|
| | 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) (pairs/pieces) | 2013 2014 | 2.3 million 2.5 million | 1.7 million 2.7 million | 5.0 million 5.0 million | 2.3 million 2.5 million | 7.5 million 10.0 million | 0.3 million 0.3 million |
| Actual production volume (pairs/pieces) | 2013 2014 | 2.4 million 2.8 million | 2.4 million 3.0 million | 4.6 million 4.9 million | 2.0 million 2.3 million | 6.8 million 9.0 million | 0.3 million 0.3 million |
| Expected time of full production | N/A | N/A | 2018 | N/A | 2016 | 2018 | |
| Expected production capacity upon full production (pairs/pieces) | N/A | N/A | 10.5 million | N/A | 16.4 million | 0.8 million | |

Note: Estimated annual production capacity is an estimate we make 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, the Group endeavors to introduce high quality products with innovative designs and functionality to meet the needs of professional athletes and sports enthusiasts. To this end, the Group will continue to invest in R&D of new products. As at 31 December 2014, the Group operated four R&D workshops located in Beijing, Guangzhou, Quanzhou and Los Angeles. These workshops altogether employed 224 research and design professionals. Through the interactions of the design teams in different workshops, we are capable of rolling out more innovative and stylish products to satisfy the needs of different consumer groups all over the world. Peak is adherent to the professionalism of its brand. Therefore, professional athletes, including Peak’s sponsored sports stars, are consulted and involved in the product developing and testing processes. During 2014, the Group introduced 705 new footwear products, 1,496 new apparel products and 454 new accessory products to consumers, including “Fly II” for urban running. Furthermore, we have already started developing racing shoes for advanced runners.

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 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. In the past two years, replenishment orders increased proportionally due to an adjustment to our ordering model. The increase of replenishment orders enables us to respond more quickly to retail market changes and reduce channel inventory risk. However, it also imposes higher requirements on our supply chain and logistics system. With the adjustments to its logistics system and supplier system, the Group has gradually improved its turnaround time of the entire supply chain to satisfy market needs.

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 takes 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 examine 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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)



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 2014, the Group's total headcount was approximately 7,900.

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 roles, 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 2014, we held 34 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.

George Hill
of Indiana Pacers

Outlook

The sportswear industry in China started to recover in the first half of 2014. As the urbanization process accelerates, we believe the growth in the second-tier and third-tier cities will outpace the growth in the first-tier cities. Therefore, the Group will still put its emphasis of business on the second-tier and third-tier cities in China and on the overseas markets. In order to satisfy specific needs in our targeted markets, we have made adjustments to and optimization efforts in our product R&D, the marketing resources allocation, distribution mechanism, supply chain system and retail outlets layout accordingly. We believe that the Group's accumulated investment in technology innovation, precise market positioning in the second-tier and third-tier cities and overseas uncovered markets, and focus on the professional sportswear have already helped the Group acquire competitive advantage for the future. To ensure sustained growth of our business, the Group will use its best endeavors to accomplish the following tasks in the coming years.

Consolidating sports marketing resources

The Group believes that it is of the utmost importance to have a comprehensive sports resources marketing strategy which is in accordance with Peak's brand positioning and also capable of adjusting itself to the market changes. Therefore, the Group will consolidate and reorganize the existing sports marketing resources. Through such adjustments, the new "Star Strategy" has been created in order to further lift our brand awareness and the professionalism as well as the reliability of our products. Through more than two decades of practice and observation in the industry, we have come to a conclusion that "Star Players" can better stimulate and drive the demands of the consumers on products. In addition, "Star Players" are generally more appealing to consumers and their images are more consistent with the consumer value creation system pursued by Peak. Therefore, we are required not only to focus on cooperation with influential sport events and organizations, but also to dig up the value of players from such mature market of sports marketing resources so as to reflect Peak's "value for money" spirit. As one of the top player sponsors in NBA, the Group currently endorses a total of eight players from eight teams including all-star player Tony Parker. Sponsorships on star players and teams remain the basis for Peak's value creation system. Peak's products possess a high degree of professionalism which is best manifested by the top performance of the star players on courts. We then provide the best quality professional sports gears which have been proven by professional athletes to all consumers. In addition, we will put more effort to acquire other world class sports marketing resources. At the same time, we will endeavor to utilize those resources more effectively and efficiently on Peak's global platform. The brand-new "Star Strategy" is a strong extension of Peak's global brand image of professionalism, consumer friendliness and affordability. We believe the new strategy will enable us to penetrate more markets.

Focus on niche markets

The Group believes the sportswear industry is facing the trend of further market segmentation. On one hand, the industry has been impacted by fast fashion and e-commerce channels. On the other hand, international sportswear giants have been eager to penetrate the second-tier and third-tier cities and intensify the competition through online platforms. The State Council unveiled measures to the growth of the sports industry and to boost sports consumption in October 2014, which has set the directions of future development. Under the new framework, coverage of sports facilities among the second-tier and third-tier cities and regions linking rural and urban areas is expected to expand. As a result, the demand for professional sportswear will increase significantly. To meet the challenges and opportunities brought by the new circumstances, the Group plans to enhance R&D capability to maintain its traditional edge in the product professionalism and further enhance Peak's brand image. The Group's products consist of star signature series which serve as the brand's premium representative products, high to medium end professional series which form the backbone of its sales, and a rich selection of functional products in various categories with high price-value ratio. After 20 years of dedicated work, we have built a highly competitive product mix. Our star signature series products have not only established outstanding image for our brand, they also enjoy relatively higher prices in the market. More importantly, led by the star signature series, the full series of Peak's products have recorded greater sales. In addition to upgrading products in our traditionally strong fields, the Group will expand into more niche market segments other than basketball, running and tennis, leveraging our excellent marketing resources.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Optimizing the distribution channels

In terms of distribution network, the Group will continue to put emphasis on the second-tier and third-tier cities as well as optimize its distribution channels to prepare for the future development of the sportswear industry. After the store rationalization in the past two years, store closures have stabilized at a slower rate as many small and less efficient stores were closed or replaced with larger ones. The total number of authorized retail outlets is 6,004 as at the end of 2014 and we expect it to remain at similar level in the short term while we strive to bolster store profitability and efficiency. At the same time, the Group will continue to improve its distribution channels by increasing the number of distributors and adjusting their coverage to deepen market penetration and to strengthen overall competitiveness. The Group may introduce a new distributor by allocating part of a region previously managed by an underperforming distributor to the new distributor. When the area managed by the underperforming distributor has been reduced, the distributor can concentrate its resources to better manage the smaller region. The Group will also encourage our distributors to open more of their own retail outlets to further enhance their responsiveness to market changes. In addition to working with its distributors closely, the Group will also accelerate the construction of MIS and improve its monitoring over the markets. By doing so, the Group's R&D, manufacturing and sales force can make faster and more accurate responses to changes in retail market. Moreover, we will enhance brand awareness through new media such as Weixin, Weibo and emerging online to offline interactive marketing channels. This will also gradually increase the scale of our operations through e-commerce.

Continuously expanding overseas markets

Thanks to our endeavor and insistence for more than 20 years, Peak has built up a well-established global framework for its brand internationalization. In addition, Peak's pursuit of building an international brand has deeply rooted in consumers' hearts. China remains the Group's primary market. However, sales growth in the overseas market outpaced the growth in the domestic market in 2014. In the coming years, we shall continue to explore emerging overseas markets and undiscovered markets through international promotion partners and regional sponsorships in order to increase overseas sales. For instance, we boosted the sales in France and its neighboring countries with the help of Tony Parker, a French-American NBA player of the San Antonio Spurs under Peak's sponsorship. Besides, we lifted Peak's brand awareness in certain countries through our sponsorship with their national olympic or basketball teams. We are clearly aware that there are geopolitical risks in some regions. However, we believe a proper management of our different markets can effectively diversify the concentration risk of our sales. In this regard, exploring overseas markets is one of the measures to diversify concentration risk in the China market. Peak has been selling its products in over 70 overseas countries and regions with an overseas sales proportion accounted for more than 20% of its total sales since 2013. Currently, Peak has the highest overseas sales ratio among the Chinese sportswear brands. Looking into future, we expect the overseas sales of the Group to further increase when Peak steps into the next stage of brand upgrade and market internationalization.

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 2014.

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

The Company has applied the principles as contained in the CG Code during the year ended 31 December 2014.

In the opinion of the Board, the Company has complied with all the code provisions set out in the CG Code during the year ended 31 December 2014. 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 relevant 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 2014, 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.

CORPORATE GOVERNANCE REPORT

(A.2) BOARD COMPOSITION

The Board members during the year ended 31 December 2014 and up to the date of this report are as follows:

EDs:

| | |
|----------------|--|
| Mr. Xu Jingnan | <i>(Chairman of the Board, Chairman of the Executive Committee and Member of the Remuneration Committee)</i> |
| Mr. Xu Zhihua | <i>(Chief Executive Officer and Member of the Executive Committee)</i> |
| Mr. Xu Zhida | <i>(Member of the Executive Committee)</i> |

NEDs:

| | |
|------------------|---|
| Ms. Wu Tigao | |
| Mr. Shen Nanpeng | <i>(resigned on 11 January 2014; Former member of the Remuneration Committee)</i> |
| Mr. Zhu Linan | <i>(resigned on 1 June 2014)</i> |

INEDs:

| | |
|---------------------|---|
| Dr. Xiang Bing | <i>(Chairman of both the Audit Committee and Remuneration Committee and Member of the Nomination Committee)</i> |
| Mr. Wang Mingquan | <i>(Chairman of the Nomination Committee and Member of both the Audit Committee and Remuneration Committee)</i> |
| Mr. Feng Lisheng | <i>(appointed on 12 January 2015; Member of each of the Audit Committee, Remuneration Committee and Nomination Committee)</i> |
| Dr. Ouyang Zhonghui | <i>(resigned on 12 January 2015; Former member of each of the Audit Committee, Remuneration Committee and Nomination Committee)</i> |

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 50 to 52 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 2014, the Board has met the requirements of Listing Rules 3.10 and 3.10A of having three independent non-executive directors (representing not less than 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 every 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 2014, the Board held four meetings. Details of individual attendance of each Director at these meetings are set out below:

| Directors | Meetings attended/held | Attendance (%) |
|------------------------------------|-----------------------------------|-----------------------|
| <i>EDs</i> | | |
| Mr. Xu Jingnan (<i>Chairman</i>) | 4/4 | 100 |
| Mr. Xu Zhihua | 4/4 | 100 |
| Mr. Xu Zhida | 4/4 | 100 |
| <i>NEDs</i> | | |
| Ms. Wu Tigao | 4/4 | 100 |
| Mr. Shen Nanpeng (Note 1) | N/A | N/A |
| Mr. Zhu Linan (Note 2) | 0/2 | 0 |
| <i>INEDs</i> | | |
| Dr. Xiang Bing | 2/4 | 50 |
| Mr. Wang Mingquan | 4/4 | 100 |
| Dr. Ouyang Zhonghui | 0/4 | 0 |

Notes:

1. Mr. Shen Nanpeng resigned as a NED with effect from 11 January 2014. Prior to his resignation, no Board meeting was held during the year ended 31 December 2014.
2. Mr. Zhu Linan resigned as a NED with effect from 1 June 2014. Prior to his resignation, two Board meetings were held during the year ended 31 December 2014.

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 Group.

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 applicable rules and regulations in a Board meeting and, if appropriate, an independent Board committee will be set up to deal with such matter.

CORPORATE GOVERNANCE REPORT

Directors are timely informed of any major changes that may affect the Group's business, as well as changes in relevant rules and regulations. They have an access to 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.

At the forthcoming 2015 AGM, Mr. Xu Zhida and Dr. Xiang Bing, being one-third of the Directors, shall retire by rotation. In addition, Mr. Feng Lisheng, who has been appointed as a director of the Company with effect from 12 January 2015, will hold office until the 2015 AGM according to the provisions in the Company's Articles of Association stated in the above paragraph. The above retiring Directors, being eligible, will offer themselves for re-election at the 2015 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 2014, except Dr. Ouyang Zhonghui, all Directors complied with the code provision A.6.5 of the CG Code on continuous professional training through participating in the following activities:

| Directors | Activities |
|--|------------|
| Mr. Xu Jingnan | A, B, C, D |
| Mr. Xu Zihua | A |
| Mr. Xu Zhida | A, D |
| Ms. Wu Tigao | B |
| Mr. Shen Nanpeng (resigned on 11 January 2014) | D |
| Mr. Zhu Linan (resigned on 1 June 2014) | B, D |
| Dr. Xiang Bing | C |
| Mr. Wang Mingquan | A |
| Dr. Ouyang Zhonghui | – |

- Key:
- A: As an attendee to seminars/conferences organized by independent third parties
 - B: As an attendee to seminars/conferences organized by the Group or related parties
 - 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 roles, functions and duties of a director of a listed company

Due to bad health, Dr. Ouyang Zhonghui did not participate in any training activities during the year ended 31 December 2014 and he has resigned as an INED and a member of each of the Audit Committee, Remuneration Committee and Nomination Committee with effect from 12 January 2015.

(A.7) SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

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 made by the Company, that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2014 and up to the date of this 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 possess inside 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 2014 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).

CORPORATE GOVERNANCE REPORT

(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 who are all INEDs. Throughout the year ended 31 December 2014, these three members were Dr. Xiang Bing, Mr. Wang Mingquan and Dr. Ouyang Zhonghui. On 12 January 2015, Dr. Ouyang Zhonghui resigned as an INED and a member of the Audit Committee while Mr. Feng Lisheng was appointed as an INED and a member of the Audit Committee on the same date. 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 2014, the Audit Committee held four meetings. Details of individual attendance of each member at these meetings are set out below:

| Audit Committee Members | Meetings attended/held | Attendance (%) |
|------------------------------------|-----------------------------------|-----------------------|
| Dr. Xiang Bing (<i>Chairman</i>) | 4/4 | 100 |
| Mr. Wang Mingquan | 4/4 | 100 |
| Dr. Ouyang Zhonghui | 0/4 | 0 |

The external auditor attended three of 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 2014:

- review and discussion of the annual report and accounts for the year ended 31 December 2013, 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 2014 AGM;
- review and discussion of the half-year report and accounts for the six months ended 30 June 2014, and the related accounting principles and practices adopted by the Group;
- discussion of the nature, plan and scope of the Group's audit for the year ended 31 December 2014;
- review and discussion of the Group's internal control system; and
- approval of a de minimis continuing connected transaction which has commenced from 1 January 2015.

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 2014.

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 2014, Mr. Xu Jingnan, an ED and a Covenantor, notified the Company of an investment opportunity regarding setting up a joint venture entity (the "JV") with independent third parties to engage in manufacturing, selling and trading industrial protective footwear, apparel and related accessories. As the products of the JV resemble some of the Group's products, the business of the JV may fall within the Restricted Business. Mr. Xu Jingnan indicated that he would invest in the JV if the Company had decided not to invest in the JV. In this connection, the Audit Committee considered the investment opportunity. After reviewing relevant documents and information of the JV, the Audit Committee resolved that the Group would not invest in the JV.

CORPORATE GOVERNANCE REPORT

All the Covenantors have declared, following specific enquiry made 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 2014.

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 2014.

(B.3) REMUNERATION COMMITTEE

On 1 January 2014, the Remuneration Committee comprised 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. On 11 January 2014, Mr. Shen Nanpeng resigned as a NED and also a member of the Remuneration Committee. On 12 January 2015, Dr. Ouyang Zhonghui resigned as an INED and a member of the Remuneration Committee while Mr. Feng Lisheng was appointed as an INED and a member of the Remuneration Committee on the same date. 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 2014, the Remuneration Committee held one meeting. Details of individual attendance of each member at the meeting are set out below:

| Remuneration Committee Members | Meeting attended/held | Attendance (%) |
|------------------------------------|--------------------------|----------------|
| Dr. Xiang Bing (<i>Chairman</i>) | 1/1 | 100 |
| Mr. Wang Mingquan | 1/1 | 100 |
| Dr. Ouyang Zhonghui | 0/1 | 0 |
| Mr. Xu Jingnan | 1/1 | 100 |
| Mr. Shen Nanpeng (Note) | N/A | N/A |

Note: Mr. Shen Nanpeng resigned as a NED and a member of the Remuneration Committee with effect from 11 January 2014. Prior to his resignation, no Remuneration Committee meeting was held during the year ended 31 December 2014.

At the aforesaid Remuneration Committee meeting, the Remuneration Committee reviewed and recommended the 2014 year-end bonuses for the EDs and senior management, and the remuneration of all Directors and senior management in 2015. Details of the remuneration of Directors are set out in note 7 to the consolidated financial statements on page 88 of this annual report. Details of remuneration paid to members of senior management for the year ended 31 December 2014 fall within the following bands:

| Remuneration | Number of individuals |
|--------------------------------|--------------------------|
| HK\$1,000,000 or below | 5 |
| HK\$2,000,001 to HK\$2,500,000 | 1 |

(B.4) NOMINATION COMMITTEE

The Nomination Committee comprises three members who are all INEDs. Throughout the year ended 31 December 2014, these three members were Dr. Xiang Bing, Mr. Wang Mingquan and Dr. Ouyang Zhonghui. On 12 January 2015, Dr. Ouyang Zhonghui resigned as an INED and a member of the Nomination Committee while Mr. Feng Lisheng was appointed as an INED and a member of the Nomination Committee on the same date. 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 re-appointment of Directors and succession planning for Directors, in particular the Chairman and the Chief Executive Officer of the Company.

CORPORATE GOVERNANCE REPORT

In considering the appointment of a new Director, the Nomination Committee may make reference to certain criteria such as integrity, independent mindedness, experience, skill, board diversity 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 2014, the Nomination Committee held two meetings. Details of individual attendance of each member at the meeting are set out below:

| Nomination Committee Members | Meeting attended/held | Attendance (%) |
|---------------------------------------|------------------------------|-----------------------|
| Mr. Wang Mingquan (<i>Chairman</i>) | 2/2 | 100 |
| Dr. Xiang Bing | 2/2 | 100 |
| Dr. Ouyang Zhonghui | 0/2 | 0 |

At the foregoing meetings, 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 2014 AGM; (iii) assessed the independence of INEDs; and (iv) reviewed the policy on the diversity of the Board.

According to the diversity policy of the Board adopted by the Company, the Board takes into account various elements of diversity including but not limited to age, gender, cultural and educational background, skills, professional knowledge, and industry experience in designing the composition of the Board. All Board appointments are based on meritocracy and due regard is given to Board diversity to ensure the Company can obtain the benefits of such diversity. The Nomination Committee is responsible for the monitoring and review of the policy. During the year ended 31 December 2014, the Nomination Committee was satisfied with the diversity of the existing Board and did not, for the time being, set up any measurable objective regarding board diversity.

(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 Group 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 2014 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 pages 62 and 63 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 2014, the remuneration paid and payable to KPMG, the Company's external auditor, amounted to RMB2.6 million for audit services to the Group and RMB1.2 million for non-audit services. The non-audit services related to a 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 page 52 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 2014.

(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 2014, 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) A shareholder 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, provided that the shareholder's shareholding is not less than one-tenth of the paid-up capital of the Company. 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.

CORPORATE GOVERNANCE REPORT

- (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.

For the avoidance of doubt, the shareholder must provide his/her full name, contact details and identification, in the signed requisition, notice or statement (as the case may be), in order to give effect thereto. Information of the shareholder may be disclosed as required by law.

During 2014, the Company has not made any changes to its 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 COMMUNICATION 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 2014, the Board held one shareholders' meeting, being the 2014 AGM held on 13 May 2014. Details of individual attendance of each Director at the 2014 AGM are set out below:

| Directors | Shareholders' Meeting attended/held | Attendance (%) |
|--|---|----------------|
| <i>EDs</i> | | |
| Mr. Xu Jingnan (<i>Chairman</i>) | 1/1 | 100 |
| Mr. Xu Zihua | 1/1 | 100 |
| Mr. Xu Zhida | 0/1 | 0 |
| <i>NEDs</i> | | |
| Ms. Wu Tigao | 0/1 | 0 |
| Mr. Shen Nanpeng (resigned on 11 January 2014) | N/A | N/A |
| Mr. Zhu Linan (resigned on 1 June 2014) | 0/1 | 0 |
| <i>INEDs</i> | | |
| Dr. Xiang Bing | 0/1 | 0 |
| Mr. Wang Mingquan | 1/1 | 100 |
| Dr. Ouyang Zhonghui | 0/1 | 0 |

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 communication[#]. Shareholders who have chosen/are deemed to have chosen to receive the corporate communication via the Company's website, and who for any reason have difficulty in receiving or gaining access to the Company's corporate communication will promptly upon request be sent the corporate communication 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 communication.

Shareholders may request for a printed copy of the Company's corporate communication or change their choice of language and means of receipt of the Company's corporate communication by sending a 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 communication refers 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 labor union and women's association. These organizations provide all kinds of assistance to employees.

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 the 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.

2014 is the third consecutive year that the Group has cooperated with "Yao Foundation" to support "Yao Foundation Hope Primary School Basketball Season" by supplying apparel and footwear to participants and volunteers in competitions to enable the children in all Hope schools throughout China to have an opportunity to know more about basketball sport and its spirit. In addition, the Group also arranged and supported its promotion partners and endorsed athletes to participate in charitable activities. During the Peak Team China Tour, the Group arranged its endorsed NBA players to teach children from remote areas basketball skills and donated Peak's products so that these children were able to experience the glamour of basketball sport.

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 2014, the Group's total contribution for charitable purposes amounted to RMB7 million.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Xu Jingnan, aged 59, 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 36, 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 (中共泉州市委组织部). 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 34, 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 ten 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 DIRECTOR

Ms. Wu Tigao, aged 60, 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).

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Xiang Bing, aged 52, was appointed as an INED of the Company in September 2009. He is also the chairman of both 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. Dr. Xiang resigned as an independent director of LDK Solar Co., Ltd. and Qinchuan Machine Tool & Tool Group Share Co., Ltd. (formerly Shaanxi Qinchuan Machinery Development Co., Ltd.) on 18 July 2014 and 19 November 2014 respectively. Currently, Dr. Xiang is acting as an independent non-executive director or independent 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. | 2280 | 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 |
| Perfect World Co., Ltd. | NASDAQ: PWRD | New York |
| E-House (China) Holdings Limited | EJ | New York |
| Yunnan Baiyao Group Co., Ltd. | 000538 | Shenzhen |

Mr. Wang Mingquan, aged 68, 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.

Mr. Feng Lisheng, aged 58, was appointed as an INED of the Company in January 2015. He is also a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee. Mr. Feng graduated from the Fujian Finance and Accounting Management Cadre College with a major in accounting and auditing in 1987. He has been working in the banking industry for more than 30 years and has accumulated rich financial and management experience. Mr. Feng is currently a consultant of the China Construction Bank (the "Bank"), Quanzhou Branch. He joined the Bank since 1980 and served in several key positions in the Bank including the presidents of the Bank's Quanzhou Bincheng Branch and Huian Branch.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Tsoi Ka Ho, aged 50, joined the Group in 2008 and is the 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 38, joined the Group in 2007 and is the Deputy General Manager of Peak (China) Company Limited. Prior to joining the 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 49, joined the Group in 2006 and is the 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 the 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 50, joined the Group in 2004 and is the Group's Factory Manager (Apparel Division). Ms. Li has more than 20 years of management experience in apparel industry.

Ms. Wu Bingrui, aged 34, joined the Group in 2004 and is the Group's Sales Officer (International Sales). Ms. Wu obtained a Bachelor of Arts degree in English Language from Fujian Normal University. Ms. Wu has approximately 10 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 46, joined the Group in 1989 and is the Group's 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 directors' report together with the audited consolidated financial statements for the year ended 31 December 2014.

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 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

During the year, the Group sold less than 30% of its good and services to its 5 largest customers.

The percentage of purchases for the year attributable to the Group's major suppliers are as follows:

| | |
|-------------------------------------|-------|
| The largest supplier | 8.6% |
| Five largest suppliers in aggregate | 33.0% |

At no time during the year have the Directors, their close 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) had any interest in these major suppliers.

CONSOLIDATED FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2014 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 64 to 115.

TRANSFER TO RESERVES

Profits attributable to shareholders, before dividends, of RMB320,652,000 (2013: RMB244,280,000) have been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity.

An interim dividend of HK4 cents per ordinary share (2013: an interim dividend of HK2 cents and a special interim dividend of HK6 cents per ordinary share) for the six months ended 30 June 2014 was paid on 26 September 2014. The Directors recommended the payments of a final dividend of HK8 cents per ordinary share (2013: a final dividend of HK6 cents and a special final dividend of HK2 cents per ordinary share) in respect of the year ended 31 December 2014, totaling approximately RMB132,920,000 (2013: RMB132,320,000), subject to the approval of the shareholders at the AGM to be held on 8 May 2015. The proposed final dividend is expected to be paid on 29 May 2015 to shareholders whose names appear on the register of members of the Company on 20 May 2015.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to RMB7,000,000.

REPORT OF THE DIRECTORS

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 as at 31 December 2014, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to RMB673,380,000 (2013: RMB873,061,000).

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 2014.

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 (resigned on 11 January 2014)
Mr. Zhu Linan (resigned on 1 June 2014)

INEDs

Dr. Xiang Bing
Mr. Wang Mingquan
Mr. Feng Lisheng (appointed on 12 January 2015)
Dr. Ouyang Zhonghui (resigned on 12 January 2015)

In accordance with Article 84 of the Company's Articles of Association, Mr. Xu Zhida and Dr. Xiang Bing, 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 2015 AGM.

Pursuant to Article 83(3) of the Company's Articles of Association, Mr. Feng Lisheng, who was appointed by the Board as an INED on 12 January 2015 to fill the casual vacancy left by the resignation of Dr. Ouyang Zhonghui, shall hold office until 2015 AGM and, being eligible, will offer himself for re-election at the 2015 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 2014, the interests of the Directors in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code, or as known by the Company, were as follows:

(A) LONG POSITION IN ORDINARY SHARES OF THE COMPANY

| Name of Director | Capacity | Note | Number of ordinary shares interested | Percentage* of the Company's issued share capital |
|------------------|---|------|--------------------------------------|---|
| Mr. Xu Jingnan | Interest held by controlled corporation | 1 | 893,804,246 | 42.60% |
| Ms. Wu Tigao | Interest held by controlled corporation | 1 | 893,804,246 | 42.60% |
| Mr. Xu Zhida | Interest held by controlled corporation | 2 | 276,960,000 | 13.20% |
| Mr. Xu Zhihua | Interest held by controlled corporation | 3 | 273,060,000 | 13.01% |

Notes:

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

(B) LONG POSITION IN UNDERLYING SHARES OF THE COMPANY – PHYSICALLY SETTLED UNLISTED EQUITY DERIVATIVES

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

Notes:

- 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.

REPORT OF THE DIRECTORS

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 2014.

Save as disclosed above and in the section below headed "Share option scheme", as at 31 December 2014, 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.

RETIREMENT SCHEME

The Group participates in several defined contribution retirement plans which cover the Group's eligible employees in the PRC. Particulars of these retirement plans are set out in note 24 to the consolidated financial statements.

SHARE OPTION SCHEME

Pursuant to the Company's share option scheme which was adopted and revised on 8 September 2009 and 18 May 2011 respectively (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 (including exercised, cancelled and outstanding options) 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.

As at the date of this annual report, the total number of shares of the Company available for issue under the Scheme was 180,719,339 shares, representing approximately 8.61% of the issued share capital of the Company.

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 2014 are as follows:

| Name or category of option holder | Date of grant (Note 2) | Exercise price per share | Outstanding as at 1/1/2014 | Granted during the year | Number of options | | Forfeited during the year | Outstanding as at 31/12/2014 | Exercise period (Note 1) |
|--|---------------------------|--------------------------|----------------------------|-------------------------|---------------------------------------|---------------------------|---------------------------|------------------------------|-----------------------------|
| | | | | | Exercised during the year (Note 3) | Cancelled during the year | | | |
| 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 |
| | 1 January 2014 | HK\$1.938 | - | 200,000 | - | - | - | 200,000 | H |
| | | | 200,000 | 200,000 | - | (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 |
| | 1 January 2014 | HK\$1.938 | - | 200,000 | - | - | - | 200,000 | H |
| | | | 200,000 | 200,000 | - | (200,000) | - | 200,000 | |
| Dr. Ouyang Zhonghui | 1 January 2014 | HK\$1.938 | - | 60,000 | - | - | - | 60,000 | I |
| | | | - | 60,000 | - | - | - | 60,000 | J |
| | | | - | 80,000 | - | - | - | 80,000 | K |
| | | | - | 200,000 | - | - | - | 200,000 | |

REPORT OF THE DIRECTORS

| Name or category of option holder | Date of grant (Note 2) | Exercise price per share | Outstanding as at 1/1/2014 | Granted during the year | Number of options | | Forfeited during the year | Outstanding as at 31/12/2014 | Exercise period (Note 1) |
|--|---------------------------|--------------------------|----------------------------|-------------------------|---------------------------------------|---------------------------|---------------------------|------------------------------|-----------------------------|
| | | | | | Exercised during the year (Note 3) | Cancelled during the year | | | |
| Substantial Shareholder | | | | | | | | | |
| Ms. Wu Bingrui (Sales Officer (International Sales)) | 1 June 2010 | HK\$5.604 | 90,000 | - | - | (90,000) | - | - | A |
| | | | 90,000 | - | - | (90,000) | - | - | B |
| | | | 120,000 | - | - | (120,000) | - | - | C |
| | 1 January 2014 | HK\$1.938 | - | 300,000 | - | - | - | 300,000 | H |
| | | | 300,000 | 300,000 | - | (300,000) | - | 300,000 | |
| Employees of the Group | | | | | | | | | |
| In aggregate | 9 February 2010 | HK\$5.196 | 2,470,200 | - | - | (1,926,000) | (117,600) | 426,600 | D |
| | | | 2,485,200 | - | - | (1,941,000) | (117,600) | 426,600 | E |
| | | | 3,313,600 | - | - | (2,588,000) | (156,800) | 568,800 | F |
| | | | 8,269,000 | - | - | (6,455,000) | (392,000) | 1,422,000 | |
| In aggregate | 1 June 2010 | HK\$5.604 | 450,000 | - | - | (402,000) | (9,000) | 39,000 | A |
| | | | 450,000 | - | - | (402,000) | (9,000) | 39,000 | B |
| | | | 600,000 | - | - | (536,000) | (12,000) | 52,000 | C |
| | | | 1,500,000 | - | - | (1,340,000) | (30,000) | 130,000 | |
| In aggregate | 1 January 2014 | HK\$1.938 | - | 11,705,000 | (330,000) | - | (110,000) | 11,265,000 | H |
| | | | - | 2,736,000 | - | - | (129,000) | 2,607,000 | I |
| | | | - | 2,736,000 | - | - | (129,000) | 2,607,000 | J |
| | | | - | 3,648,000 | - | - | (172,000) | 3,476,000 | K |
| | | | - | 20,825,000 | (330,000) | - | (540,000) | 19,955,000 | |
| Distributors of the Group | | | | | | | | | |
| In aggregate | 1 November 2013 | HK\$1.910 | 7,830,000 | - | - | - | - | 7,830,000 | G |
| | | | 18,299,000 | 21,725,000 | (330,000) | (8,495,000) | (962,000) | 30,237,000 | |

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
- G: From 1 April 2014 to 31 March 2015
- H: From 1 May 2014 to 30 April 2018
- I: From 1 January 2015 to 31 December 2018
- J: From 1 January 2016 to 31 December 2018
- K: From 1 January 2017 to 31 December 2018

The vesting periods of the share options start from the respective dates of grant and end on the dates immediately before the commencement of the respective exercise periods.

- 2. The closing price of the Company's shares immediately before the date of grant of the share options on 1 January 2014 was HK\$1.89.
- 3. The weighted average closing price of the Company's shares immediately before the dates on which the share options were exercised was HK\$2.19.
- 4. The number and/or exercise price of the options may be subject to adjustment in the case of rights or bonus issues, or other changes in the Company's share capital.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2014, 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 | 893,804,246 | 42.60% |
| Brilliant Lead Group Limited | Beneficial owner | 2 | 276,960,000 | 13.20% |
| Ms. Wu Bingrui | Interest held by spouse | 3 | 276,960,000 | 13.20% |
| Alpha Top Group Limited | Beneficial owner | 4 | 273,060,000 | 13.01% |

REPORT OF THE DIRECTORS

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".

(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 2014.

Save as disclosed above, as at 31 December 2014, 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 50 to 52 of this annual report.

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 2015 AGM. A resolution for the re-appointment of KPMG as the auditor of the Company is to be proposed at the 2015 AGM.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 6 May 2015 to 8 May 2015 (both days inclusive) for the purpose of determining the right to attend and vote at the 2015 AGM. In order to be entitled to attend and vote at the 2015 AGM, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the corresponding share certificates are lodged with the Company's share registrar and transfer office (i.e. Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong) for registration not later than 4:30 p.m. on 5 May 2015.

Besides, the register of members of the Company will also be closed from 18 May 2015 to 20 May 2015 (both days inclusive) for the purpose of determining the entitlement to the proposed final dividend in respect of the year ended 31 December 2014 (subject to the approval of the shareholders at the 2015 AGM). In order to be qualified for the proposed final dividend, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the corresponding share certificates are lodged with the Company's share registrar and transfer office for registration not later than 4:30 p.m. on 15 May 2015.

On behalf of the Board

Xu Jingnan

Chairman

Hong Kong, 11 March 2015

INDEPENDENT AUDITOR'S REPORT

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 64 to 115, which comprise the consolidated and company statements of financial position as at 31 December 2014, and the consolidated statement of profit or loss and other 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.

INDEPENDENT AUDITOR'S REPORT**OPINION**

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014 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 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

(Expressed in Renminbi)

| | Note | 2014 RMB'000 | 2013 RMB'000 |
|--|------|--------------------|-----------------|
| Turnover | 3 | 2,841,398 | 2,612,892 |
| Cost of sales | | (1,762,389) | (1,686,309) |
| Gross profit | | 1,079,009 | 926,583 |
| Other revenue | 4 | 72,204 | 54,301 |
| Other net income | 4 | 8,104 | 7,631 |
| Selling and distribution expenses | | (359,405) | (333,725) |
| Administrative expenses | | (291,487) | (251,533) |
| Profit from operations | | 508,425 | 403,257 |
| Finance expenses | 5(a) | (19,634) | (13,085) |
| Profit before income tax | 5 | 488,791 | 390,172 |
| Income tax | 6 | (168,139) | (145,892) |
| Profit for the year attributable to shareholders of the Company | 9 | 320,652 | 244,280 |
| Other comprehensive income for the year | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences on translation of financial statements of operations outside mainland China | | (2,923) | 10,381 |
| Total comprehensive income for the year attributable to shareholders of the Company | | 317,729 | 254,661 |
| Earnings per share (RMB cents) | | | |
| – Basic | 11 | 15.28 | 11.64 |
| – Diluted | 11 | 15.27 | 11.64 |

The notes on pages 71 to 115 form part of these financial statements. Details of dividends proposed after the year end and paid during the year to shareholders of the Company are set out in note 10.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014
(Expressed in Renminbi)

| | <i>Note</i> | 2014 RMB'000 | 2013 RMB'000 |
|---|-------------|------------------|-----------------|
| Non-current assets | | | |
| Property, plant and equipment | 12 | 461,622 | 479,620 |
| Construction in progress | 13 | 44,783 | 53,541 |
| Lease prepayments | 14 | 176,330 | 204,185 |
| Deposits and prepayments for purchase of non-current assets | 15 | 37,364 | 37,048 |
| Intangible assets | 16 | 24,970 | 23,424 |
| Deferred tax assets | 26(b) | 45,217 | 26,527 |
| | | 790,286 | 824,345 |
| Current assets | | | |
| Inventories | 17 | 345,672 | 365,693 |
| Trade and other receivables | 19(a) | 986,582 | 977,621 |
| Pledged deposits | 20 | 502,072 | 347,507 |
| Deposits at banks with original maturity over three months | | 1,400,000 | 1,000,000 |
| Cash and cash equivalents | 21 | 1,849,693 | 1,933,164 |
| | | 5,084,019 | 4,623,985 |

The notes on pages 71 to 115 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014
(Expressed in Renminbi)

| | Note | 2014 RMB'000 | 2013 RMB'000 |
|--|-------|------------------|-----------------|
| Current liabilities | | | |
| Trade and other payables | 22(a) | 419,457 | 415,463 |
| Bank loans | 23 | 702,462 | 529,673 |
| Current tax liabilities | 26(a) | 68,361 | 64,925 |
| | | 1,190,280 | 1,010,061 |
| Net current assets | | | |
| | | 3,893,739 | 3,613,924 |
| Total assets less current liabilities | | | |
| | | 4,684,025 | 4,438,269 |
| Non-current liabilities | | | |
| Bank loans | 23 | 350,088 | 236,560 |
| Deferred tax liabilities | 26(b) | 87,360 | 79,944 |
| | | 437,448 | 316,504 |
| Net assets | | | |
| | | 4,246,577 | 4,121,765 |
| Equity | | | |
| Share capital | 27 | 18,462 | 18,460 |
| Reserves | 28 | 4,228,115 | 4,103,305 |
| Total equity | | | |
| | | 4,246,577 | 4,121,765 |

Approved and authorized for issue by the Board of Directors on 11 March 2015.

Xu Jingnan
Director

Xu Zihua
Director

The notes on pages 71 to 115 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

At 31 December 2014
(Expressed in Renminbi)

| | Note | 2014 RMB'000 | 2013 RMB'000 |
|-----------------------------|-------|-----------------|-----------------|
| Non-current assets | | | |
| Investments in subsidiaries | 18 | 525,086 | 516,909 |
| Current assets | | | |
| Other receivables | 19(b) | 401,277 | 785,230 |
| Cash and cash equivalents | 21 | 755 | 817 |
| | | 402,032 | 786,047 |
| Current liabilities | | | |
| Other payables | 22(b) | 63,943 | 62,753 |
| Bank loans | 23 | 171,333 | 348,682 |
| | | 235,276 | 411,435 |
| Net current assets | | 166,756 | 374,612 |
| Net assets | | 691,842 | 891,521 |
| Equity | | | |
| Share capital | 27 | 18,462 | 18,460 |
| Reserves | 28 | 673,380 | 873,061 |
| Total equity | | 691,842 | 891,521 |

Approved and authorized for issue by the Board of Directors on 11 March 2015.

Xu Jingnan
Director

Xu Zihua
Director

The notes on pages 71 to 115 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

(Expressed in Renminbi)

| | Note | 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 2013 | | 18,460 | 748,271 | 320,189 | 81,354 | 1,482 | 14,372 | 2,898,956 | 4,083,084 |
| Profit for the year | | - | - | - | - | - | - | 244,280 | 244,280 |
| Other comprehensive income | | - | - | - | - | 10,381 | - | - | 10,381 |
| Total comprehensive income for the year | | - | - | - | - | 10,381 | - | 244,280 | 254,661 |
| Appropriation to statutory reserve | | - | - | 32,018 | - | - | - | (32,018) | - |
| Dividends | 10 | - | (217,475) | - | - | - | - | - | (217,475) |
| Equity-settled share-based payment | 25 | - | - | - | - | - | 1,495 | - | 1,495 |
| Transfer between reserves in respect of share options forfeited and cancelled | 25 | - | - | - | - | - | (1,291) | 1,291 | - |
| At 31 December 2013 | | 18,460 | 530,796 | 352,207 | 81,354 | 11,863 | 14,576 | 3,112,509 | 4,121,765 |
| Profit for the year | | - | - | - | - | - | - | 320,652 | 320,652 |
| Other comprehensive income | | - | - | - | - | (2,923) | - | - | (2,923) |
| Total comprehensive income for the year | | - | - | - | - | (2,923) | - | 320,652 | 317,729 |
| Appropriation to statutory reserve | | - | - | 35,704 | - | - | - | (35,704) | - |
| Shares issued under Share Option Scheme | | 2 | 628 | - | - | - | (122) | - | 508 |
| Dividends | 10 | - | (200,069) | - | - | - | - | - | (200,069) |
| Equity-settled share-based payment | 25 | - | - | - | - | - | 6,644 | - | 6,644 |
| Transfer between reserves in respect of share options forfeited and cancelled | 25 | - | - | - | - | - | (10,580) | 10,580 | - |
| At 31 December 2014 | | 18,462 | 331,355 | 387,911 | 81,354 | 8,940 | 10,518 | 3,408,037 | 4,246,577 |

The notes on pages 71 to 115 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2014

(Expressed in Renminbi)

| | Note | 2014 RMB'000 | 2013 RMB'000 |
|--|------|------------------|-----------------|
| Operating activities | | | |
| Profit before income tax | | 488,791 | 390,172 |
| Adjustments for: | | | |
| – Depreciation | 5(c) | 44,648 | 43,317 |
| – Amortization of lease prepayments | 5(c) | 4,238 | 3,303 |
| – Finance expenses | 5(a) | 19,634 | 13,085 |
| – Interest income | 4 | (57,001) | (43,234) |
| – Net (gain)/ loss on disposal of property, plant and equipment | 5(c) | (39) | 118 |
| – Amortization of intangible assets | 5(c) | 906 | 766 |
| – Net foreign exchange (gain)/ loss | | (2,819) | 4,409 |
| – Equity-settled share-based payment expenses | 5(b) | 6,644 | 1,495 |
| Operating profit before changes in working capital | | 505,002 | 413,431 |
| Decrease in inventories | | 20,109 | 20,695 |
| Decrease in trade and other receivables | | 39,915 | 111,562 |
| (Decrease)/ increase in trade and other payables | | (5,048) | 46,253 |
| Cash generated from operations | | 559,978 | 591,941 |
| Income tax paid | | (175,977) | (85,161) |
| Net cash generated from operating activities | | 384,001 | 506,780 |
| Investing activities | | | |
| Payment for property, plant and equipment | | (22,038) | (37,046) |
| Proceeds from sale of property, plant and equipment | | 559 | 43 |
| Payment for lease prepayments | | – | (32,492) |
| Payment for intangible assets | | (2,768) | (5,156) |
| Interest received | | 44,889 | 41,753 |
| Placement of deposits at banks with original maturity over three months | | (3,400,000) | (2,430,000) |
| Withdrawal of deposits at banks with original maturity over three months | | 3,000,000 | 1,655,000 |
| Placement of pledged deposits | | (426,992) | (351,517) |
| Withdrawal of pledged deposits | | 272,427 | 304,776 |
| Net cash used in investing activities | | (533,923) | (854,639) |

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2014

(Expressed in Renminbi)

| | <i>Note</i> | 2014 RMB'000 | 2013 RMB'000 |
|--|-------------|------------------|-----------------|
| Financing activities | | | |
| Proceeds from new share issued under Share Option Scheme | 27 | 508 | – |
| Proceeds from new bank loans | | 906,918 | 766,233 |
| Repayment of bank loans | | (620,601) | (496,224) |
| Interest paid | | (20,113) | (13,085) |
| Net payments to a related party | | – | (1,257) |
| Dividends paid to shareholders | | (200,069) | (217,475) |
| Net cash generated from financing activities | | 66,643 | 38,192 |
| Net decrease in cash and cash equivalents | | (83,279) | (309,667) |
| Cash and cash equivalents at 1 January | | 1,933,164 | 2,236,890 |
| Effect of foreign exchange rate changes | | (192) | 5,941 |
| Cash and cash equivalents at 31 December | 21 | 1,849,693 | 1,933,164 |

The notes on pages 71 to 115 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 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 financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), “Accounts and Audit”, which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. These financial statements also comply with 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 (see definitions below). 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 financial statements.

(b) Basis of preparation of these financial statements

The consolidated financial statements for the year ended 31 December 2014 comprise Peak Sport Products Co., Limited (the “Company”) and its subsidiaries (together referred to as the “Group”).

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

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

The preparation of 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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of preparation of these financial statements (continued)

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 these financial statements and major sources of estimation uncertainty are discussed in note 2.

(c) Changes in accounting policies

The IASB has issued several amendments to IFRSs and one new Interpretation that are first effective for the current accounting period of the Group. Of these amendments and Interpretation, the following are relevant to the Group:

- Amendments to IAS 32, *Offsetting financial assets and financial liabilities*
- Amendments to IAS 36, *Recoverable amount disclosures for non-financial assets*
- IFRIC 21, *Levies*

The Group has not adopted any new standard or Interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the new or amended IFRSs are set out below:

Amendments to IAS 32, Offsetting financial assets and financial liabilities

The amendments to IAS 32 clarify the offsetting criteria in IAS 32. The amendments do not have any impact on these financial statements as they are consistent with the policies already adopted by the Group.

Amendments to IAS 36, Recoverable amount disclosures for non-financial assets

The amendments to IAS 36 modify the disclosure requirements for impaired non-financial assets. The amendments, among other things, expand the disclosures required for an impaired asset or cash generating units which recoverable amount is based on fair value less costs of disposal. The amendments do not have any impact on these financial statements as no impairment loss for non-financial assets have been recognized by the Group.

IFRIC 21, Levies

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognized. The interpretation does not have any impact on these financial statements as the guidance is consistent with the Group's existing accounting policies.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

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, transactions and cash flow and any unrealized profits arising from intra-group transactions are eliminated in full in preparing the 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

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

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. 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 the cost of land use rights paid to the People's Republic of China ("PRC") government 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)).

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 software are reviewed annually.

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 those trademarks. 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.

(i) Operating lease charges

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

An operating lease is a lease which does not transfer substantially all the risks and rewards of ownership of an asset or assets held under the lease to the Group.

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

NOTES TO THE FINANCIAL STATEMENTS

[Expressed in Renminbi unless otherwise indicated]

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 and bills receivable are included within trade and other receivables if recovery of such debts are 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 and bills receivable 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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Impairment of assets (continued)

(ii) Impairment of other assets

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

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

If any such indication exists, the asset's recoverable amount is estimated. In addition, for intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less cost of disposal 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 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 of disposal (if measurable), 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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

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.

Bills receivable are derecognized if substantially all the risks and rewards of ownership of the bills receivable are transferred. If substantially all the risks and rewards of ownership of bills receivable are retained, the bills receivable are continued to recognize in the statement of financial position.

(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 the amount initially recognized 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 are subsequently stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on 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.

(ii) *Share-based payment*

The fair value of share options granted to eligible persons is recognized as an expense 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 eligible persons 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 employee expense 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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Income tax (continued)

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, it is probable that they will reverse in the future.

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.

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 Company or 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 Company or 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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Provisions and contingent liabilities

Provisions are recognized for liabilities of uncertain timing or amount when the Company or 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.

(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 income 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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 mainland China 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 at the end of the reporting period. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in the exchange reserve in equity.

(u) Borrowing costs

Borrowing costs are expensed in the period in which they are incurred.

(v) Research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred. Expenditure on development activities is capitalized if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete the development. The expenditure capitalized includes the costs of materials, direct labor, and an appropriate proportion of overheads. Capitalized development costs, if any, are stated at cost less accumulated amortization and impairment losses (see note 1(j)). Other development expenditure is recognized as an expense in the period in which it is incurred.

(w) Dividends

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

(x) Related parties

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

- (a) has control or joint control over the Group;
- (b) has significant influence over the Group; or
- (c) is a member of the key management personnel of the Group or the Group's parent.

NOTES TO THE FINANCIAL STATEMENTS

[Expressed in Renminbi unless otherwise indicated]

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Related parties (continued)

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

- (a) 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).
- (b) 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).
- (c) Both entities are joint ventures of the same third party.
- (d) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (e) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (f) The entity is controlled or jointly controlled by a person identified in (i).
- (g) A person identified in (i)(a) 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.

(y) Segment reporting

Operating segments and the amounts of each segment item reported in the 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 a single line of business of manufacture and sale of sports products. The Group's all non-current assets are located in the PRC. A geographic analysis on the Group's turnover is set out in note 3.

NOTES TO THE FINANCIAL STATEMENTS

[Expressed in Renminbi unless otherwise indicated]

2 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Set out below are the key sources of estimation uncertainty and critical accounting judgements adopted in preparing these 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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

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.

(e) Provision for deferred tax

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The management evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognized for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognized to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilized, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognized if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

3 TURNOVER

The principal activities of the Group are manufacturing and distributing 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:

| | 2014 RMB'000 | 2013 RMB'000 |
|-------------|------------------|-----------------|
| Footwear | 1,150,100 | 1,044,352 |
| Apparel | 1,633,240 | 1,508,471 |
| Accessories | 58,058 | 60,069 |
| | 2,841,398 | 2,612,892 |

The Group's customer base was diversified and only one customer (2013: one) had transactions with the Group exceeding 10% of the Group's aggregate turnover during 2014. Sales to this customer amounted to approximately RMB360,825,000 for the year ended 31 December 2014 (2013: RMB326,329,000).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

3 TURNOVER (CONTINUED)

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

| | 2014 RMB'000 | 2013 RMB'000 |
|---|------------------|-----------------|
| PRC (excluding Hong Kong, Macau and Taiwan) | 2,188,781 | 2,080,344 |
| Overseas | 652,617 | 532,548 |
| | 2,841,398 | 2,612,892 |

None of the customers (2013: none) located in an individual country had transactions with the Group, the amount of which exceeded 5% of the Group's aggregate turnover during year ended 31 December 2014.

4 OTHER REVENUE AND OTHER NET INCOME

| | 2014 RMB'000 | 2013 RMB'000 |
|----------------------------|-----------------|-----------------|
| Other revenue | | |
| Interest income | 57,001 | 43,234 |
| Government grants | 14,403 | 10,918 |
| Others | 800 | 149 |
| | 72,204 | 54,301 |
| Other net income | | |
| Exchange gain | 7,993 | 6,081 |
| Gain on sales of materials | 103 | 1,382 |
| Others | 8 | 168 |
| | 8,104 | 7,631 |

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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

5 PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging/(crediting):

| | 2014 RMB'000 | 2013 RMB'000 |
|--|-----------------|-----------------|
| (a) Finance expenses: | | |
| Interest on bank borrowings | 19,634 | 13,085 |
| (b) Staff costs: | | |
| Salaries, wages and other benefits | 432,193 | 354,604 |
| Contributions to defined contribution retirement plans | 10,626 | 8,764 |
| Equity-settled share-based payments (<i>note 25</i>) | 6,644 | 276 |
| | 449,463 | 363,644 |
| (c) Other items: | | |
| Amortization | | |
| – lease prepayments | 4,238 | 3,303 |
| – intangible assets | 906 | 766 |
| Depreciation | 44,648 | 43,317 |
| Operating lease charges in respect of leasing of properties | 12,854 | 13,965 |
| Net (gain)/ loss on disposal of property, plant and equipment | (39) | 118 |
| Auditors' remuneration | 3,511 | 3,554 |
| Net impairment losses of trade and other receivables (<i>note 19(a)(ii)</i>) | 30,245 | 14,911 |
| Research and development expenses* | 63,562 | 61,197 |
| Cost of inventories# | 1,762,389 | 1,686,309 |

* Research and development expenses for the year ended 31 December 2014 includes RMB32,773,000 (2013: RMB29,793,000) relating to staff costs, depreciation and operating lease charges, which amount is also included in the respective total amounts disclosed separately in notes 5(b) and (c) for each of these types of expenses.

Cost of inventories for the year ended 31 December 2014 includes RMB332,802,000 (2013: RMB261,846,000) relating to staff costs, depreciation, amortization expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately in notes 5(b) and (c) for each of these types of expenses.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

- (a) Income tax in the consolidated statement of profit or loss and other comprehensive income represents:

| | 2014 RMB'000 | 2013 RMB'000 |
|---|-----------------|-----------------|
| Current tax – PRC income tax | | |
| Provision for the year | 179,413 | 121,423 |
| Deferred tax | | |
| Origination and reversal of temporary differences | (11,274) | 24,469 |
| | 168,139 | 145,892 |

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 and United States Corporation Income Tax as the Group did not earn any profit that was subject to Hong Kong Profits Tax and US Income Tax for the years ended 31 December 2014 and 31 December 2013.

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 incorporated in the PRC.

In addition, from 1 January 2008, a non-resident enterprise without an establishment or a place of business in the PRC or which has an establishment or a place of business in the PRC but whose relevant income is not effectively connected with the establishment or place of business in the PRC, will be subject to a 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. Pursuant to the Sino-Hong Kong Double Tax Arrangement and the related regulations, a qualified Hong Kong tax resident may be liable for a reduced withholding tax rate of 5% on dividends from a PRC enterprise if the Hong Kong tax resident is the “beneficial owner” and holds 25% or more of the equity interest of the PRC enterprise.

All of the Group’s subsidiaries incorporated in the PRC are foreign-invested enterprises directly and wholly owned by a Hong Kong incorporated subsidiary. The Directors have determined that in determining the amounts of dividends to be distributed from the undistributed profits of the Group’s PRC subsidiaries to the Hong Kong incorporated subsidiary in future, the amounts of dividends declared or to be declared by the Company would be considered. Accordingly, the deferred tax liabilities have been provided for the undistributed profits of the Group’s PRC subsidiaries based on the expected dividends to be distributed from these subsidiaries in the foreseeable future and the expected withholding tax rate of 5%.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

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

| | 2014 RMB'000 | 2013 RMB'000 |
|---|-----------------|-----------------|
| Profit before income tax | 488,791 | 390,172 |
| Notional tax on profit before income tax, calculated at the standard tax rates applicable to the respective tax jurisdictions | 135,125 | 102,131 |
| Tax effect of non-deductible expenses | 25,597 | 30,478 |
| Effect of withholding tax | 7,417 | 13,283 |
| Income tax | 168,139 | 145,892 |

7 DIRECTORS' REMUNERATION

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

Year ended 31 December 2014

| | 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 | Discretionary bonuses RMB'000 | Total RMB'000 |
|--|-----------------|---|--|---|-------------------------------------|------------------|
| Executive Directors | | | | | | |
| Mr. Xu Jingnan | - | 1,507 | 16 | - | - | 1,523 |
| Mr. Xu Zhihua | - | 1,107 | 16 | - | 500 | 1,623 |
| Mr. Xu Zhida | - | 1,007 | 16 | - | 500 | 1,523 |
| Sub-total | - | 3,621 | 48 | - | 1,000 | 4,669 |
| Non-executive Directors | | | | | | |
| Ms. Wu Tigao | - | 180 | - | - | - | 180 |
| Mr. Shen Nanpeng | - | 5 | - | - | - | 5 |
| Mr. Zhu Linan | - | 75 | - | - | - | 75 |
| Sub-total | - | 260 | - | - | - | 260 |
| Independent Non-executive Directors | | | | | | |
| Mr. Wang Mingquan | - | 100 | - | 74 | - | 174 |
| Dr. Xiang Bing | - | 180 | - | 74 | - | 254 |
| Dr. Ouyang Zhonghui | - | 100 | - | 47 | - | 147 |
| Sub-total | - | 380 | - | 195 | - | 575 |
| Total | - | 4,261 | 48 | 195 | 1,000 | 5,504 |

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

7 DIRECTORS' REMUNERATION (CONTINUED)

Year ended 31 December 2013

| | 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 | Discretionary bonuses RMB'000 | Total RMB'000 |
|--|-----------------|---|--|---|-------------------------------------|------------------|
| Executive Directors | | | | | | |
| Mr. Xu Jingnan | – | 1,507 | 16 | – | – | 1,523 |
| Mr. Xu Zhihua | – | 1,107 | 16 | – | 500 | 1,623 |
| Mr. Xu Zhida | – | 1,007 | 16 | – | 500 | 1,523 |
| Sub-total | – | 3,621 | 48 | – | 1,000 | 4,669 |
| 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 | – | 17 | – | 117 |
| Dr. Xiang Bing | – | 180 | – | 17 | – | 197 |
| Dr. Ouyang Zhonghui | – | 100 | – | – | – | 100 |
| Sub-total | – | 380 | – | 34 | – | 414 |
| Total | – | 4,541 | 48 | 34 | 1,000 | 5,623 |

During the year, no amount was paid or payable by the Company to the Directors or any of the five highest paid individuals set out in note 8 as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a Director waived or agreed to waive any remuneration during the year.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

8 INDIVIDUAL WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2013: three) are Directors whose remuneration is disclosed in note 7 above. The aggregate of the emoluments in respect of the remaining two individuals for 2014 (2013: two) are as follows:

| | 2014 RMB'000 | 2013 RMB'000 |
|--|-----------------|-----------------|
| Salaries and other emoluments | 2,934 | 1,602 |
| Discretionary bonus | 158 | 513 |
| Equity-settled share-based payments | 294 | 48 |
| Contributions to defined contribution retirement plans | 13 | 13 |
| | 3,399 | 2,176 |

The emoluments of the two (2013: two) individuals with the highest emoluments fall within the following bands:

| | 2014 Number of individuals | 2013 Number of individuals |
|--------------------------------|----------------------------------|----------------------------------|
| HK\$1 to HK\$1,000,000 | – | 1 |
| HK\$1,500,001 to HK\$2,000,000 | 1 | – |
| HK\$2,000,001 to HK\$2,500,000 | 1 | 1 |

9 PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to shareholders of the Company includes a loss of RMB11,242,000 (2013: RMB13,502,000) (note 28) which has been dealt with in the financial statements of the Company.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

10 DIVIDENDS

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

| | 2014 RMB'000 | 2013 RMB'000 |
|--|-----------------|-----------------|
| Interim dividend declared and paid of HK4 cents per ordinary share (2013: HK2 cents per ordinary share) | 66,795 | 33,387 |
| Special interim dividend declared and paid (2013: HK6 cents per ordinary share) | — | 100,162 |
| Final dividend proposed after the end of the reporting period of HK8 cents per ordinary share (2013: HK6 cents per ordinary share) | 132,920 | 99,240 |
| Special final dividend proposed after the end of the reporting period (2013:HK2 cents per ordinary share) | — | 33,080 |
| | 199,715 | 265,869 |

The final dividend 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 shareholders of the Company in respect of the previous financial year, approved and paid during the year

| | 2014 RMB'000 | 2013 RMB'000 |
|---|-----------------|-----------------|
| Final dividend in respect of the previous financial year, approved and paid during the year, of HK6 cents per ordinary share (2013: HK3 cents per ordinary share) | 99,955 | 50,356 |
| Special final dividend in respect of the previous financial year, approved and paid during the year, of HK2 cents per ordinary share (2013: HK2 cents per ordinary share) | 33,319 | 33,570 |
| | 133,274 | 83,926 |

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

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 shareholders of the Company of RMB320,652,000 (2013: RMB244,280,000) and the weighted average number of ordinary shares of 2,098,152,000 (2013: 2,098,029,000 shares) during the year.

Weighted average number of ordinary shares

| | 2014 '000 shares | 2013 '000 shares |
|---|---------------------|---------------------|
| Issued ordinary shares at 1 January | 2,098,029 | 2,098,029 |
| Effect of share options exercised | 123 | – |
| Weighted average number of ordinary shares at 31 December | 2,098,152 | 2,098,029 |

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to shareholders of the Company of RMB320,652,000 (2013: RMB244,280,000) and the weighted average number of ordinary shares of 2,100,029,000 (2013: 2,098,029,000) after adjustment for the potential dilutive effect caused by the share options granted under the Company's Share Option Scheme (see note 25).

Weighted average number of ordinary shares (diluted)

| | 2014 '000 shares | 2013 '000 shares |
|--|---------------------|---------------------|
| Weighted average number of ordinary shares at 31 December | 2,098,152 | 2,098,029 |
| Effect of deemed issue of shares under the Company's Share Option Scheme (note 25) | 1,877 | – |
| Weighted average number of ordinary shares (diluted) at 31 December | 2,100,029 | 2,098,029 |

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

12 PROPERTY, PLANT AND EQUIPMENT

| | 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 2013 | | 426,920 | 128,523 | 11,428 | 46,622 | 613,493 |
| Additions | | 1,456 | 5,741 | 139 | 3,882 | 11,218 |
| Transfer from construction in progress | 13 | 17,257 | – | – | – | 17,257 |
| Disposals | | – | (321) | – | (260) | (581) |
| At 31 December 2013 | | 445,633 | 133,943 | 11,567 | 50,244 | 641,387 |
| Additions | | 129 | 4,993 | 51 | 4,726 | 9,899 |
| Transfer from construction in progress | 13 | 16,102 | 1,169 | – | – | 17,271 |
| Disposals | | – | (3,396) | (174) | (234) | (3,804) |
| At 31 December 2014 | | 461,864 | 136,709 | 11,444 | 54,736 | 664,753 |
| Accumulated depreciation: | | | | | | |
| At 1 January 2013 | | 50,916 | 41,587 | 4,224 | 22,143 | 118,870 |
| Charge for the year | | 20,389 | 13,490 | 1,502 | 7,936 | 43,317 |
| Written back on disposals | | – | (208) | – | (212) | (420) |
| At 31 December 2013 | | 71,305 | 54,869 | 5,726 | 29,867 | 161,767 |
| Charge for the year | | 21,556 | 14,092 | 1,368 | 7,632 | 44,648 |
| Written back on disposals | | – | (2,936) | (147) | (201) | (3,284) |
| At 31 December 2014 | | 92,861 | 66,025 | 6,947 | 37,298 | 203,131 |
| Net book value: | | | | | | |
| At 31 December 2014 | | 369,003 | 70,684 | 4,497 | 17,438 | 461,622 |
| At 31 December 2013 | | 374,328 | 79,074 | 5,841 | 20,377 | 479,620 |

At 31 December 2014, buildings with net book value of RMB97,212,000 (2013: RMB103,631,000) were pledged to secure the bills payable and certain bank loans as set out in note 22(a) and 23, respectively.

13 CONSTRUCTION IN PROGRESS

| | Note | 2014 RMB'000 | 2013 RMB'000 |
|---|------|-----------------|-----------------|
| At 1 January | | 53,541 | 48,051 |
| Additions | | 8,513 | 22,747 |
| Transfer to property, plant and equipment | 12 | (17,271) | (17,257) |
| At 31 December | | 44,783 | 53,541 |

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

14 LEASE PREPAYMENTS

| | 2014 RMB'000 | 2013 RMB'000 |
|----------------------------------|-----------------|-----------------|
| Cost: | | |
| At 1 January | 210,141 | 96,644 |
| Additions | 14,139 | 113,497 |
| Disposal | (38,502) | – |
| At 31 December | 185,778 | 210,141 |
| Accumulated amortization: | | |
| At 1 January | 5,956 | 2,653 |
| Charge for the year | 4,238 | 3,303 |
| Written back on disposal | (746) | – |
| At 31 December | 9,448 | 5,956 |
| Net book value: | | |
| At 31 December | 176,330 | 204,185 |

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

At 31 December 2014, lease prepayments with net book value of RMB9,848,000 (2013: RMB10,078,000) were pledged to secure bills payable and certain bank loans as set out in note 22(a) and 23, respectively.

15 DEPOSITS AND PREPAYMENTS FOR PURCHASE OF NON-CURRENT ASSETS

| | 2014 RMB'000 | 2013 RMB'000 |
|--|-----------------|-----------------|
| Prepayments for acquisition of land use rights | 29,648 | 29,648 |
| Prepayments for acquisition of software | 7,716 | 7,400 |
| | 37,364 | 37,048 |

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

16 INTANGIBLE ASSETS

| | Trademarks RMB'000 | Software RMB'000 | Total RMB'000 |
|--|-----------------------|---------------------|------------------|
| Cost: | | | |
| At 1 January 2013 | 18,006 | 3,638 | 21,644 |
| Additions | 2,095 | 1,779 | 3,874 |
| At 31 December 2013 and 1 January 2014 | 20,101 | 5,417 | 25,518 |
| Additions | 1,729 | 723 | 2,452 |
| At 31 December 2014 | 21,830 | 6,140 | 27,970 |
| Accumulated amortization: | | | |
| At 1 January 2013 | – | 1,328 | 1,328 |
| Charge for the year | – | 766 | 766 |
| At 31 December 2013 and 1 January 2014 | – | 2,094 | 2,094 |
| Charge for the year | – | 906 | 906 |
| At 31 December 2014 | – | 3,000 | 3,000 |
| Net book value: | | | |
| At 31 December 2014 | 21,830 | 3,140 | 24,970 |
| At 31 December 2013 | 20,101 | 3,323 | 23,424 |

The amortization of intangible assets for the year is included in the administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

17 INVENTORIES

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

| | 2014 RMB'000 | 2013 RMB'000 |
|------------------|-----------------|-----------------|
| Raw materials | 29,071 | 44,762 |
| Work in progress | 73,125 | 68,338 |
| Finished goods | 243,476 | 252,593 |
| | 345,672 | 365,693 |

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

| | 2014 RMB'000 | 2013 RMB'000 |
|-------------------------------------|------------------|------------------|
| Carrying amount of inventories sold | 1,744,868 | 1,686,309 |
| Write down of inventories | 17,521 | 9,788 |
| | 1,762,389 | 1,696,097 |

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

18 INVESTMENTS IN SUBSIDIARIES

| | 2014 RMB'000 | 2013 RMB'000 |
|--------------------------|-----------------|-----------------|
| Unlisted shares, at cost | 525,086 | 516,909 |

Particulars of the subsidiaries are set out below:

| Name of company | Place and date of incorporation/ establishment | Particulars of issued/fully paid up capital | Proportion of ownership interest | | | Principal activities |
|---|--|---|----------------------------------|---------------------|----------------------|--|
| | | | Group's effective interest | Held by the Company | Held by a subsidiary | |
| 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 | RMB100,000,000 | 100% | – | 100% | Manufacturing and trading of sports products |

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

19 TRADE AND OTHER RECEIVABLES

(a) The Group

| | 2014 RMB'000 | 2013 RMB'000 |
|------------------------------------|-----------------|-----------------|
| Bills receivable | 9,850 | 50,630 |
| Trade debtors | 903,678 | 871,220 |
| Less: allowance for doubtful debts | (45,156) | (14,911) |
| | 868,372 | 906,939 |
| Other receivables | 101,310 | 40,291 |
| Total receivables | 969,682 | 947,230 |
| Deposits and prepayments | 16,900 | 30,391 |
| | 986,582 | 977,621 |

At 31 December 2014, the Group had endorsed bank acceptance bills totalling RMB757,602,000 (2013: RMB556,970,000), which were derecognized as financial assets. These bank acceptance bills matured within six months from the date of issue.

(i) Ageing analysis

Set out below is an ageing analysis of the total balance of the trade debtors and bills receivable (net of allowance for doubtful debts) at the end of the reporting period based on relevant invoice date (or date of revenue recognition, if earlier):

| | 2014 RMB'000 | 2013 RMB'000 |
|------------------------------------|-----------------|-----------------|
| Within 3 months | 750,422 | 714,518 |
| After 3 months but within 6 months | 112,809 | 167,252 |
| After 6 months but within 1 year | 5,141 | 25,169 |
| | 868,372 | 906,939 |

The Group generally offers a revolving credit to each domestic distributor. This revolving credit sets a maximum amount that a distributor can owe 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 the 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, no domestic distributor exceeded the revolving credit. Except for those trade debtors mentioned in (ii) below, the amount of which had been provided for impairment, there was no past due domestic trade debtors.

The Group generally offers a credit period to each overseas customer. This credit period, the maximum of which generally does not exceed six months, varies for different overseas customers depending on the factors similar to those for determining the revolving credits for the domestic distributors mentioned above. At the end of the reporting period, except for those trade debtors mentioned in (ii) below, the amount of which had been provided for impairment, the overseas trade debtors that were past due amounted to RMB183,000 (2013: RMB314,000).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

19 TRADE AND OTHER RECEIVABLES (CONTINUED)

(a) The Group (continued)

(ii) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that the prospect of recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly (see note 1(j)(i)).

The movement in the allowance for doubtful debts during the year is as follows:

| | 2014 RMB'000 | 2013 RMB'000 |
|--------------------------------------|-----------------|-----------------|
| At 1 January | 14,911 | – |
| Impairment loss recognized | 32,345 | 14,911 |
| Reversal of provision for impairment | (2,100) | – |
| At 31 December | 45,156 | 14,911 |

At 31 December 2014, the Group's trade debtors of RMB45,156,000 (2013: RMB14,911,000) were individually determined to be impaired. The individually impaired receivables related to distributors that were in financial difficulties and management considered that the recovery of such receivables was doubtful but not remote. Consequently, specific allowances for doubtful debts of RMB45,156,000 (2013: RMB14,911,000) were recognized.

(b) The Company

The balance represented an amount due from a subsidiary. The amount was unsecured, interest free and repayable upon demand.

20 PLEDGED DEPOSITS

Bank deposits were pledged to secure bills payable and bank loans (see notes 22 and 23).

21 CASH AND CASH EQUIVALENTS

| | The Group | | The Company | |
|--------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2014 RMB'000 | 2013 RMB'000 | 2014 RMB'000 | 2013 RMB'000 |
| Cash at bank and on hand | 1,849,693 | 1,933,164 | 755 | 817 |

At 31 December 2014, the balances denominated in RMB that were placed with banks in the PRC and included in the Group's cash and cash equivalents above amounted to RMB1,766,455,000 (2013: RMB1,887,218,000). Remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

22 TRADE AND OTHER PAYABLES

(a) The Group

| | 2014 RMB'000 | 2013 RMB'000 |
|--|-----------------|-----------------|
| Bills payable | 50,660 | 23,990 |
| Trade creditors | 103,424 | 217,835 |
| | 154,084 | 241,825 |
| Other payables and accruals | 242,344 | 166,975 |
| Financial liabilities measured at amortized cost | 396,428 | 408,800 |
| Advance received | 23,029 | 6,663 |
| | 419,457 | 415,463 |

At 31 December 2014, bills payable were secured by pledged deposits of RMB10,560,000 (2013: RMB5,643,000), certain buildings and lease prepayments set out in note 23(b).

Set out below is an aging analysis of the trade creditors and bills payable (which are included in trade and other payables) at the end of the reporting period based on relevant invoice dates:

| | 2014 RMB'000 | 2013 RMB'000 |
|------------------------------------|-----------------|-----------------|
| Within 3 months | 89,313 | 183,261 |
| After 3 months but within 6 months | 60,309 | 57,676 |
| After 6 months but within 1 year | 4,462 | 884 |
| Over 1 year | - | 4 |
| | 154,084 | 241,825 |

(b) The Company

The balances represented amounts due to subsidiaries. The amounts were unsecured, interest free and had no fixed terms of repayment.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

23 BANK LOANS

(a) At 31 December 2014, the bank loans were repayable as follows:

| | The Group | | The Company | |
|---------------------------------|------------------|-----------------|-----------------|-----------------|
| | 2014 RMB'000 | 2013 RMB'000 | 2014 RMB'000 | 2013 RMB'000 |
| Within 1 year | 702,462 | 529,673 | 171,333 | 348,682 |
| After 1 year but within 2 years | 350,088 | 236,560 | – | – |
| | 1,052,550 | 766,233 | 171,333 | 348,682 |

At 31 December 2014, the bank loans were secured as follows:

| | The Group | | The Company | |
|-----------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2014 RMB'000 | 2013 RMB'000 | 2014 RMB'000 | 2013 RMB'000 |
| Secured floating rate loans | 1,052,550 | 766,233 | 171,333 | 348,682 |

At 31 December 2014, bank loans were secured by pledged deposits of RMB491,512,000 (2013: RMB341,864,000), and certain non-current assets set out in note 23(b).

(b) Assets of the Group pledged to banks as securities comprise:

| | 2014 RMB'000 | 2013 RMB'000 |
|-----------------------------|-----------------|-----------------|
| Buildings (note 12) | 97,212 | 103,631 |
| Lease prepayments (note 14) | 9,848 | 10,078 |
| | 107,060 | 113,709 |

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 rates ranging from 18% to 20% of the eligible employees' salaries. The local government authorities are responsible for the entire pension obligations payable to retired employees.

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

NOTES TO THE FINANCIAL STATEMENTS

[Expressed in Renminbi unless otherwise indicated]

25 EQUITY SETTLED SHARE-BASED TRANSACTIONS

Pursuant to the shareholders' resolutions passed on 8 September 2009 and 18 May 2011, the Company adopted a share option scheme ("the Share Option 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.

(a) Share options granted under the Share Option Scheme during the year ended 31 December 2014

On 1 January 2014, the Company granted a total of 21,725,000 share options to all of the Company's independent non-executive directors and certain employees (including an associate of an executive director who is also a substantial shareholder of the Company) of the Group with an exercise price of HK\$1.9380 per share. The granted share options have different vesting periods ranging from 4 months to 3 years. The consideration for the share options granted is RMB1 for each participant, irrespective of the number of share options granted.

(b) The terms and conditions of the share options granted up to 31 December 2014 are as follows:

| Date of grant | Batch number | Number of options granted | Vesting conditions | Contractual life of options |
|----------------------------------|--------------|---------------------------|----------------------------------|-----------------------------|
| Options granted to directors: | | | | |
| 1 June 2010 | Batch 4 | 180,000 | 1 year after the date of grant | 5 years |
| 1 June 2010 | Batch 5 | 180,000 | 2 years after the date of grant | 5 years |
| 1 June 2010 | Batch 6 | 240,000 | 3 years after the date of grant | 5 years |
| 1 January 2014 | Batch 8 | 400,000 | 4 months after the date of grant | 4.3 years |
| 1 January 2014 | Batch 9 | 60,000 | 1 year after the date of grant | 5 years |
| 1 January 2014 | Batch 10 | 60,000 | 2 years after the date of grant | 5 years |
| 1 January 2014 | Batch 11 | 80,000 | 3 years after the date of grant | 5 years |
| Options granted to employees: | | | | |
| 9 February 2010 | Batch 1 | 3,919,500 | 1 year after the date of grant | 5 years |
| 9 February 2010 | Batch 2 | 3,919,500 | 2 years after the date of grant | 5 years |
| 9 February 2010 | Batch 3 | 5,226,000 | 3 years after the date of grant | 5 years |
| 1 June 2010 | Batch 4 | 639,000 | 1 year after the date of grant | 5 years |
| 1 June 2010 | Batch 5 | 639,000 | 2 years after the date of grant | 5 years |
| 1 June 2010 | Batch 6 | 852,000 | 3 years after the date of grant | 5 years |
| 1 January 2014 | Batch 8 | 12,005,000 | 4 months after the date of grant | 4.3 years |
| 1 January 2014 | Batch 9 | 2,736,000 | 1 year after the date of grant | 5 years |
| 1 January 2014 | Batch 10 | 2,736,000 | 2 years after the date of grant | 5 years |
| 1 January 2014 | Batch 11 | 3,648,000 | 3 years after the date of grant | 5 years |
| Options granted to distributors: | | | | |
| 1 November 2013 | Batch 7 | 14,880,000 | Achieving 2013 payment targets | 1.4 years |
| | | 52,400,000 | | |

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

25 EQUITY SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

- (c) Details of the movements of the share options granted under the Share Option Scheme are as follows:

| | Year ended 31 December 2014 | | Year ended 31 December 2013 | |
|--|---------------------------------|------------------------|---------------------------------|------------------------|
| | Weighted average exercise price | Number of options '000 | Weighted average exercise price | Number of options '000 |
| Outstanding at the beginning of the year | HK\$3.8390 | 18,299 | HK\$5.2752 | 11,695 |
| Granted during the year | HK\$1.9380 | 21,725 | HK\$1.9100 | 14,880 |
| Exercised during the year | HK\$1.9380 | (330) | – | – |
| Forfeited during the year | HK\$3.3799 | (962) | HK\$5.2193 | (1,226) |
| Cancelled | HK\$5.2940 | (8,495) | HK\$1.9100 | (7,050) |
| Outstanding at the end of the year | HK\$2.0997 | 30,237 | HK\$3.8390 | 18,299 |
| Exercisable at the end of the year | HK\$2.1671 | 21,347 | HK\$5.2817 | 10,469 |

The weighted average share price at the dates when the share options were exercised during the year was HK\$2.22 (2013: No share options were exercised).

The share options outstanding as at 31 December 2014 had an exercise price of HK\$5.1960, HK\$5.6040, HK\$1.9100 or HK\$1.9380 (2013: HK\$5.1960, HK\$5.6040 or HK\$1.9100) and a weighted average remaining contractual life of 2.6 years (2013: 1.2 years).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

25 EQUITY SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

(d) Fair value of share options and assumptions

The fair value of services received in return for the share options granted is measured by reference to the fair value of the share options granted. Set out below are the estimate of such fair value and the related assumptions based on the Black-Scholes-Merton Option Pricing Model:

| | 2014 | | | | 2013 |
|---------------------------------------|-----------|---------|-----------|----------|----------|
| | Batch 8 | Batch 9 | Batch 10 | Batch 11 | Batch 7 |
| Fair value at measurement date (HK\$) | 0.4657 | 0.4888 | 0.5155 | 0.5400 | 0.1964 |
| Share price (HK\$) | 1.8890 | 1.8890 | 1.8890 | 1.8890 | 1.8200 |
| Exercise price (HK\$) | 1.9380 | 1.9380 | 1.9380 | 1.9380 | 1.9100 |
| Expected volatility | 48.87% | 45.97% | 45.46% | 45.08% | 37.05% |
| Expected option life | 2.3 years | 3 years | 3.5 years | 4 years | 0.9 year |
| Expected dividends | 2.647% | 2.647% | 2.647% | 2.647% | 2.747% |
| Risk-free rate | 0.425% | 0.655% | 0.824% | 0.992% | 0.171% |

The contractual life of the share option is used as an input into the Black-Scholes-Merton Option Pricing Model. Expectations of early exercise are also incorporated into the model. The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under service condition and non-market performance condition. These conditions have not been taken account in the fair value measurements at the grant dates. There were no market conditions associated with the grants of the share options.

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

| | 2014 | 2013 |
|------------------------------|---------|---------|
| | RMB'000 | RMB'000 |
| Provision for PRC income tax | 68,361 | 64,925 |

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

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 | | | | Total RMB'000 |
|-----------------------------------|--|---|---|---|------------------|
| | Provision of incentive rewards and subsidies RMB'000 | Impairment losses for trade debtors RMB'000 | Pre-operating expenses, accruals and others RMB'000 | Withholding tax on dividends RMB'000 | |
| Deferred tax arising from: | | | | | |
| At 1 January 2013 | 14,148 | – | 23,566 | (66,662) | (28,948) |
| Charged to profit or loss | (8,425) | 3,728 | (6,490) | (13,282) | (24,469) |
| At 31 December 2013 | 5,723 | 3,728 | 17,076 | (79,944) | (53,417) |
| Charged to profit or loss | 5,978 | 7,456 | 5,256 | (7,416) | 11,274 |
| At 31 December 2014 | 11,701 | 11,184 | 22,332 | (87,360) | (42,143) |

| | 2014 RMB'000 | 2013 RMB'000 |
|--------------------------|-----------------|-----------------|
| Represented by: | | |
| Deferred tax assets | 45,217 | 26,527 |
| Deferred tax liabilities | (87,360) | (79,944) |
| | (42,143) | (53,417) |

(c) Deferred tax assets not recognized

In accordance with the accounting policy set out in note 1(q), the Group has not recognized deferred tax assets of RMB77,082,000 (2013: RMB62,130,000) in respect of cumulative tax losses. Of these deferred tax assets not recognized, RMB8,275,000 (2013: RMB5,548,000) is related to tax losses which will expire within 20 years starting from the next year when the tax losses occurred under the current tax legislation. The cumulative tax losses have not been recognized as deferred tax assets as it is not probable that future taxable profits against which the losses can be utilized will be available in the relevant tax jurisdiction and entity.

(d) Deferred tax liabilities not recognized

At 31 December 2014, temporary differences relating to undistributed profits of subsidiaries amounted to RMB2,055,924,000 (2013: RMB1,836,427,000). Deferred tax liabilities of RMB102,796,000 (2013: RMB91,821,000) 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 these profits will not be distributed in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

27 SHARE CAPITAL

(a) Authorized

| | 31 December 2013 and 2014 | |
|----------------------------------|---------------------------|--------------------|
| | No. of shares '000 | Amount HK\$'000 |
| Ordinary shares of HK\$0.01 each | 5,000,000 | 50,000 |

(b) Issued and fully paid

| | 2014 | | | 2013 | | |
|---|-----------------------|--------------------|-------------------|-----------------------|--------------------|-------------------|
| | No. of shares '000 | Amount HK\$'000 | Amount RMB'000 | No. of shares '000 | Amount HK\$'000 | Amount RMB'000 |
| Ordinary shares of HK\$0.01 each At 1 January | 2,098,029 | 20,980 | 18,460 | 2,098,029 | 20,980 | 18,460 |
| Shares issued under Share Option Scheme (note 25) | 330 | 3 | 2 | – | – | – |
| At 31 December | 2,098,359 | 20,983 | 18,462 | 2,098,029 | 20,980 | 18,460 |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

In 2014, options were exercised to subscribe for 330,000 ordinary shares in the Company at a consideration of RMB508,000 of which RMB2,000 was credited to share capital and the balance of RMB506,000 was credited to the share premium account. RMB122,000 has been transferred from the share-based payment reserve to the share premium account in accordance with policy set out in note 1(p)(ii).

(c) Terms of unexpired and unexercised share options at the end of the reporting period

| Exercise period | Exercise price | 2014 Number | 2013 Number |
|-----------------------------------|----------------|----------------|----------------|
| 9 February 2011 – 8 February 2015 | HK\$5.196 | 426,600 | 2,470,200 |
| 9 February 2012 – 8 February 2015 | HK\$5.196 | 426,600 | 2,485,200 |
| 9 February 2013 – 8 February 2015 | HK\$5.196 | 568,800 | 3,313,600 |
| 1 June 2011 – 31 May 2015 | HK\$5.604 | 39,000 | 660,000 |
| 1 June 2012 – 31 May 2015 | HK\$5.604 | 39,000 | 660,000 |
| 1 June 2013 – 31 May 2015 | HK\$5.604 | 52,000 | 880,000 |
| 1 April 2014 – 31 March 2015 | HK\$1.910 | 7,830,000 | 7,830,000 |
| 1 May 2014 – 30 April 2018 | HK\$1.938 | 11,965,000 | – |
| 1 January 2015 – 31 December 2018 | HK\$1.938 | 2,667,000 | – |
| 1 January 2016 – 31 December 2018 | HK\$1.938 | 2,667,000 | – |
| 1 January 2017 – 31 December 2018 | HK\$1.938 | 3,556,000 | – |
| | | 30,237,000 | 18,299,000 |

Each share option entitles holders to subscribe for one ordinary share in the Company. Further details of these share options are set out in note 25.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

28 RESERVES

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

| | Note | 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 2013 | | 748,271 | 549,336 | (139,192) | 14,372 | (38,476) | 1,134,311 |
| Total comprehensive income | | - | - | (31,768) | - | (13,502) | (45,270) |
| Equity-settled share-based payment | 25 | - | - | - | 1,495 | - | 1,495 |
| Dividends | 10 | (217,475) | - | - | - | - | (217,475) |
| Transfer between reserves in respect of share options forfeited and cancelled | 25 | - | - | - | (1,291) | 1,291 | - |
| At 31 December 2013 | | 530,796 | 549,336 | (170,960) | 14,576 | (50,687) | 873,061 |
| Total comprehensive income | | - | - | 4,480 | - | (11,242) | (6,762) |
| Shares issued under | | | | | | | |
| Share Option Scheme | 25 | 628 | - | - | (122) | - | 506 |
| Equity-settled share-based payment | 25 | - | - | - | 6,644 | - | 6,644 |
| Dividends | 10 | (200,069) | - | - | - | - | (200,069) |
| Transfer between reserves in respect of share options forfeited and cancelled | 25 | - | - | - | (10,580) | 10,580 | - |
| At 31 December 2014 | | 331,355 | 549,336 | (166,480) | 10,518 | (51,349) | 673,380 |

(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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

28 RESERVES (CONTINUED)

(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.

The other reserve of the Company represents the difference between the nominal value of the shares issued by the Company as a consideration to acquire Peak Hong Kong and the historical carrying value of net assets of Peak Hong Kong and its subsidiaries.

(d) Exchange reserve

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

(e) Share-based payment reserve

The share-based payment reserve represents the fair value at the grant date of share options granted to eligible persons and has been recognized in accordance with the accounting policy adopted for share-based payment in note 1(p)(ii).

(f) Distributable reserve

The distributable reserve of the Company as at 31 December 2014 was RMB673,380,000 (2013: RMB873,061,000).

(g) Capital management

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

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

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, the Group defines adjusted net debt as interest-bearing loans less cash and bank deposits. Capital is defined as the total equity. As at 31 December 2014, the Group had cash and bank deposits 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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

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 owe 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 the 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, 18% (2013: 11%) and 29% (2013: 22%) of the total trade debtors 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 2014, the Group had endorsed bank acceptance bills totaling RMB757,602,000 (2013: RMB556,970,000), 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 RMB757,602,000 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.

(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 long terms.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Liquidity risk (continued)

Set out below are the details of the remaining contractual maturities of the financial liabilities of the Group and the Company at the end of the reporting period in contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current as at the end of the reporting period) and the earliest days that the Group and the Company can be required to pay:

| | The Group | | | | The Company | | |
|--------------------------------|---------------------------------------|---|------------------|----------------------------|---------------------------------------|------------------|----------------------------|
| | Contractual undiscounted cash flows | | | Carrying amount RMB'000 | Contractual undiscounted cash flows | | Carrying amount RMB'000 |
| | Within 1 year or on demand RMB'000 | More than 1 year but less than 2 years RMB'000 | Total RMB'000 | | Within 1 year or on demand RMB'000 | Total RMB'000 | |
| At 31 December 2014 | | | | | | | |
| Current liabilities | | | | | | | |
| Bank loans | 710,449 | – | 710,449 | 702,462 | 171,908 | 171,908 | 171,333 |
| Trade and other payables | 419,457 | – | 419,457 | 419,457 | 63,943 | 63,943 | 63,943 |
| Non-current liabilities | | | | | | | |
| Bank loans | 8,682 | 353,174 | 361,856 | 350,088 | – | – | – |
| | 1,138,588 | 353,174 | 1,491,762 | 1,472,007 | 235,851 | 235,851 | 235,276 |
| At 31 December 2013 | | | | | | | |
| Current liabilities | | | | | | | |
| Bank loans | 533,872 | – | 533,872 | 529,673 | 351,327 | 351,327 | 348,682 |
| Trade and other payables | 415,463 | – | 415,463 | 415,463 | 62,753 | 62,753 | 62,753 |
| Non-current liabilities | | | | | | | |
| Bank loans | 4,400 | 239,038 | 243,438 | 236,560 | – | – | – |
| | 953,735 | 239,038 | 1,192,773 | 1,181,696 | 414,080 | 414,080 | 411,435 |

(c) Interest rate risk

The Group's interest rate risk arises primarily from bank loans. Bank loans borrowed at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. All of the Group's bank loans were borrowed at variable rates. During the year ended 31 December 2014, the effective interest rates of the bank loans of the Group and the Company were 2.06% per annum (2013: 2.06%) and 1.83% per annum (2013: 2.06%) respectively.

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. The analysis performed on the same basis for 2013.

NOTES TO THE FINANCIAL STATEMENTS

[Expressed in Renminbi unless otherwise indicated]

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Interest rate risk (continued)

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:

| | 2014 RMB'000 | 2013 RMB'000 |
|--------------------------|-----------------|-----------------|
| 100 basis point increase | (10,526) | (7,662) |

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\$ and HK\$.

The following table details the Group's and the Company's exposure at the end of the reporting period to currency risk arising from recognized assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Renminbi, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

| The Group | Exposure to foreign currencies (expressed in Renminbi) | | | |
|---|--|-------------------------------------|---------------------------------|-------------------------------------|
| | 2014 | | 2013 | |
| | Hong Kong Dollars RMB'000 | United States Dollars RMB'000 | Hong Kong Dollars RMB'000 | United States Dollars RMB'000 |
| Trade and other receivables | 220 | 133,928 | 364 | 222,762 |
| Cash and cash equivalents | 1,518 | 79,188 | 5,727 | 38,096 |
| Pledged deposits | - | 156,402 | - | 36,581 |
| Bank loans | (118,607) | (933,943) | - | (529,673) |
| Trade and other payables | (219) | (20,901) | (424) | (16,838) |
| Net exposure arising from recognized assets and liabilities | (117,088) | (585,326) | 5,667 | (249,072) |

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Currency risk (continued)

| The Company | Exposure to foreign currencies (expressed in Renminbi) | |
|---|---|-------------------------------------|
| | 2014 | 2013 |
| | United States Dollars RMB'000 | United States Dollars RMB'000 |
| Cash and cash equivalents | 205 | 112 |
| Bank loans | (171,332) | (348,682) |
| Trade and other payables | (1,618) | (1,613) |
| Net exposure arising from recognized assets and liabilities | (172,745) | (350,183) |

Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

| The Group | 2014 | | 2013 | |
|-----------------------|--|--|--|--|
| | Increase/(decrease) in foreign exchange rates in % | Effect on profit after tax and retained profits RMB'000 | Increase/(decrease) in foreign exchange rates in % | Effect on profit after tax and retained profits RMB'000 |
| Hong Kong dollars | 5 | (5,854) | 5 | 283 |
| | (5) | 5,854 | (5) | (283) |
| United States dollars | 5 | (31,683) | 5 | (16,061) |
| | (5) | 31,683 | (5) | 16,061 |

Results of the analysis presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and retained profits measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period. The analysis excludes differences that would result from the translation of the financial statements of operations outside mainland China into the Group's presentation currency. The analysis is performed on the same basis for 2013.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(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.

(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 measurement

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2014 and 2013.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

30 COMMITMENTS

- (a) Capital commitments outstanding at 31 December 2014 not provided for in the financial statements were as follows:

| | The Group | |
|-----------------------------------|-----------------|-----------------|
| | 2014 RMB'000 | 2013 RMB'000 |
| Contracted for | 12,501 | 169,256 |
| Authorized but not contracted for | 541 | 13,568 |
| | 13,042 | 182,824 |

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

| | The Group | |
|---------------------------------|-----------------|-----------------|
| | 2014 RMB'000 | 2013 RMB'000 |
| Within 1 year | 6,105 | 11,916 |
| After 1 year but within 5 years | 10,730 | 18,785 |
| After 5 years | – | 90 |
| | 16,835 | 30,791 |

The Group leased 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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

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 and certain of the highest paid employees as disclosed in note 8, is as follows:

| | 2014 RMB'000 | 2013 RMB'000 |
|--|-----------------|-----------------|
| Short-term employee benefits | 8,894 | 9,051 |
| Equity-settled share-based payments | 929 | 122 |
| Contributions to defined contribution retirement plans | 69 | 66 |
| | 9,892 | 9,239 |

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

(b) Lease of land and properties

During the year ended 31 December 2014, the Group leased certain land and properties from Fujian Peak Group Co., Ltd, which is controlled by Xu's family (as defined in note 32). The rental expenses for the year ended 31 December 2014 were RMB2,259,000 (2013: 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) Applicability of the Listing Rules relating to connected transaction

The related party transaction mentioned in note 31(b) constitutes a continuing connected transaction as defined in Chapter 14A of the Listing Rules. However, the transaction is exempt from the disclosure requirements in Chapter 14A of the Listing Rules as it is below the de minimis threshold under Rule 14A.76(1).

32 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

The Directors consider that the immediate holding companies of the Company as at 31 December 2014 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 2014 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 dividend which is disclosed in note 10(a).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2014

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, and new standards which are not yet effective for the year ended 31 December 2014 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

| | Effective for accounting periods beginning on or after |
|--|--|
| Annual improvements to IFRSs 2010-2012 cycle | 1 July 2014 |
| Annual improvements to IFRSs 2011-2013 cycle | 1 July 2014 |
| Amendments to IAS 16 and IAS 38, <i>Clarification of acceptable methods of depreciation and amortisation</i> | 1 January 2016 |
| IFRS 15, <i>Revenue from contracts with customers</i> | 1 January 2017 |
| IFRS 9, <i>Financial instruments</i> | 1 January 2018 |

The Group is in the process of making an assessment of what the impact of these amendments and new standards 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 a material impact on the Group's results of operations and financial position.

In addition, the requirements of Part 9, "Accounts and Audit", of the new Hong Kong Companies Ordinance (Cap. 622) come into operation from the Company's first financial year commencing after 3 March 2014 (i.e. the Company's financial year which began on 1 January 2015) in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of the expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9. So far it has concluded that the impact is unlikely to be significant and will primarily only affect the presentation and disclosure of information in the consolidated financial statements.

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” | Fédération Internationale de Basketball |
| “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 |
| “PRC or China” | The People’s Republic of China |
| “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
匹克體育用品有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code : 1968



www.peaksport.com