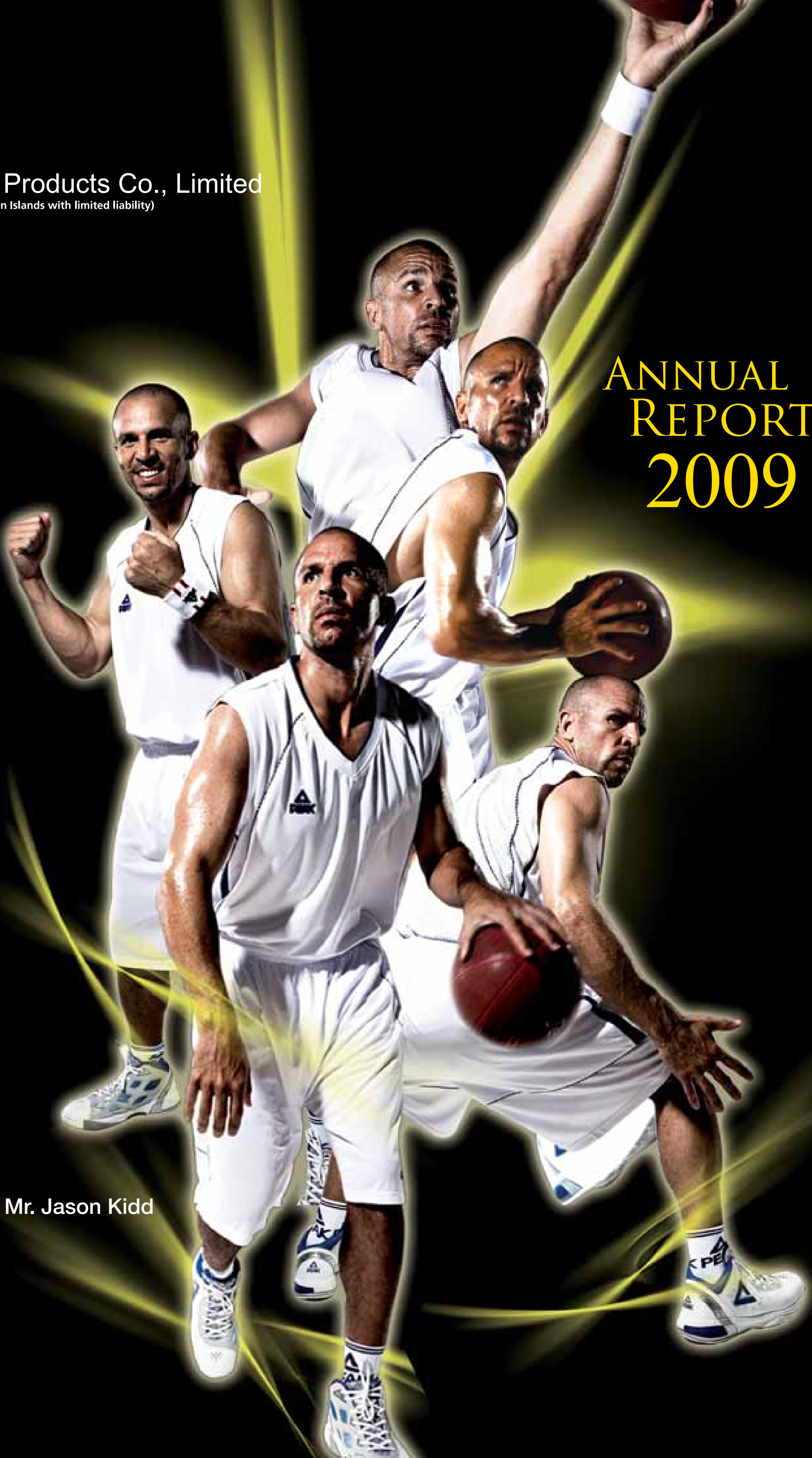
Peak Sport Products Co., Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1968

Annual Report 2009



NBA Star: Mr. Jason Kidd

Mission

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

Vision

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

Core Value

United, practical and effective

Pragmatic, conscientious and diligent

People-oriented, creating value for customers and society

Making dreams come true through team work

先上场

I CAN PLAY

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Ms. Wu Tigao (吳提高)
Mr. Shen Nanpeng (沈南鵬)
Dr. Hu Zhanghong (胡章宏)
Mr. Zhu Linan (朱立南)

Independent Non-executive Directors

Dr. Xiang Bing (項兵)
Dr. Rock Jin (金岩石)
Mr. Wang Mingquan (王明權)

BOARD COMMITTEES

Audit Committee

Dr. Xiang Bing (項兵) *(Chairman)*
Dr. Rock Jin (金岩石)
Mr. Wang Mingquan (王明權)

Remuneration Committee

Dr. Xiang Bing (項兵) *(Chairman)*
Dr. Rock Jin (金岩石)
Mr. Shen Nanpeng (沈南鵬)
Mr. Wang Mingquan (王明權)
Mr. Xu Jingnan (許景南)

Nomination Committee

Dr. Rock Jin (金岩石) *(Chairman)*
Dr. Xiang Bing (項兵)
Mr. Wang Mingquan (王明權)

COMPANY SECRETARY

Mr. Tsoi Ka Ho (蔡家豪) *CPA, ACA, FCCA*

AUTHORISED REPRESENTATIVES

Mr. Xu Zhihua (許志華)
Mr. Tsoi Ka Ho (蔡家豪) *CPA, ACA, FCCA*

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

LEGAL ADVISERS

As to Hong Kong Law and United States Law

DLA Piper Hong Kong

As to Cayman Islands Law

Conyers Dill & Pearman

As to PRC Law

King & Wood PRC Lawyers

AUDITOR

KPMG

COMPLIANCE ADVISER

CCB International Capital Limited

HONG KONG 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

2009 Milestones

January	"2009 Peak National Distributors Annual Conference" was held at Peak's headquarters
March	Peak entered into an agreement with Fédération Internationale de Basketball and became its official partner in Asia
April	A press conference was held in Beijing for the announcement of obtaining US$40 million from new investors
May	Peak was awarded "Famous trademark of China" by the State Administration for Industry and Commerce
June	The first Peak Basketball Park in China was opened in Guangzhou
July	The 2009 Tour of Qinghai Lake International Cycling Race sponsored by Peak was held at Xining, Qinghai Province
August	"2009 Peak NBA Star China Tour" was kicked off with seven players visiting to China
September	Peak was listed on the Main Board of The Stock Exchange of Hong Kong Limited on 29 September 2009
October	Peak entered into endorsement arrangements with 2 NBA players – Carl Landry and Kyle Lowry
November	The 6,000th authorised Peak retail outlet in China was opened in Shanghai
December	Peak entered into endorsement arrangement with a NBA player, Mickael Pietrus

2009
Milestones

Chairman's Statement

Xu Jingnan
Chairman

Dear respectful shareholders,

On behalf of the Board, it is my pleasure to present the audited annual results of the Group for the year ended 31 December 2009.

The IPO

The year of 2009 was an exceptionally meaningful year for the Group. With the concerted efforts of different parties, our Company successfully listed on the Main Board of the Stock Exchange of Hong Kong Limited on 29 September 2009 and set a new milestone for the future development of our Group. During the IPO, the Company offered approximately 420 million new shares at HK$4.10 per share globally, which raised over HK$1.7 billion of new proceeds. We believe that this was a reflection of our investors' confidence in our future growth prospects. The IPO has also allowed us to strengthen our financial position and enhance our brand image.

Results Highlights

Continuing from the remarkable results achieved in 2008, the Group expanded its distribution network and marketing activities to grasp the rapidly growing market opportunities and maintained strong growth in revenue and profit through 2009. During the year, turnover of the Group was RMB3.09 billion, representing an increase of approximately 51.6% from RMB2.04 billion in 2008. Profit attributable to equity shareholders was RMB628 million, representing an increase of 67.1% from RMB376 million in 2008. Basic earnings per share was RMB0.36. The Board recommended a final dividend of HK12 cents per share (equivalent to approximately RMB10.55 cents) for 2009.

Business Review

The Group is dedicated to providing premium quality sports products that are both stylish and functional to professional athletes and consumers. During the year, the Group increased its marketing and brand promotion efforts to strengthen the professional and international images of the Peak brand. In tandem with of its marketing and brand promotional efforts, the Group also proactively enhanced our research and development capability in introducing new products, expanded our production capabilities, and worked closely with our distributors and third party retail outlet operators to expand our distribution network. The number of the Group's retail outlets increased from 5,179 as at 31 December 2008 to 6,206 as at 31 December 2009, covering the first, second and third tier cities in China.

In order to further enhance our brand image and popularity, the Group launched a series of brand promotional activities during the year. Being the exclusive marketing partner of NBA in China, the Group actively organized a number of promotional activities with NBA China including the "2009

Peak NBA Star China Tour" in which seven NBA players were invited to China. The tour was a complete success and triggered NBA basketball frenzy in many parts of China. Up to the end of 2009, we have successfully entered into endorsement arrangements with eleven NBA players, which is an unprecedented feat in China and is also a testament to our commitment to promoting basketball games in China. In addition to working with NBA China, in March 2009, we also entered into a sponsorship agreement with FIBA to become a cooperative partner of FIBA in Asia. This cooperation marked an important milestone in introducing the Peak brand in the international market.

During the year, the Group continued its sponsorship of a number of international sports tournaments, including consecutive sponsorships of Stankovic Continental Champions Cup for the fifth time and the Tour of Qinghai Lake International Cycling Race for the fourth time. The Group is dedicated to sponsoring more prominent sports tournaments and identifying international professional athletes as spokespersons for our brand, which we believe can further enhance the professional and international images of our brand.

With respect to the Group's internal management, we adopt the core management principle of "creating value for customers and society", adhere to the vision of "creating an internationally renowned brand", and follow the corporate culture that advocates "unity, practicality and efficiency". In addition, we adopt the "people-oriented" management principle, and assign roles to employees based on their talents. To enhance our employees' recognition of our brand and its culture and to strengthen their business skills and professional ethics, we provide extensive training to them. As a result, the Group has been able to maintain a relatively low level of staff turnover whilst the market was characterized by "shortage of talents".

With unwavering dedication, the management and our employees are unified in one common goal of building the Peak brand as an international sports brand for professional athletes and general consumers.

Social Responsibilities

Apart from business development, the Group has devoted itself to contributing to society for many years and has actively participated in community activities such as sponsorships for education and other needs of the under-privileged and support for reconstruction after disasters. In 2009, the total charitable donation made by the Group was RMB2.69 million. In promoting our socially responsible culture, we issued our first Corporate Social Responsibility Report in October 2009. The ongoing contribution of the Group to community development has earned widespread recognition from different sectors in society. In my capacity as Chairman of the Group, it was my honour to be ranked as one of the "60 Most Influential Charitable Donors in China" by the China Charity Ranking Administration Office in October 2009.

Development Strategies

2010 will be a year full of challenges and opportunities. The PRC government will continue to implement proactive fiscal and duly-controlled expansive monetary policies to manage and consolidate the economy and provide a platform for a rapid recovery from the global financial crisis. Despite the global financial crisis, we believe the economy of China will maintain its stable and relatively fast pace of development. We also believe that the ongoing growth in the Chinese economy will bring about a rapid increase in domestic demand and consumption, which will ultimately provide us with increased market opportunities.

The Group will continue to place strong emphasis on promoting the professionalism and internationalism of the Peak brand in its future development. Other than working with our NBA China and FIBA partners, we will also proactively seek new cooperative partners which we believe can further assist us to promote the Peak brand to wider consumer segments. We will gradually increase our advertising and promotional expenditure in line with the growth of our

distribution network and revenue. In terms of production, we will continue to expand the number of production lines, increase our production capacities and enhance standards in research and development with an aim to provide an increasingly diversified range of sports products to our customers. We also plan to establish a design team in the United States to spur new product developments. By leveraging our solid position as a professional basketball brand in China, we will extend our penetration into other sports product segments such as tennis, soccer and running, so as to enlarge our customer base.

In terms of building the distribution network, the Group will continue to open new retail outlets, and increase our presence in the second and third tier cities in China as we believe they have enormous market potential that we can capture. In addition to our focus on penetrating into the second and third tier cities, we will selectively expand our presence into the first tier cities to ensure that we get maximum exposure for the Peak brand in China and also capture a wider range of target customers. One key marketing plan of our Group will be to open new dedicated basketball specialty outlets with unique features to promote the game of basketball in China. We will also work on improving and fine-tuning our cooperation mode with distributors and strengthen the motivation mechanism for distributors to improve their performance. In terms of human resources management, we will further emphasize internally the rationale and importance of being "people-oriented" to the continuing growth of the Group. We believe our focus on "people-oriented" and on developing and recognizing talents will induce more people of higher calibre to join our Group. We will continue to enhance and improve our training programs and reward policies for our employees. We will also provide more promotion opportunities to outstanding employees to give room for their personal development. In this way the interests of our employees and our Group will be aligned, realizing our management principle of "creating value for customers and society".

Appreciation

Last but not least, on behalf of the Board, I wish to express my sincere appreciation to the devotion and contribution of all our employees during the year, and the dedication of the professional parties involved in ensuring our successful IPO. I also wish to express my gratitude to the long term support and trust of our shareholders and business partners. The Group will continue to enhance the position of the Peak brand and strengthen its leading position in the professional basketball sports products market. We will seek to pursue stronger growth to justify our shareholders' faith in us.

Xu Jingnan
Chairman
16 March 2010

Financial Highlights

Turnover grew by **51.6%** to **RMB3,094.9** million

Gross profit margin increased from

32.7% to **37.5%**

Profit for the year attributable to equity shareholders grew by **67.1%** to RMB628.3 million. Net profit margin was **20.3%**

Earnings per share – basic and diluted increased by

44%

to RMB0.36 per share

Final dividend of HK12 cents (equivalent to RMB10.55 cents) per ordinary share is proposed

Number of authorized Peak retail outlets reached **6,206**, a net increase of **1,027** outlets

Four-Year Financial Summary

For the year ended 31 December

	2009 (RMB million)	2008 (RMB million)	2007 (RMB million)	2006 (RMB million)
Profitability data				
Turnover	**3,094.9**	2,042.0	1,014.6	623.9
Gross profit	**1,159.7**	667.8	306.0	177.2
Profit for the year	**628.3**	376.0	166.0	85.9
Earnings per share — basic and diluted (RMB)	**0.36**	0.25	0.11	0.06
Profitability ratios				
Gross profit margin	**37.5%**	32.7%	30.2%	28.4%
Net profit margin	**20.3%**	18.4%	16.4%	13.8%
Effective tax rate	**10.6%**	8.5%	5.6%	21.6%
Return on equity (note 1)	**33.3%**	64.2%	62.0%	90.9%
Operating ratios (as a percentage of revenue)				
Advertising and promotion expenses	**11.3%**	7.5%	8.6%	6.2%
Staff costs	**5.2%**	5.5%	4.2%	4.2%
Research and development costs	**0.3%**	0.3%	0.2%	0.2%

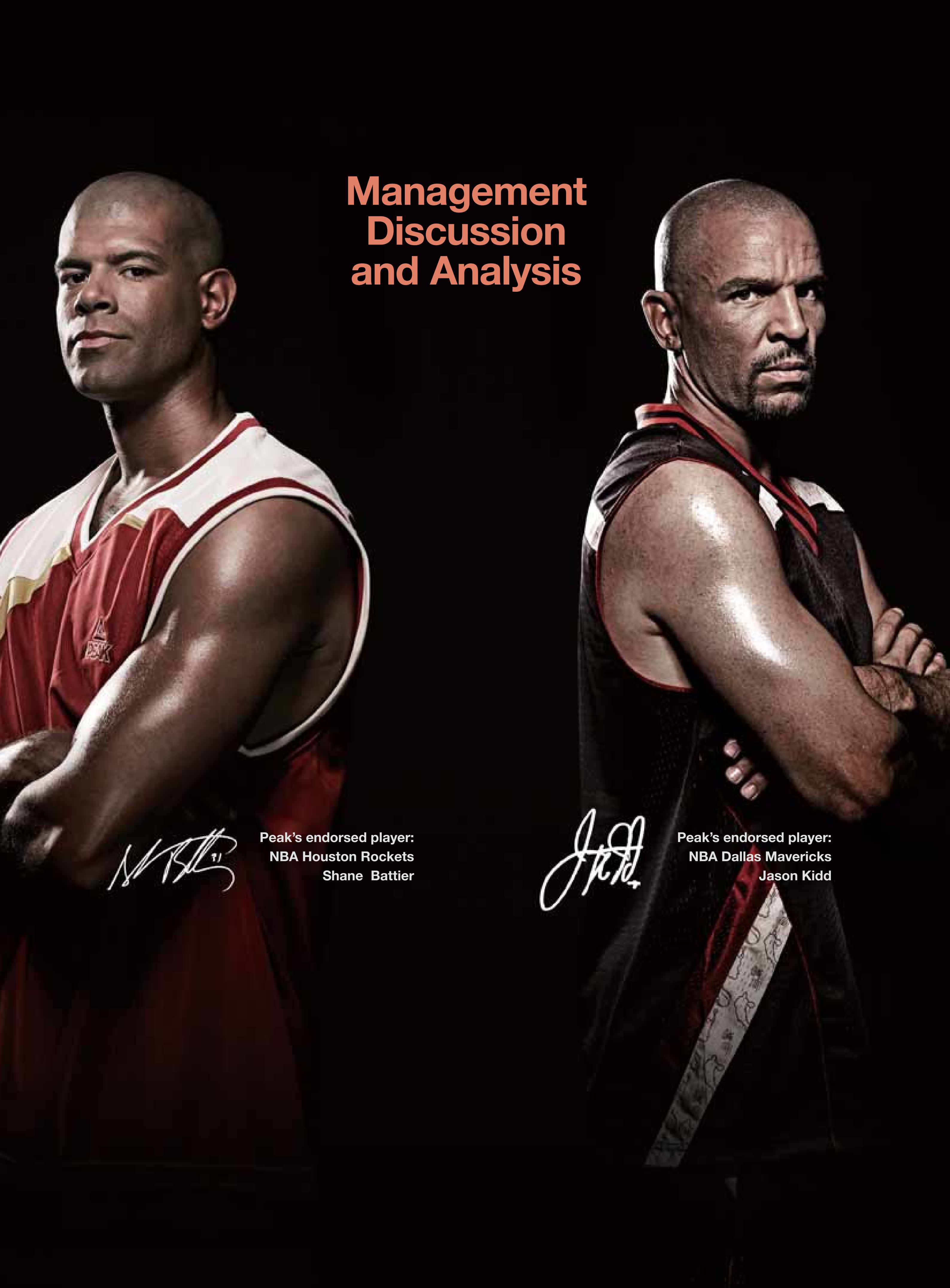
As at 31 December

	2009 (RMB million)	2008 (RMB million)	2007 (RMB million)	2006 (RMB million)
Assets and liabilities data				
Non-current assets	**337.8**	269.2	101.4	22.9
Current assets	**3,062.3**	1,165.4	774.8	302.9
Current liabilities	**366.7**	567.9	478.0	188.3
Non-current liabilities	**31.2**	92.7	0.1	—
Shareholders' equity	**3,002.2**	774.0	398.1	137.5
Working capital data				
Current ratio	**8.4**	2.1	1.6	1.6
Gearing ratio (%) (note 2)	**0.0%**	26.1%	2.7%	10.6%
Shareholders' equity per share (RMB)	**1.43**	0.52	0.26	0.10
Average inventory turnover days (days) (note 3)	**36**	43	66	61
Average trade and bills receivable turnover days (days) (note 4)	**70**	74	95	44
Average trade and bills payable turnover days (days) (note 5)	**42**	79	130	63

Notes:

1. Return on equity is equal to profit for the year divided by the average of opening and closing equity.
2. The calculation of gearing ratio is based on total bank loans divided by equity.
3. Average inventory turnover days is equal to the average of opening and closing inventory divided by costs of sales and multiplied by 365.
4. Average trade and bills receivable turnover days is equal to the average of opening and closing trade and bills receivables divided by turnover and multiplied by 365.
5. Average trade and bills payable turnover days is equal to the average opening and closing trade and bills payables divided by cost of sales and multiplied by 365.

Management Discussion and Analysis



Peak's endorsed player:
NBA Houston Rockets
Shane Battier

Peak's endorsed player:
NBA Dallas Mavericks
Jason Kidd

Financial Review

Market Overview

Under the shadow of possibly worsening impact from the global financial crisis, the Chinese Government adopted a massive stimulus package to boost domestic demand and consumption in 2009, which successfully secured steady growth in the overall economy and consumption in China. As the second and third tier cities in China were less affected by the global financial crisis, their urbanization continued at a steady pace which further increased the consumption expenditure including consumption of sports products in those cities. All in all, economic conditions in China in 2009 were not as negative as or were much more encouraging than those in western countries. With respect to the sports products market, the rising awareness of health and interest in sports among the Chinese people, brought about by the Beijing Olympic Games, continued to have positive impact on the market. Consumers have become increasingly conscious of brand image, style and functionality of sports products. With the abovementioned factors stimulating demand for sports products and the enhanced brand image and popularity of Peak's products, the Group has been able to sustain strong growth and deliver impressive results for the year 2009.

Turnover

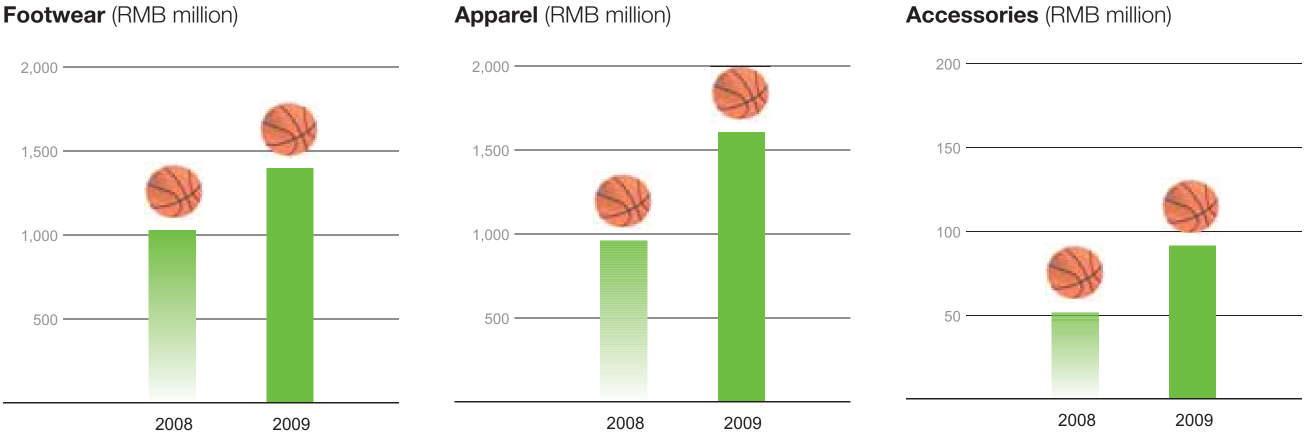
The Group's turnover for the year amounted to RMB3,095 million (2008: RMB2,042 million), representing an increase of 51.6% when compared to that in 2008. The increase was mainly due to increased demand for our products and continued expansion of our distribution network in China during the year. The increase in the demand for our products was attributable to our successful brand promotion and marketing strategies, as well as the organic growth in the Chinese sports products market. The number of authorized Peak retail outlets has increased by 19.8% to 6,206 for the year ended 31 December 2009 (2008: 5,179).

Analysis of turnover by product category:

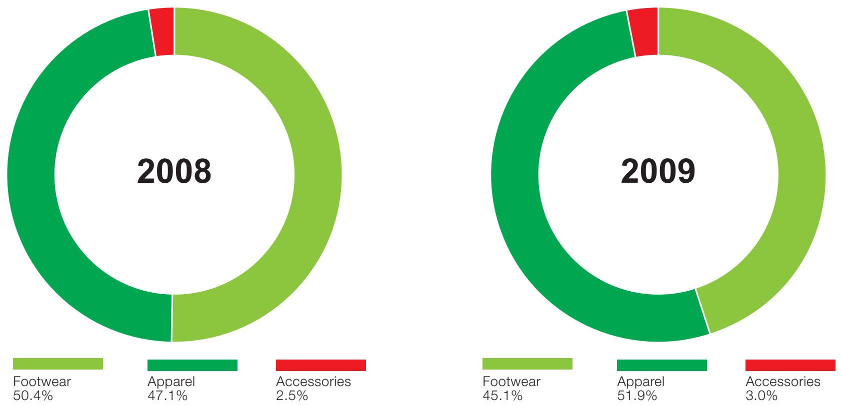
	Year ended 31 December				
	2009		2008		
	RMB (million)	**% of turnover**	RMB (million)	% of turnover	Change (in %)
Footwear	**1,397.2**	**45.1**	1,028.9	50.4	35.8
Apparel	**1,606.0**	**51.9**	961.5	47.1	67.0
Accessories	**91.7**	**3.0**	51.6	2.5	77.7
Total	**3,094.9**	**100.0**	2,042.0	100.0	51.6

The growth rate of turnover derived from apparel products was much higher than that from footwear products primarily due to a broadening of our apparel offerings and disproportionate increase in the demand for apparel products from customers during the year. As a result, turnover derived from apparel products has become the largest contributor to our total turnover in 2009.

Turnover by product category



Percentage of Turnover



Analysis of turnover by geographical location:

	Year ended 31 December				
	2009		2008		
	RMB (million)	**% of turnover**	RMB (million)	% of turnover	Change (in %)
China market	**2,820.6**	**91.1**	1,786.8	87.5	57.9
Overseas markets					
Europe	**98.2**	**3.1**	106.9	5.3	(8.1)
Asia	**89.2**	**2.9**	77.9	3.8	14.5
South America	**48.3**	**1.6**	39.6	1.9	22.0
Africa	**15.6**	**0.5**	10.7	0.5	45.8
North America	**11.8**	**0.4**	14.5	0.7	(18.7)
Australia	**11.2**	**0.4**	5.6	0.3	100.0
	274.3	**8.9**	255.2	12.5	7.5
Total	**3,094.9**	**100.0**	2,042.0	100.0	51.6

The China market was still the most significant revenue contributor in 2009. The contribution to total turnover from overseas markets has dropped from 12.5% in 2008 to 8.9% in 2009 because the growth rate of turnover derived from the overseas markets in 2009 (7.5%) was much lower than that from the China market (57.9%).

Selling price and volume

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

	Year ended 31 December					
	2009		2008		Change	
	Quantity sold (million)	**Average unit selling price (RMB)**	Quantity sold (million)	Average unit selling price (RMB)	Quantity sold (in %)	Average unit selling price (in %)
Footwear (pairs)	**16.5**	**84.4**	11.7	87.9	41.0	(4.0)
Apparel (pieces)	**30.1**	**53.5**	18.3	52.5	64.5	1.9

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 selling 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 of our footwear products has decreased from RMB87.9 in 2008 to RMB84.4 in 2009, primarily due to a disproportionate increase in the sale of lower-priced footwear categories such as casual and vintage shoes. Given that the sales volume has increased for most of our footwear categories, the above disproportionate increase reflects the enhanced recognition of the Peak brand by different customer segments.

As for our apparel products, the average unit selling price has increased from RMB52.5 in 2008 to RMB53.5 in 2009, primarily as a result of a slight increase in the average selling prices of most apparel products during the year. Such increase is partially offset by an increase in the sales volume of the lower-priced apparel categories such as T-shirts.

Turnover by number of retail outlets and floor area

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

	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)
2009	**6,206**	**453,038**	**73.0**	**5,693**	**407,785**	**495**	**6.9**
2008	5,179	362,531	70.0	4,420	287,371	404	6.2
Change (%)	19.8	25.0	4.3	28.8	41.9	22.5	11.3

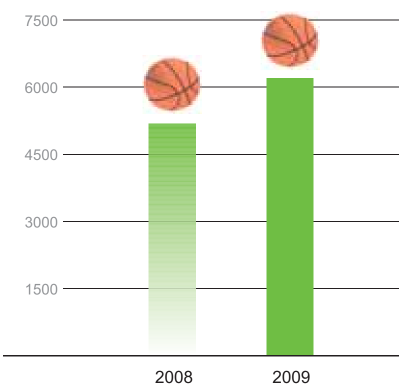
Notes:

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 number of the retail outlets for the year.

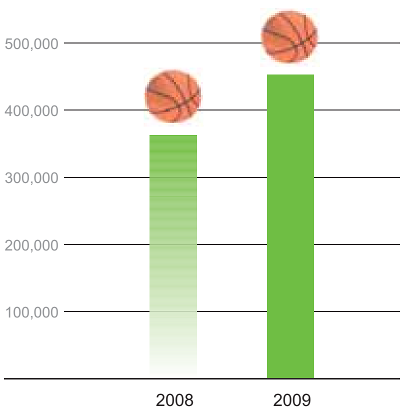
2. Average turnover per unit retail floor area is equal to the total turnover (China market) divided by the average total retail floor area, which is equal to the average of the opening and closing total retail floor area for the year.

The average floor area per authorised Peak retail outlet has increased from 70 sq. m. as at 31 December 2008 to 73 sq. m. as at 31 December 2009, which was in line with the Group's strategy to continue to increase the size of its new stores to accommodate its increasing product offerings and to match with the enhanced Peak brand image. The average turnover per authorised Peak retail outlet and the average turnover per unit retail floor area during 2009 have increased by 22.5% and 11.3% respectively when compared to those of 2008. The increases in these two ratios were attributable to the increase in the average size of the retail outlets and the increase in the popularity of the Peak products during the year.

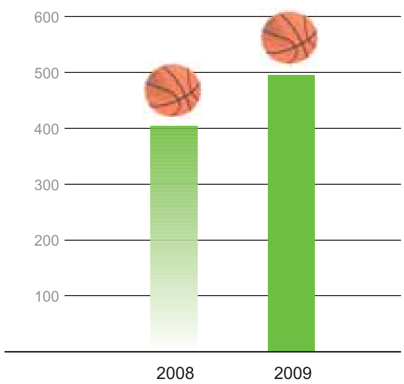
No. of retail outlets



Total retail floor area (sq. m.)



Average turnover per retail outlet (RMB'000)



Cost of sales

Analysis of cost of sales by production method:

	Year ended 31 December				
	2009		2008		
	RMB (million)	**% of total**	RMB (million)	% of total	Change (in %)
Self-production					
Raw materials	**332.9**	**67.2%**	251.9	70.2%	32.2
Direct labour	**95.1**	**19.2%**	62.2	17.3%	52.9
Overhead	**67.6**	**13.6%**	44.8	12.5%	50.9
Total	**495.6**	**100.0%**	358.9	100.0%	38.1
Cost of sales					
Self-production	**495.6**	**25.6%**	358.9	26.1%	38.1
OEM/ODM	**765.1**	**39.5%**	508.7	37.0%	50.4
Subcontracting arrangements	**674.5**	**34.9%**	506.6	36.9%	33.1
Total	**1,935.2**	**100.0%**	1,374.2	100.0%	40.8

As the direct labour rate remained steady during 2009, direct labour cost increased in line with the production volume during the year. The decrease in the percentage of raw materials in the total costs of self-production from 70.2% in 2008 to 67.2% in 2009 was attributable to a decrease in the purchase cost of raw materials due to a slowdown of global demands for raw materials after the outbreak of the global financial crisis in late 2008. The accumulated experience of the newly employed production workers in the Group's two new production facilities in Shang'gao, Jiangxi Province and Hui' an, Fujian Province enabled a more efficient use of raw materials during the year and this improvement in efficiency also contributed to the decrease in the percentage of raw materials in the total costs of self-production.

The ratio of self-production to total costs of sales decreased slightly from 26.1% in 2008 to 25.6% in 2009 which reflected that the demand for our products slightly exceeded our self-production volume despite our increased capacity during the year.

Gross profit by product

Analysis of contributions to gross profit by product category:

	Year ended 31 December				
	2009		2008		
	Gross profit RMB (million)	**Gross profit margin (%)**	Gross profit RMB (million)	Gross profit margin (%)	Change in gross profit margin (% points)
Footwear	**528.7**	**37.8**	330.4	32.1	5.7
Apparel	**597.4**	**37.2**	317.7	33.0	4.2
Accessories	**33.6**	**36.6**	19.7	38.2	(1.6)
Overall	**1,159.7**	**37.5**	667.8	32.7	4.8

The Group adopts the cost-plus method to set the wholesale prices of its products. During 2009, the Group adopted similar gross profit margins for its footwear and apparel products. The increase in the overall gross profit margin from 32.7% in 2008 to 37.5% in 2009 is mainly due to enhanced recognition of the Peak brand by customers. The enhanced recognition was in turn a result of our successful marketing and promotional activities carried out during the year.

Other revenue and other net income

Other revenue for the year increased to RMB11.2 million (2008: RMB3.5 million) due to increased interest income derived from the proceeds of the IPO and increased PRC government grants awarded for the recognition of our export sales performance and our contribution to the local community. Other net income decreased to RMB4.6 million (2008: RMB11.9 million) mainly because of a decrease in foreign exchange gain arising from an amount due to a related party which was fully repaid in April 2009.

Selling and distribution expenses

Total selling and distribution expenses for the year amounted to RMB380.2 million, representing an increase of 110% when compared to that in 2008. The significant increase was mainly attributable to increased advertising and promotion expenses to further promote the Peak brand and its products during the year.

Administrative expenses

Total administrative expenses for the year amounted to RMB77.6 million, representing a decrease of 8.4% when compared to that in 2008. The decrease was primarily due to a decrease in legal and professional fees. Such decrease was partially offset by the increased staff costs for our management and administrative personnel and the increased research and development expenses which were in line with the Group's expansion during the year.

Income tax

The income tax expenses have increased by 115.0% from RMB34.7 million in 2008 to RMB74.6 million in 2009. This increase was mainly due to increases in the Group's revenue and the effective tax rate in 2009. The increase in the effective tax rate was primarily due to a change in the tax status of a subsidiary of the Group. The subsidiary was subject to a corporate income tax rate of 12.5% in 2009 while it was exempted from the corporate income tax in 2008.

Net profit and net profit margin

Net profit increased by 67.1% from RMB376.0 million in 2008 to RMB628.3 million in 2009 while net profit margin increased to 20.3% in 2009 from 18.4% in 2008. The increase in net profit was mainly attributable to the increase in sales revenue during 2009 and the increase in net profit margin was primarily a result of an increased gross profit margin from 32.7% in 2008 to 37.5% in 2009, which was partially offset by a disproportionate increase in the advertising and promotion expenses during 2009.

Working capital ratios

The average inventory turnover days decreased from 43 days in 2008 to 36 days in 2009. Such decrease was attributable to our improved inventory management as a result of the increased use of advance orders by our distributors.

The average trade and bills receivable turnover days decreased from 74 days in 2008 to 70 days in 2009. The slight reduction in turnover days reflects the effectiveness of the Group's credit control policy.

The average trade and bills payable turnover days decreased from 79 days in 2008 to 42 days in 2009. The decrease was mainly due to management's decision to settle purchases with suppliers earlier to obtain preferential terms on future purchases and to strengthen our relationship with them.

Liquidity and capital resources

For the year 2009, the net cash inflow from operating activities of the Group amounted to RMB268.9 million (2008: RMB284.3 million). As at 31 December 2009, the 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 RMB1,988.2 million, representing a net increase of RMB1,499.5 million when compared with the position as at 31 December 2008. The increase is analysed below:

	Year ended 31 December 2009 RMB'000
Net cash inflow from operating activities	**268,907**
Net capital expenditure	**(103,775)**
Dividends paid	**(112,807)**
Net repayment of bank loans	**(202,233)**
Proceeds from issue of shares, net of issuing expenses	**1,714,278**
Other net cash outflow	**(64,851)**
Net increase in cash and bank deposits	**1,499,519**

The Group has been adopting a prudent treasury management policy and has strong liquidity position with sufficient standby banking facilities to cope with the funding needs arising from the daily operations and future developments. The Group has repaid all bank borrowings as at 31 December 2009.

During 2009, the Group has not used any financial instruments to hedge its exposure to interest rate risks.

Foreign exchange risk

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

Pledge of assets

Buildings with carrying amount of RMB159,837,000 (2008: RMB49,427,000), construction in progress with carrying amount of RMB4,177,000 (2008: RMB72,714,000), lease prepayments with carrying amount of RMB16,257,000 (2008: RMB15,567,000) and bank deposits of RMB55,344,000 (2008: RMB70,256,000) were pledged to banks as security for bills payable and certain bank facilities as at 31 December 2009.

Use of net IPO proceeds

The Company was listed on the Main Board of the Hong Kong Stock Exchange on 29 September 2009 with net proceeds raised from the IPO amounting to approximately RMB1,395.6 million. During the period from the Listing Date to 31 December 2009, the Group utilised the net IPO proceeds in the following manner, which is consistent with the "Use of proceeds" set out in the Prospectus:

Use of proceeds	**Net IPO proceeds (RMB million)**		
	Available	**Utilised**	**Unutilised**
Media advertising, brand promotion and marketing	674.1	116.2	557.9
Expansion and improvement of production capacities	262.4	25.2	237.2
Incentive rewards and renovation subsidies to distributors	217.7	48.2	169.5
Research and development	61.4	2.9	58.5
Upgrading of management information system	60.0	0.2	59.8
General working capital	120.0	120.0	–
Total	1,395.6	312.7	1,082.9

The unutilised net IPO proceeds were placed as short term deposits in both Hong Kong dollars and Renminbi in licensed banks in China as at 31 December 2009.

Operation Review

2009 is a very special year for Peak especially when it became a listed company in September 2009 after years of preparation for the IPO.

To strengthen the Group's financial position, the Group obtained additional funding from several investors in April 2009 through the issue of the Company's new shares. These investors include affiliates of renowned venture capital funds and companies such as Sequoia Capital and Legend Holdings Limited. In September 2009, the management team conducted IPO roadshows for the Group in Hong Kong, Singapore, the United Kingdom and the United States of America. Investors' great interest in the Company led to an oversubscription of the Company's shares of many times. The Company was successfully listed on the Hong Kong Stock Exchange on the Listing Date.

The Group has been making prominent progress in many areas such as management effectiveness and efficiency, corporate governance and internal controls, since the commencement of the IPO process. We expect we will have further improvement or advancement in the above areas in the years ahead.

During 2009, the Group consistently invested in advertising and promotional activities to enhance and strengthen our brand image and recognition by the public despite the global financial crisis. We followed the marketing strategies that we have adopted for years to promote the professional and international brand images of Peak. The Group expanded its distribution network by adding more than 1,000 authorized Peak retail outlets in 2009. With the massive stimulus packages adopted by the Chinese government, continuous urbanization of the second and third tier cities, and the above commitment for business development by the Group, the Group was able to deliver impressive results in 2009 under the shadow of the global financial crisis.

Expansion in distribution network

The network of authorized Peak retail outlets across China, operated either by our distributors or by third party retail outlet operators, has been providing a cost-effective retail channel for Peak's products. With increasing demand in China for sports products and the enhanced image and popularity of the Peak brand, the Group was able to expand its retail network steadily throughout China in 2009. As at 31 December 2009, the total number of authorized Peak retail outlets is 6,206 (2008: 5,179), representing a net increase of 1,027 outlets during 2009.

Analysis of authorized Peak retail outlets by geographical location:

Northern China

	Number of retail outlets as at 31 December		
	2009	2008	Change
Anhui	**227**	197	15%
Beijing/Inner Mongolia	**174**	126	38%
Gansu	**96**	81	19%
Hebei	**251**	204	23%
Heilongjiang	**151**	118	28%
Jiangsu	**371**	306	21%
Jilin	**160**	120	33%
Liaoning	**197**	141	40%
Ningxia	**37**	27	37%
Qinghai	**14**	9	56%
Shaanxi	**170**	148	15%
Shandong	**432**	340	27%
Shanxi	**176**	156	13%
Tianjin	**33**	20	65%
Tibet	**2**	2	—
Xinjiang	**105**	82	28%

Southern China

	Number of retail outlets as at 31 December		
	2009	2008	Change
Chongqing	**176**	152	16%
Fujian	**459**	414	11%
Guangdong	**494**	432	14%
Guangxi	**261**	227	15%
Guizhou	**84**	68	24%
Hainan	**78**	59	32%
Henan	**335**	306	9%
Hubei	**300**	258	16%
Hunan	**314**	267	18%
Jiangxi	**164**	150	9%
Shanghai	**73**	49	49%
Sichuan	**209**	173	21%
Yunnan	**248**	220	13%
Zhejiang	**415**	327	27%

The second-tier and third-tier cities in China have been the Group's marketing focus during the year because of their faster economic growth and less competition when compared to the first-tier cities. Accordingly, the new authorized outlets opened in 2009 are mainly located in the second-tier and third-tier cities. At the same time, with the increasing popularity of the Peak brand among consumers throughout China, we also expanded our network in the first-tier cities strategically to further enhance and strengthen our brand image.

Analysis of authorized retail outlets by type of city:

	Number of retail outlets as at 31 December		
	2009	2008	Change
First-tier city	**315**	245	29%
Second-tier city	**1,319**	1,108	19%
Third-tier city	**4,572**	3,826	19%
Total	**6,206**	5,179	20%

Our authorized Peak retail outlets can be analysed by 5 categories of which flagship stores, image stores and basic stores are street-level outlets.

Analysis of authorized retail outlets by store category:

	Number of retail outlets as at 31 December		
	2009	2008	Change
Flagship Store	**481**	328	47%
Image Store	**1,699**	1,325	28%
Basic Store	**1,598**	1,388	15%
Department Store Outlet	**1,083**	915	18%
Sporting Goods Counter	**1,345**	1,223	10%
Total	**6,206**	5,179	20%

Management of distributors and retail outlets

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

China market

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

Our distributors acknowledge their responsibilities to supervise and manage the operations of the authorized Peak retail outlets according to our policies and guidelines regarding layout of outlet, sales and expansion targets, pricing, customer and after-sale services, etc. Prior written consent must be obtained from us before a distributor may conduct any promotional events or sell any of our products to customers at a discount to our suggested retail price.

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

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

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

In 2009, the Group continued to expand our Lijing system, a computerized management information system, to maintain regular communication with and collect sales data and feedback from the authorized Peak retail outlets. As at 31 December 2009, 804 retail outlets were connected to our Lijing system.

As an incentive for our distributors to expand the network of retail outlets and to maintain a consistent store image, we provide renovation subsidies to qualified authorized Peak retail outlets. Incentive is also offered for opening authorized Peak retail flagship outlets and image outlets in prime locations in first and second-tier cities, by subsidizing part of the annual rental cost to distributors. We also reward our distributors who meet or exceed the annual sales target by offering a deduction of a certain percentage of their annual purchase amount from subsequent purchases of our products.

Overseas markets

We sell our Peak products overseas on a wholesale basis (i) to overseas customers who are introduced to and learn about our products from our website or at international exhibitions such as the Canton Fairs in China, the Hong Kong Sports Goods Fair and the ISPO Fair in Germany as well as certain trade fairs in Las Vegas, USA that we participate in, or from other marketing activities, and (ii) through our overseas distributors who then sell the products to consumers, retailers, sports teams or clubs. During the past three years, we exported our products to over 70 countries.

We enter into distribution agreements with overseas distributors, which generally define geographical areas over which the overseas distributors may distribute our products. These areas include portions of Europe, the Middle East, Africa, North America, Australia and Asia. These distributorships are for an indefinite period which can be terminated by either party by giving at least one month's prior written notice. The overseas distributors are also authorized to use our Peak trademarks for advertising the Peak products.

According to the distribution agreements, the overseas distributors are prohibited from distributing competing brands of sports products without our prior written consent. Besides, they are not permitted to act as distributors or agents, or in any other way, for the benefit of third parties who manufacture, distribute or market competing brands of sports products.

We work closely with our overseas distributors to promote the Peak brand internationally. We present collections of our new products to our overseas distributors at our sales fairs for them to place orders. We also present poster designs, product catalogs and promotional plans to our overseas distributors from time to time to enhance the overseas promotions and boost the sales of our products overseas.

Brand promotion and marketing

We believe that marketing and promotion are crucial to success in the sports products industry. We employ a focused marketing strategy where we promote Peak as an international and professional brand. Our marketing arrangements include partnerships with international sports associations, sponsorships of tournaments and endorsement arrangements with world-class athletes all over the world. The Group has also employed various means of advertising, such as national television commercials, outdoor media, online promotion and publications to promote the Peak brand and its products.

During the year, the Group engaged in and participated in a number of on-going and new marketing arrangements and activities, including sponsorships of the events, tournaments and sports teams below:

- NBA Jam Van (NBA大篷車)
- Australian (Celebrity) Basketball Team (澳大利亞明星籃球隊)
- 2009 Tour of Qinghai Lake International Cycling Race (2009環青海湖國際公路自行車賽)
- FIBA Under 19 World Championship for Women (19歲以下女子籃球亞錦賽)
- Stankovic Continental Champions Cup (斯坦科維奇杯洲際籃球賽)
- AFC U-19 Women's Championship 2009 (2009年亞足聯U19女子青年足球錦標賽)
- 2009 Peak NBA Star China Tour (2009匹克NBA球星中國行)
- Asian Occupational Basketball Championship (亞洲職業籃球冠軍賽)

Under the above sponsorship arrangements, the Group was able to place advertisements and promote our Peak brand in each of these events and ultimately raise the awareness of our brand in the market.

In relation to our cooperation with NBA, the Group continued to invest in and collaborate with NBA teams and their players to strengthen our leading position in the basketball products field. The Group entered into endorsement agreements with 4 more NBA players, Carl Landry of the Houston Rockets, Kevin Love of the Minnesota Timberwolves, Kyle Lowry of the Houston Rockets and Mickael Pietrus of Orlando Magic during 2009. The Group also organized a promotional tour for NBA players to China and Hong Kong in order to maximize our brand recognition.

Additionally, the Group was awarded "China's Famous Branded Product" (中國名牌產品) for the second time and the Peak brand was recognized as one of "Famous trademark of China" (中國馳名商標) in 2009.

Production capacity

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

Footwear Production Facilities

We currently have two footwear production facilities at Quanzhou, Fujian Province and Shang'gao, Jiangxi Province. We, however, outsourced a major portion of our footwear production to contract manufacturers. The footwear production volume for 2009 was approximately 16.6 million pairs, of which approximately 39.1% were produced by ourselves and approximately 60.9% were produced through selective outsourcing to contract manufacturers.

We have a plan to increase our annual production capacity for our footwear products to approximately 15.7 million pairs by the end of 2013 upon completion of the construction work at our plant in Shang'gao, Jiangxi Province.

Apparel Production Facilities

We currently have two apparel production facilities at Quanzhou and Hui'an, Fujian Province. We, however, outsourced a major portion of our apparel production to contract manufacturers. The apparel production volume for 2009 was approximately 30.8 million pieces, of which approximately 19.6% were produced by ourselves and approximately 80.4% were produced through selective outsourcing to contract manufacturers.

We have a plan to increase our annual production capacity for our apparel products to approximately 17.6 million pieces by the end of 2012 upon completion of the construction work at our plant in Hui'an, Fujian Province.

Analysis of our production capacities by location and product category:

		Footwear production facilities		Apparel production facilities	
Location		**Quanzhou, Fujian Province (Full production)**	**Shang'gao, Jiangxi Province**	**Quanzhou, Fujian Province (Full production)**	**Hui'an, Fujian Province**
Commencement date of production		August 1994	June 2008	February 2004	September 2008
Number of production lines as at 31 December 2009		**5**	**6**	**18**	**41**
Annual production capacity[1] (pairs/pieces)	2008	3.3 million	2.5 million	1.0 million	2.6 million
	2009	**3.7 million**	**3.5 million**	**1.2 million**	**5.0 million**
Actual production volume (pairs/pieces)	2008	3.3 million	1.5 million	1.0 million	0.9 million
	2009	**3.6 million**	**2.9 million**	**1.3 million**	**4.7 million**
Expected time of full production			2013		2012
Expected number of production lines upon full production			16		140
Expected production capacity upon full production			12.0 million		16.4 million

Note:

1. Annual production capacity is an estimate we make with regard to each year taking into account a number of factors and assumptions, including, among others: number of production lines, amount of equipment and personnel, estimated rate of production per worker per hour, number of hours and days our workers work per month and seasonal impact on production selection. As a result, there can be no assurance that total amounts we would have been able to produce in any year would not have been higher or lower than the actual amount we produce for that year.

Research & development

Our strong market research capabilities have enabled us to successfully anticipate market developments and trends in China. We believe that the recognition of the Peak brand by the public and the Peak brand's position in the sports products industry in China is partly due to our ability to continuously introduce innovative products. By utilizing our knowledge of market trends and the expertise of our product design and development teams, we have been able to transform product concepts into commercially viable products for sale in China efficiently and effectively. We have our own market research team that collects feedback from users of our products and gauges market acceptance of our designs. As of 31 December 2009, our product design and development teams were located in Beijing, Quanzhou, Guangzhou and Hui'an and consisted of 265 design professionals. We believe that we will continue to succeed with our strong market research and product design and development capabilities.

Our design capabilities also enable us to bring new products with a high level of functionality to the market. Our existing technologies include (1) the patented "Cushion-3" system (三級減震系統), which is used in our footwear products to provide excellent shock-absorption effect during exercises, (2) the patented "Peak Vent" system (包袋透氣背負系統), which is used in our backpack products to facilitate ventilation between the backs of the user and the bag, and (3) the "China Heart" basketball tyre (赤膽中國心籃球胎) which is used in our basketball products to ensure strong rebound and leakage-proof. In 2009, we introduced approximately 489 new footwear products, 771 new apparel products and 387 new accessory products to the market.

Supply chain management

A substantial portion of our annual production of footwear and apparel is outsourced to contract manufacturers. We have three types of outsource arrangements with our contract manufacturers: (1) subcontract arrangements, (2) OEM and (3) ODM. Under the subcontract arrangements we provide subcontractors with raw materials and pay them a processing fee for manufacturing the finished products for us. Under the OEM arrangement, we provide OEMs with the designs and specifications of our products and recommend suppliers for them to procure raw materials for their production. The OEM arrangement allows us to devote less of our management time on monitoring the whole production process and focus our resources on the expansion of Peak's sales network and enhancement of our brand image, while the subcontract arrangements enable us to obtain more control over the production process.

We carefully select and evaluate 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 and timely reporting to the relevant contract manufacturers any failure to meet our product quality requirements or incidents of late delivery.

In addition to the above procedures, the Group also adopts the following measures to ensure an efficient and effective supply chain management:

- 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 is logistically convenient and it helps reduce our procurement costs.

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

- 3 sales fairs are organised each year to allow our distributors and third party retail outlet operators to review the sample product collections and place pre-season orders for the upcoming seasons. With this practice, production can be better planned in advance to ensure smooth supply of products to the market.

The Group uses its endeavours to continuously improve our supply chain management by frequent communication with our suppliers and closely monitoring the changes in the market environment. With these measures, any disruption to our supply chain can be resolved in a timely manner.

Human Resources

We consider our people to be the most valuable assets to the Group and we will continue to allocate sufficient resources in recruiting, training and rewarding our staff. During 2009, over 200 new production staff were recruited for the new production facilities at Hui' an, Fujian Province and Shang'gao, Jiangxi Province. We also recruited new staff for a number of departments including sales and marketing, logistics and research and development to cope with the expansion of our business especially after the listing of the Company in September 2009. As at 31 December 2009, the Group's total headcount was 7,765.

We provide training to our staff to enhance their technical and product knowledge as well as knowledge of the industry quality standards and workplace safety standards. Our "Peak Business School", which is established to provide systematic training to our front-line sales staff, also provides training to our distributors and third party retail outlet operators regarding Peak product knowledge and selling and promotion skills. During 2009, over 10 training camps were held by the school for our staff from the marketing and procurement departments and also for staff from our distributors and third party retail outlet operators.

We determine the remuneration of our employees based on factors such as qualifications, performance, years of experience, etc. 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. The Company granted share options to over 400 employees in February 2010.

Future Prospect

Year 2009 was filled with unparalleled and unexpected challenges. As a result of the global financial crisis and the slowdown of the world economy, the Chinese government has been adopting a massive stimulus package with various revitalization measures to maintain China's economic growth rate at a high level and boost domestic demand. Riding on this wave of increased consumer demand, we believe that there is enormous potential in the year ahead and it is a great opportunity for the Group to capture the demand of the rapidly growing sports products market segment by using its established and well-recognised brand image and extensive distribution network.

Enhancement of brand image and recognition

The Group has successfully developed a solid brand image that focuses on professionalism and functionality. This branding provides us with a competitive advantage in marketing our products to distributors and capturing the attention of consumers. The Group will continue to expand its marketing campaign aggressively, and to further enhance the Peak image and brand recognition by the following new arrangements:

1. The Group is going to open approximately 100 basketball specialty retail outlets with autographs and memorabilia of its endorsed athletes. We will also host marquis events where our endorsed athletes will visit our stores for autograph events.

2. To increase the exposure of its brand image, the Group has signed partnership agreements to sponsor sports products with the New Zealand Olympic Committee for the 2010 Commonwealth Games, 2010 Youth Olympic Games, and 2012 Summer Olympic Games.

3. Building on our success in the promotion of basketball sports products, the Group will adopt similar strategy to promote other product lines, such as those of running, tennis, and soccer.

The Group will also continue to maintain our partnership and endorsement arrangements with selected NBA teams and players to further expand the positive reputation of the Peak brand, as well as the sponsorship of FIBA sporting events for promoting our co-branded products.

Expansion of distribution network

We believe that the Group's extensive distribution network throughout China provides it with strong coverage of our Peak brand in China particularly in the second and third-tier cities where there has been significant economic growth due to population increases and rising household income. To further enlarge the Group's market coverage, the Group has a plan to increase approximately 1,000 authorized Peak retail outlets and approximately 100 basketball specialty retail outlets in 2010. The Group will continue to focus on the second and third tier cities while selectively expanding its retail network in the first tier cities in China. The Group also has a plan to expand the size of each store from the existing average of 73 sq.m. to 80 sq.m. in order to meet additional consumer demands and to accommodate new product lines.

We are also considering to offer new incentives or assistance to our distributors so as to encourage them to open new retail outlets in accordance with the Group's plan.

Development of research & product design

To strengthen its research and product designs, the Group is in the process of hiring a new team of professional designers from the US and establishing a design office in the US. The Group's research team will collaborate with the new team to enhance product designs and innovation, such as using raw materials that are environmentally-friendly and developing organic and recycled cotton for its products. By working closely with the new design team, the Group expects to acquire more international knowledge and experience and develop higher quality products that are more stylish, functional and environmentally-friendly.

Expansion of production capacity

As mentioned above, maintaining its own production capabilities will enable the Group to have a better control of our production process and the flexibility and ability to respond promptly to market changes. To this end, the Group will invest approximately RMB100 million to continue the construction of and the purchase of new machinery and equipment for its two production facilities in Hui'an, Fujian Province and Shang'gao, Jiangxi Province in 2010.

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 2009.

The Company believes that good corporate governance practices are very important for maintaining and promoting investor confidence and for the sustainable growth of the Group. The Company has made continued efforts to maintain and improve 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 adopted the principles as contained in the CG Code since the Listing Date.

In the opinion of the Board, the Company has complied with all the code provisions set out in the CG Code since the Listing Date to the end of the financial year of 2009. The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review its corporate governance practices from time to time to ensure they comply with the increasingly tightened regulatory requirements and to meet the rising expectations of shareholders and investors. The following summarizes the Company's corporate governance practices.

(A) The Board

(A.1) Responsibilities and Delegation

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

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

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

(A.2) Board composition

The Board currently comprises the following ten members, of whom three are EDs, four are NEDs and three are INEDs.

EDs:

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

NEDs:

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

INEDs:

Dr. Xiang Bing	*(Chairman of both the Audit Committee and the Remuneration Committee and Member of the Nomination Committee)*
Dr. Rock Jin	*(Chairman of the Nomination Committee and Member of both the Audit Committee and the Remuneration Committee)*
Mr. Wang Mingquan	*(Member of the Audit Committee, the Remuneration Committee and the Nomination Committee)*

The INEDs possess different business and professional backgrounds. The Board has met the requirements of the Listing Rules of having at least three INEDs with at least one of them possessing appropriate professional qualifications and accounting and related financial management expertise. The Board has received from each INED an annual written confirmation of independence pursuant to Rule 3.13 of the Listing Rules and the Board continues to regard each of them as independent up to the date of this 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. Biographical details of the Directors and the relationship among them are set out on pages 40 to 43 of this report.

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

(A.3) Board Meetings and Board Practices

The Board meets regularly and holds at least four regular meetings at approximately quarterly intervals in a year, for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company. Additional meetings are held when significant events or important issues are required to be discussed and resolved. During the year ended 31 December 2009, the Board held 5 meetings. Details of individual attendance of each Director at the meetings are set out below:

Directors	**Meetings attended/held**	**Attendance (%)**
EDs		
Mr. Xu Jingnan *(Chairman)*	5/5	100
Mr. Xu Zhihua	5/5	100
Mr. Xu Zhida	5/5	100
NEDs		
Ms. Wu Tigao	5/5	100
Mr. Shen Nanpeng	5/5	100
Dr. Hu Zhanghong (Note 1)	4/4	100
Mr. Zhu Linan (Note 1)	4/4	100
INEDs		
Dr. Xiang Bing (Note 2)	2/2	100
Dr. Rock Jin (Note 2)	2/2	100
Mr. Wang Mingquan (Note 2)	2/2	100

Notes:

1. Dr. Hu Zhanghong and Mr. Zhu Linan have been appointed as NEDs with effect from 7 April 2009. During the period immediately after their appointment and up to 31 December 2009, there were 4 Board meetings held.

2. Dr. Xiang Bing, Dr. Rock Jin and Mr. Wang Mingquan have been appointed as INEDs with effect from 8 September 2009. During the period immediately after their appointment and up to 31 December 2009, there were 2 Board meetings held.

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

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

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

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

(A.4) Chairman and Chief Executive Officer

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

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

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

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

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

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

Pursuant to the aforesaid provisions in the Articles of Association, all Directors shall retire at the forthcoming 2010 AGM of the Company and, being eligible, they will offer themselves for re-election at the meeting. The Company's circular, sent together with this annual report, contains detailed information of these Directors pursuant to the requirements set out in the Listing Rules.

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

(A.6) Induction and Continuing Development for Directors

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

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

(A.7) Securities Transactions by Directors

The Company has adopted the Model Code as its own code of conduct regarding directors' securities transactions in the Company. All Directors of the Company have confirmed, following specific enquiry by the Company, that they have complied with the required standards set out in the Model Code throughout the period from the Listing Date to 31 December 2009.

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

In case 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.

(B) Board Committees

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

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

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

(B.1) Executive Committee

The Executive Committee was established in November 2009. 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 the business decision. It monitors the execution of the Group's strategic plans and operations of all business units of the Group and discusses and makes decisions on matters relating to the management and day-to-day operations of the Group.

(B.2) Audit Committee

The Audit Committee was established in September 2009 in compliance with the Listing Rules and the CG Code. The Audit Committee comprises the three INEDs, namely Dr. Xiang Bing, Dr. Rock Jin and Mr. Wang Mingquan. 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 the followings:

- 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;
- To review the relationship with the external auditor by reference to the work performed by the 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
- 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 2009, the Audit Committee held one meeting. Details of individual attendance of each member at the meeting are set out below:

Audit Committee Members	Meeting attended / held	Attendance (%)
Dr. Xiang Bing *(Chairman)*	1/1	100
Dr. Rock Jin	1/1	100
Mr. Wang Mingquan	1/1	100

During the meeting, the Audit Committee discussed with the external auditor the nature, plan and scope of the Company's audit for the year ended 31 December 2009, certain accounting principles and practices adopted by the Group and matters on internal control of the Group. The Audit Committee also considered the independence of the external auditor of the Company.

The financial statements of the Company for the year ended 31 December 2009 have been reviewed and discussed by the Audit Committee together with the external auditor of the Company at a meeting held in March 2010.

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

(B.3) Remuneration Committee

The Remuneration Committee was established in September 2009 in compliance with the CG Code. It currently comprises five members, being one ED, namely Mr. Xu Jingnan, one NED, namely Mr. Shen Nanpeng, and three INEDs, namely Dr. Xiang Bing, Dr. Rock Jin and Mr. Wang Mingquan. The chairman of the Remuneration Committee is Dr. Xiang Bing.

The primary functions of the Remuneration Committee include the followings:

- to make recommendations to the Board on the Company's policy and structure of the remuneration of the Directors and the senior management and transparent procedure for developing policy on such remuneration;
- to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;
- to ensure that no Director or any of his/her associate is involved in deciding his/her own remuneration. The remuneration committee shall advise shareholders on how to vote with respect to any service contracts of Directors that require shareholders' approval under Rule 13.68 of the Listing Rules; and
- to have the delegated responsibility to determine the specific remuneration packages of all EDs and the senior management, and make recommendations to the Board of the remuneration of NEDs and INEDs.

The Directors receive compensation 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 also include options granted or to be granted under the Company's Share Option Scheme. The Remuneration Committee reviews and determines the remuneration or compensation packages of the Directors with reference to the remuneration packages adopted by comparable companies, time commitment and responsibilities of the Directors and performance of the Group.

During the year ended 31 December 2009, the Remuneration Committee held one meeting. Details of individual attendance of each member at the meeting are set out below:

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

During the meeting, the remuneration packages and the year-end bonuses of the EDs and the Chief Financial Officer were reviewed by reference to the Group's performance and profitability as well as the remuneration level of Directors in some selected listed corporations in the industry. The proposed granting of share options by the Company was also discussed in the meeting. Details of the remuneration of Directors are set out in the Note 7 to the financial statements on pages 77 and 78 of this report.

(B.4) Nomination Committee

The Nomination Committee was established in September 2009 in compliance with the recommended best practice set out in the CG Code. The Nomination Committee comprises Dr. Rock Jin, Dr. Xiang Bing and Mr. Wang Mingquan and all of them are the Company's INEDs. The chairman of the Nomination Committee is Dr. Rock Jin.

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 make any change recommendations 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 individual nominated for directorship;
- to assess the independence of the INEDs, having regard to the requirements under the Listing Rules; and
- to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors in particular, the Chairman and the Chief Executive Officer of the Company.

In considering an appointment of a new Director, the Nomination Committee may make reference to certain criteria such as integrity, independent mindedness, experience, skill and the amount of time and effort that a candidate will devote to carry out his duties and responsibilities as a Director, etc. The Nomination Committee did not hold any meeting during the year ended 31 December 2009.

A meeting of the Nomination Committee was held in March 2010 for reviewing the Board composition and structure and assessing the independence of the three INEDs.

(C) Accountability and Audit

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

All the Directors have acknowledged their responsibilities for preparing and reviewing the Company's financial statements and ensure that the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2009 and of the profit and cash flows of the Group for the year then ended. In preparing the Company's financial statements, the Board has selected and applied the 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 51 and 52 of this annual report.

The Board's endeavors to ensure 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 2009, the remuneration paid and payable to KPMG, the Company's external auditor, for audit services to the Group amounted to RMB1.8 million and for non-audit services, i.e. professional services for the IPO, amounted to RMB3.3 million.

(D) Internal Controls

The Board acknowledges its responsibility in maintaining effective and sound internal control system for the Group to safeguard the Group's assets and protect the interests of the 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 2009, the Board employed an independent accounting firm to conduct a review 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.

Based on the review report issued by the accounting firm and communication with the external auditor, the Board has concluded that the Group has maintained a sound internal control system and the internal control system has been operated effectively during the year.

(E) Communication with Shareholders

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

- the Company maintains a corporate website www.peaksport.com on which comprehensive information about the Group, including Directors and management profile, 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 through annual reports, interim reports and press releases;

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

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

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

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

Corporate Social Responsibility Report

Statement of Policies

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

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

To grow with our staff

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

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

The Group places much emphasis on the career development of its employees. The Group organized various training activities to enhance the business skills and professional ethics of its employees. The Group established "Peak Sport Business School", the objective of which is to provide a systematic training to its front line sales people. The school also provides training on knowledge about Peak branded products as well as sales and marketing techniques for the Group's distributors and third party retail outlets operators. During 2009, the School held more than 10 training sessions for the staff from the Group's marketing and purchasing departments, as well as staff from its distributors and third party retail outlets operators. The training sessions received good responses from the participants.

Every year, the Group recruits outstanding graduates through vigorous interviews and selection procedures. These trainees generally undergo a year of training and appraisal, through which trainees with good potential are selected for further training and cultivation as candidates for the Group's management team in future. The Group specifically prepared "Procedures and administration for training potential candidates for management team", which expressly specifies the training period, process and objectives for the training of such potential candidates. In 2009, 64 candidates were subject to the above-mentioned training.

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

To fulfill environmental protection responsibilities

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

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

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

To participate in charitable activities

The Group has been receiving a lot of support from different segments of society since its establishment. It always upholds the principle of "rewarding to society and creating value for society" and supports all kinds of charity in particular helping the under-privileged. For example, the Group made generous donations to victims of the snow storm disaster in 2008 and Sichuan earthquake in 2009.

The Group has been paying a lot of attention to the development of charity. Up to January 2010, Peak Sport Charity Fund, which was set up by the Group and Quanzhou Charity Foundation, has reached RMB50 million. The fund will be paid by the Group yearly within a period of about sixteen years. This reflect the Group's long term caring and support for charitable activities. The Group also established another charitable fund "Charity Specific Fund" with Hui'An Charity Association in Hui'An, Fujian Province. The fund aims at supporting local education development in particular through provision of assistance to people living in poor regions and poor families.

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Xu Jingnan, aged 54, 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 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 branded footwear products in 1991, and since then, Mr. Xu has played a vital role in the development of the Group. Mr. Xu is an experienced entrepreneur and has approximately 21 years of experience in the sportswear industry in China. In 1996, he was awarded "Fujian Province Outstanding County Entrepreneur" by the Bureau of County Enterprises of Fujian Province (福建省鄉鎮企業局) and in 1995, he was named "Model Labour of Quanzhou City" by the Chief Labour Union of Fengze District, Quanzhou City (泉州市豐澤區總工會). In addition, Mr. Xu is a member of the 12th Quanzhou Municipal People's Congress, vice-chairman of the Fengze Area Committee of the People's Political Consultative Conference, committee member of Quanzhou General Chamber of Commerce and the chairman of the General Chamber of Commerce of Fengze District of Quanzhou City. Mr. Xu graduated from Central Institute of Socialism (中央社會主義學院), majoring in Business Administration, in December 1994. He was recognised as an economist in August 1991 by the Human Resources Bureau of Fujian Province. He is also the controlling shareholder and director of Ever Sound Development Limited (the substantial shareholder of the Company), the spouse of Ms. Wu Tigao (a NED), the father of Mr. Xu Zhihua (the Chief Executive Officer and an ED) and Mr. Xu Zhida (Vice-president and an ED), and the father-in-law of Ms. Wu Bingrui (Sales Officer (International Sales) of the Company).

Mr. Xu Zhihua, aged 31, is an ED, Chief Executive Officer and a member of the Executive Committee of the Company. Currently, he is also a director of certain subsidiaries of the Company. Mr. Xu joined the Group in 2001 as an assistant to the general manager and the general manager of the Beijing branch of Peak Shoes. He has nine years of experience in the sportswear industry in Mainland China. Mr. Xu is primarily responsible for the management of product sales, branding and marketing, as well as management of sales channels of the Group's businesses. Mr. Xu obtained a Bachelor of Science degree in Applied Information Technology from Sichuan University in July 2001 and a Master of Business Administration degree from Guanghua School of Management, Peking University in October 2004. Mr. Xu was accredited "Top 10 Example Individual for Staff Management of Quanzhou City" in February 2007 by various local authorities, including the Chinese Communist Party Quanzhou Commission (中共泉州市委組織部). He is also the sole shareholder and director of Alpha Top Group Limited (the substantial shareholder of the Company), a son of Mr. Xu Jingnan (the Chairman and an ED) and Ms. Wu Tigao (a NED), the elder brother of Mr. Xu Zhida (Vice-president and an ED) and the brother-in-law of Ms. Wu Bingrui (Sales Officer (International Sales) of the Company).

Mr. Xu Zhida, aged 29, is an ED, Vice-president and a member of the Executive Committee of the Company. Currently, he is also a director of certain subsidiaries of the Company. Mr. Xu joined the Group in 2000 after he completed high school education and he has more than eight years of experience in the sportswear industry in Mainland China. Mr. Xu is primarily responsible for sales and marketing, production, research and development and product design, of the Group's businesses. He is also the sole shareholder and director of Brilliant Lead Group Limited (the substantial shareholder of the Company), a son of Mr. Xu Jingnan (the Chairman and an ED) and Ms. Wu Tigao (a NED), a younger brother of Mr. Xu Zhihua (the Chief Executive Officer and an ED) and the spouse of Ms. Wu Bingrui (Sales Officer (International Sales) of the Company).

NON-EXECUTIVE DIRECTORS

Ms. Wu Tigao, aged 56, is a NED. Ms. Wu joined the Group in 1996. She was a director of Peak Shoes and she has been a director of Peak Hong Kong since 2003. Ms. Wu is also the controlling shareholder and director of Ever Sound Development Limited (the substantial shareholder of the Company), the spouse of Mr. Xu Jingnan (the Chairman and an ED), the mother of Mr. Xu Zhihua (the Chief Executive Officer and an ED) and Mr. Xu Zhida (Vice-president and an ED), and the mother-in-law of Ms. Wu Bingrui (Sales Officer (International Sales) of the Company).

Mr. Shen Nanpeng, aged 42, is a NED and a member of the Remuneration Committee of the Company. He joined the Company in 2007. Mr. Shen obtained a Bachelor's degree from Shanghai Jiao Tong University in 1988 and a Master's degree from Yale University in 1992. Mr. Shen is the founding managing partner of Sequoia Capital China. Prior to founding Sequoia Capital China, he co-founded Ctrip.com International Limited (a company listed on NASDAQ Stock Market, stock code: CTRP), an online travel consolidator in China, in 1999, of which he now serves as a director. Mr. Shen also co-founded Home Inns and Hotels Management Inc. (a company listed on NASDAQ Stock Market, stock code: HMIN), a budget hotel chain in Mainland China, where he acts as its co-chairman. He is also a director of two companies listed on the New York Stock Exchange, namely E-House (China) Holdings Ltd. (stock code: EJ) and American Dairy, Inc. (stock code: ADY), and three companies listed on NASDAQ Stock Market, namely Focus Media Holding Ltd. (stock code: FMCN), China Nuokang Bio-Pharmaceutical Inc. (appointed in November 2009) (stock code: NKBP) and China Real Estate Information Corporation (appointed in October 2009) (stock code: CRIC). Before founding Ctrip.com International Limited and Home Inns and Hotels Management Inc., Mr. Shen had worked for more than 8 years in the investment banking industry in New York and Hong Kong. He was a director and Head of Debt Capital Markets for China at Deutsche Bank where he worked from 1996 to 1999. Prior to 1996, he had worked at Chemical Bank, Lehman Brothers and Citibank in various investment banking areas. He was awarded "Economic Figure of the Year" by CCTV in 2006 and was voted "Entrepreneur of the Year" by Asian Venture Capital Journal in 2004. Mr. Shen was named "Venture Capitalist of the Year" by Top Capital Magazine in March 2007 and was also named one of the "Top 10 Most Active Venture Capitalists" in 2006 and 2008 by Zero2IPO.

Dr. Hu Zhanghong, aged 41, was appointed as a NED in April 2009. Dr. Hu received a Doctorate's degree in Finance from Zhongnan University of Economics and Law. He has over 16 years of extensive experience in banking and investment. Dr. Hu is one of the founders, chief executive officer and an executive director of CCB International (Holdings) Limited ("CCBI"), which is a wholly owned subsidiary of China Construction Bank Corporation ("CCB", a company listed on the Main Board of the Hong Kong Stock Exchange, stock code: 939 and the Shanghai Stock Exchange, stock code: 601939). Dr. Hu is also the general manager of CCB International Asset Management (Tianjin) Limited (建銀國際資產管理(天津)有限公司) and CCB Healthcare Investment Management (Tianjin) Limited (建銀國際醫療保健投資管理(天津)有限公司). Prior to joining CCBI, he worked at the head office of CCB since 1997 where he specialized in finance related business and was qualified as senior economist in 2003. In addition to his duties at CCBI, Dr. Hu also serves other professional and academic organizations. He was a member of the Professional Events Committee at Hong Kong Securities Institute and is the vice chairman of the finance committee of China Universities Alumni (Hong Kong) Association, a standing committee member of the Securities Institute at the China Law Society and a visiting professor at the Chinese Academy of Finance and Development, Central University of Finance and Economics. Over the years, Dr. Hu published numerous books and articles in the aspect of finance.

Mr. Zhu Linan, aged 47, was appointed as a NED in April 2009. Mr. Zhu is the founder, chief executive officer, managing director and a member of the Investment Committee of Legend Capital (incorporated in 2001), a subsidiary of Legend Holdings Limited. Mr. Zhu is the executive vice president of Legend Holdings Limited, a strategy-driven investment holding company incorporated in 1984. Mr. Zhu also serves as a non-executive director at Lenovo Group Limited, a company listed on the Main Board of the Hong Kong Stock Exchange (stock code: 992). From 2000 to 2001, Mr. Zhu was the senior vice president and a member of the Executive Committee of Legend Group Limited, the predecessor of Lenovo Group Limited. From 1997 to 2000, Mr. Zhu was the general manager of Business Planning and vice president of Legend Group Limited. From 1993 to 1997, Mr. Zhu set up and worked on his own business engaging in development of system integrations and IT products. From 1989 to 1993, Mr. Zhu was a general manager of Shenzhen Legend Computer Co., Ltd. Mr. Zhu has over 18 years of experience in the IT industry and rich management experience. Mr. Zhu was named as one of the "Top Venture Capitalists in 2009" by TopCapital, "Most Respected Entrepreneurs in 2008" by The Founder Magazine, "Most Well-recognized Investors in China's Venture Capital Industry in 2008" by Peking University Business Review, and "Top 10 VC Funds and Investors in 2008" by China Venture Capital Association. Mr. Zhu holds a Master's degree in Electronic Engineering from Shanghai Jiao Tong University. Mr. Zhu is a Senior Engineer certified by the Chinese Academy of Sciences and he enjoys the special subsidy granted by the State Council of the People's Republic of China (中華人民共和國國務院).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Xiang Bing, aged 47, was appointed as an INED in September 2009. He is also the chairman of each of the Audit Committee and the Remuneration Committee and a member of the Nomination Committee of the Company. Dr. Xiang obtained a Doctor of Philosophy degree in Accounting from University of Alberta, Canada in 1991. Dr. Xiang is currently the founding dean and professor of Cheung Kong Graduate School of Business. He has extensive experience in cooperating with multi-national corporations to offer professional programs regarding, in particular, corporate governance and internal control, to their senior executives. Currently, Dr. Xiang is acting as 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	Title
Dan Form Holdings Company Limited	0271	Hong Kong	independent non-executive director
HC International, Inc.	8292	Hong Kong	independent non-executive director
China Dongxiang (Group) Co., Ltd.	3818	Hong Kong	independent non-executive director
Little Sheep Group Limited	968	Hong Kong	independent non-executive director
Enerchina Holdings Limited	622	Hong Kong	independent non-executive director
Sinolink Worldwide Holdings Limited	1168	Hong Kong	independent non-executive director
Longfor Properties Co. Ltd.	960	Hong Kong	independent non-executive director
LDK Solar Co. Ltd.	LDK	New York	independent non-executive director
Perfect World Co., Ltd.	NASDAQ: PWRD	New York	independent non-executive director
E-House (China) Holdings Limited	EJ	New York	independent non-executive director
Yunnan Baiyao Group Co., Ltd.	000538	Shenzhen	independent non-executive director

Dr. Rock Jin, aged 54, was appointed as an INED in September 2009. He is also the chairman of the Nomination Committee and a member of each of the Audit Committee and the Remuneration Committee of the Company. Currently, Dr. Jin is the chief economist of Sinolink (GuoJin) Securities Co., Ltd. and dean of Finance Institute of Overseas Education College, Shanghai Jiao Tong University. Dr. Jin obtained a Master of Economics degree and a Doctor of International Business degree from Nankai University in 1982 and 1989, respectively. Dr. Jin was also the visiting scholar sponsored by the Soros Foundations at Harvard University, USA, in 1987. Dr. Jin has extensive experience in securities and corporate finance. He was the registered general securities principal and option principal with CSG/JW Charles Securities and was one of the founders of Sunpoint Securities, Inc.. In 2001, Dr. Jin joined Xiangcai Securities Co., Ltd. as chief economist and chairman of the international committee. Dr. Jin also established China Euro Securities Ltd and ABN Amro-Xiangcai Fund Management Co., Ltd.. In 2004 to 2006, Dr. Jin was appointed by the Financial Committee of the People's Republic of China's People's Congress as a banking expert and participated in the amendments of the People's Republic of China Securities Law.

Mr. Wang Mingquan, aged 63, was appointed as an INED in September 2009. He is also a member of the Audit Committee, the Remuneration Committee and 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. From June 1993 to August 2006, Mr. Wang worked as the vice-director, director and Head of the Bureau in Quanzhou Bureau of Foreign Trade and Economic Cooperation. From August 1991 to June 1993, Mr. Wang was the vice-director of Quanzhou Development and Reform Commission. From April 1989 to August 1991, Mr. Wang was the vice-head of the Bureau in Quanzhou Municipal Bureau of Statistics (泉州市統計局). From October 1984 to April 1989, Mr. Wang was the director of the Development and Reform Bureau of Quanzhou Licheng District. Prior to that, Mr. Wang was the secretary of the Chinese Communist Party Committee in Quanzhou Donghai Commune.

SENIOR MANAGEMENT

Mr. Tsoi Ka Ho, aged 45, joined our Group in 2008 and is our Company's Chief Financial Officer and the Company Secretary. Mr. Tsoi graduated from The Hong Kong Polytechnic University with a Professional Diploma in Accountancy in 1988. He also obtained a Bachelor of Science degree in Economics from University of London in 1994. Mr. Tsoi is a member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and the Institute of Chartered Accountants in England and Wales. Mr. Tsoi has over 20 years of experience in auditing, accounting, financial control and financial management.

Mr. Li Wei, aged 33, joined our Group in 2007 and is the Deputy General Manager of Peak (China) Company Limited. Prior to joining our Group, Mr. Li has been in the managerial positions in a number of sportswear companies in China for approximately 12 years.

Mr. Li Shumei, aged 44, joined our Group in 2006 and is our Group's Factory Manager (Footwear Division). Mr. Li was awarded a certificate on Production Management by Whitworth Institute for International Management in 1994. Prior to joining our Group, Mr. Li has been in the managerial positions in a number of sportswear companies in China and has over 20 years of experience in the sportswear industry.

Ms. Li Ya Shuang, aged 45, joined our Group in 2004 and is our Group's Factory Manager (Apparel Division). Ms. Li has more than 20 years of management experience in apparel industry.

Mr. Cai Jinhai, aged 33, joined our Group in 2007 and is our Chief Marketing Officer. Mr. Cai has more than 7 years of experience in sales and marketing.

Ms. Wu Bingrui, aged 29, joined our Group in 2004 and is our Sales Officer (International Sales). Ms. Wu obtained a Bachelor's degree in English language from Fujian Normal University. Ms. Wu has approximately 6 years of sales and marketing experience in the sportwear industry. She is the daughter-in-law of Mr. Xu Jingnan (the Chairman and an ED) and Ms. Wu Tigao (a NED), the sister-in-law of Mr. Xu Zhihua (the Chief Executive Officer and an ED) and the spouse of Mr. Xu Zhida (Vice-president and an ED).

Ms. Lin Bi Lian, aged 41, joined our Group in 1989 and is our Sales Officer (Domestic Sales). Ms. Lin graduated from Fujian Radio & TV University (福建廣播電視大學), majoring in sales and marketing. Ms. Wu has over 20 years of sales and marketing experience in the sportwear industry.

Mr. Yang Huiyong, aged 38, joined our Group in 2008 and is our Chief Brand Officer. Mr. Yang obtained a Bachelor of Law degree from Wuhan University in 1992 and has approximately 18 years of brand management and marketing experience.

Report of the Directors

The Directors are pleased to submit the annual report together with the audited financial statements for the year ended 31 December 2009.

Registered office

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

Principal activities

The Group is principally engaged in manufacturing and distribution of sports products including footwear, apparel and accessories. The principal activities and other particulars of the Group's subsidiaries are set out in note 17 to the financial statements.

Major customers and suppliers

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

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

The largest supplier	7.46%
Five largest suppliers in aggregate	32.3%

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

Financial statements

The profit of the Group for the year ended 31 December 2009 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 53 to 99.

Transfer to reserves

Profits attributable to shareholders, before dividends, of RMB628,308,000 (2008: RMB375,958,000) have been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity.

A dividend of HK8.53 cents per share in respect of the year ended 31 December 2008 was paid in 2009. The Directors recommended the payment of a final dividend of HK12 cents (equivalent to RMB10.55 cents) per ordinary share, totalling RMB221,539,000 in respect of the year ended 31 December 2009.

Charitable donations

Charitable donations made by the Group during the year amounted to RMB2,691,300.

Property, plant and equipment

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

Bank loans and other borrowings

There were no outstanding bank loans and other borrowings by the Company and the Group as at 31 December 2009.

Share capital

Details of the movements in share capital of the Company are set out in note 26 to the financial statements. Shares were issued during the year for capital injection by new investors and upon IPO.

Distributable reserves

Distributable reserves of the Company at 31 December 2009, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to RMB2,136,521,000 (2008: RMB549,336,000).

Pre-emptive rights

There is no provision for pre-emptive rights under the Company's articles of associations and there was 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 for the financial year ended 31 December 2009.

Continuing connected transaction

Fujian Peak is a company owned as to 30%, 20% and 20% by Mr. Xu Jingnan, Mr. Xu Zhihua and Mr. Xu Zhida, respectively, our EDs and substantial shareholders, and thus is an associate of a connected person of the Company under the Listing Rules. Any transactions entered into between Fujian Peak and the Group constitutes connected transactions for the Company under the Listing Rules.

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

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

The Company's auditor has provided a report to the Directors confirming that (i) the Transaction has received the approval of the Board, (ii) the Transaction has been entered into in accordance with the lease agreement governing the Transaction, and (iii) the Transaction has not exceeded the annual cap for the year ended 31 December 2009 as set out in the Prospectus.

Directors

The Directors during the financial year were:

EDs

Mr. Xu Jingnan *(Chairman)*	(appointed on 15 February 2008)
Mr. Xu Zhihua	(appointed on 30 June 2008)
Mr. Xu Zhida	(appointed on 30 June 2008)

NEDs

Ms. Wu Tigao	(appointed on 30 June 2008)
Mr. Shen Nanpeng	(appointed on 30 June 2008)
Dr. Hu Zhanghong	(appointed on 7 April 2009)
Mr. Zhu Linan	(appointed on 7 April 2009)

INEDs

Dr. Xiang Bing	(appointed on 8 September 2009)
Dr. Rock Jin	(appointed on 8 September 2009)
Mr. Wang Mingquan	(appointed on 8 September 2009)

In accordance with the Company's Articles of Association, all the Directors will retire and, being eligible, offer themselves for re-election at the forthcoming AGM.

Directors' service contracts

None of the Directors who are proposed for re-election at the forthcoming 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 2009, the interests of the Directors in the 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 were as follows:

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	735,664,020	35.07%
Ms. Wu Tigao	Interest held by controlled corporation	1	735,664,020	35.07%
Mr. Xu Zhihua	Interest held by controlled corporation	2	270,960,000	12.92%
Mr. Xu Zhida	Interest held by controlled corporation	3	270,960,000	12.92%

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

Long position in ordinary shares of the Company (Continued)

Notes:

(1) These shares were held by Ever Sound Development Limited, the entire issued share capital of which was owned as to 50% by each of Mr. Xu Jingnan and Ms. Wu Tigao. By virtue of their shareholding in Ever Sound Development Limited, Mr. Xu Jingnan and Ms. Wu Tigao were deemed to be interested in these shares pursuant to SFO.

(2) These shares were held by Alpha Top Group Limited, a corporation wholly owned by Mr. Xu Zhihua. Accordingly, Mr. Xu Zhihua was deemed to be interested in these shares which were held by Alpha Top Group Limited, a controlled corporation of Mr. Xu Zhihua pursuant to SFO.

(3) These shares were held by Brilliant Lead Group Limited, a corporation wholly owned by Mr. Xu Zhida. Accordingly, Mr. Xu Zhida was deemed to be interested in these shares which were held by Brilliant Lead Group Limited, a controlled corporation of Mr. Xu Zhida pursuant to SFO.

\+ The percentage represents the number of ordinary shares interested divided by the number of the Company's issued shares as at 31 December 2009.

Save as disclosed above and in the below section headed "Share option scheme", as at 31 December 2009, 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; nor had there been any grant or exercise of rights of such interests to/by them during the year ended 31 December 2009.

Directors' rights to acquire shares or debentures

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

Share option scheme

Pursuant to the Share Option Scheme (the "Scheme") which was approved and adopted by the resolutions of all the shareholders of our Company passed on 8 September 2009, the Company may grant share options to "Eligible Persons" (being Directors and full time or part time employees 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 Company and to enable our Group to recruit and retain high-calibre employees.

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

Share option scheme (Continued)

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 31 December 2009, no options were granted under the Scheme since its adoption.

On 9 February 2010, options to subscribe for 13,065,000 ordinary shares of the Company at an exercise price of HK$5.196 per share, being the highest of (i) the closing price of HK$4.9 per share of the Company as stated in the Hong Kong Stock Exchange's daily quotation sheet on 25 January 2010; (ii) the average closing price of HK$5.196 per share of the Company as stated in the Hong Kong Stock Exchange's daily quotation sheets for the five business days preceding 25 January 2010, and (iii) the nominal value of HK$0.01 per share of the Company, were granted to the Eligible Persons under the Scheme.

The total number of shares of the Company currently available for issue under the Scheme is 196,725,339 shares, representing approximately 9.38% of the issued share capital of the Company as at the date of this annual report.

Apart from the foregoing, at no time during the year was the Company, or any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

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

As at 31 December 2009, 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:

Long position in ordinary shares of the Company

Name of substantial shareholder	Capacity	Note	Number of ordinary shares held/interested	Percentage[+] of the Company's issued share capital
Ever Sound Development Limited	Beneficial owner	1	735,664,020	35.07%
Alpha Top Group Limited	Beneficial owner	2	270,960,000	12.92%
Brilliant Lead Group Limited	Beneficial owner	3	270,960,000	12.92%
Ms. Wu Bingrui	Interest held by spouse	4	270,960,000	12.92%

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 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" .

(3) 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".

(4) 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 of the Company. Such interest of Mr. Xu Zhida has been disclosed in the above section headed "Directors' interests and short positions in shares, underlying shares and debentures".

\+ The percentage represents the number of ordinary shares held/interested divided by the number of the Company's issued shares as at 31 December 2009.

Save as disclosed above, as at 31 December 2009, no person, other than the Directors of the Company 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

(a) Lease of land and properties

During the year ended 31 December 2009, the Group leased certain land and properties from Fujian Peak, a corporation controlled by Mr. Xu Jingnan, a Director of the Company. The rental expenses for 2009 were RMB2,259,000 (2008: RMB2,322,000).

The above constituted connected transactions under Chapter 14A of the Listed Rules. The above transaction has been entered into and are ongoing for which relevant disclosure had been made by the Company in the Prospectus. Details of this continuing connected transaction were disclosed in the above section headed "Continuing connected transaction".

(b) Amounts advanced from a Director

The amount due to Mr. Xu Jingnan, a Director, was unsecured, repayable on demand and subject to an interest at the rate of 15% per annum since 1 September 2008. The interest expenses for the year ended 31 December 2009 paid to Mr. Xu Jingnan were RMB2,674,000. The above balance had been settled in April 2009 before the Company was listed on the Hong Kong Stock Exchange.

Apart from the above, 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.

Four-year financial summary

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on page 9 of the 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 40 to 43.

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 retires and, being eligible, offers itself for re-appointment. A resolution for the re-appointment of KPMG as the auditor of the Company is to be proposed at the forthcoming AGM.

On behalf of the Board

Xu Jingnan
Chairman
Hong Kong, 16 March 2010

Independent Auditor's Report

KPMG

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

We have audited the consolidated financial statements of Peak Sport Products Co., Limited set out on pages 53 to 99, which comprise the consolidated and company balance sheets as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these 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 as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements 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 financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 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

16 March 2010

Consolidated Income Statement

For the year ended 31 December 2009
(Expressed in Renminbi)

	Note	2009 RMB'000	2008 RMB'000
Turnover	3	3,094,931	2,042,041
Cost of sales		(1,935,204)	(1,374,208)
Gross profit		1,159,727	667,833
Other revenue	4	11,166	3,534
Other net income	4	4,579	11,896
Selling and distribution expenses		(380,198)	(180,996)
Administrative expenses		(77,556)	(84,670)
Profit from operations		717,718	417,597
Finance expenses	5(a)	(14,823)	(6,935)
Profit before income tax	5	702,895	410,662
Income tax	6	(74,587)	(34,704)
Profit for the year attributable to equity shareholders of the Company		628,308	375,958
Earnings per share (RMB)			
– basic and diluted	11	0.36	0.25

The notes on pages 61 to 99 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 10.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009
(Expressed in Renminbi)

	2009 RMB'000	2008 RMB'000
Profit for the year attributable to equity shareholders of the Company	**628,308**	375,958
Other comprehensive income for the year		
Exchange differences on translation of financial statements of a foreign operation	**(1,619)**	–
Total comprehensive income for the year attributable to equity shareholders of the Company	**626,689**	375,958

The notes on pages 61 to 99 form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2009
(Expressed in Renminbi)

	Note	2009 RMB'000	2008 RMB'000
Non-current assets			
Property, plant and equipment	12	**244,287**	136,954
Construction in progress	13	**61,266**	95,189
Lease prepayments	14	**16,257**	19,500
Intangible assets	15	**9,842**	9,855
Deferred tax assets	25(b)	**6,181**	7,662
		337,833	269,160
Current assets			
Inventories	16	**210,299**	169,266
Trade and other receivables	18(a)	**863,849**	507,476
Pledged deposits	19	**55,344**	70,256
Fixed deposits held at bank with maturity over 3 months		**519,483**	–
Cash and cash equivalents	20	**1,413,325**	418,377
		3,062,300	1,165,375
Current liabilities			
Bank loans	21	**–**	132,233
Trade and other payables	22(a)	**339,483**	369,731
Amount due to a related party	23	**–**	52,687
Current tax liabilities	25(a)	**27,244**	13,216
		366,727	567,867
Net current assets		**2,695,573**	597,508
Total assets less current liabilities		**3,033,406**	866,668
Non-current liabilities			
Bank loans	21	**–**	70,000
Deferred tax liabilities	25(b)	**31,239**	22,661
		31,239	92,661
Net assets		**3,002,167**	774,007

	Note	2009 RMB'000	2008 RMB'000
Equity			
Share capital	26(b)	**18,459**	13,188
Reserves	27	**2,983,708**	760,819
Total equity		**3,002,167**	774,007

Approved and authorised for issue by the Board of Directors on 16 March 2010.

Xu Jingnan
Director

Xu Zhihua
Director

The notes on pages 61 to 99 form part of these financial statements.

Balance Sheet

At 31 December 2009
(Expressed in Renminbi)

	Note	2009 RMB'000	2008 RMB'000
Non-current assets			
Investments in subsidiaries	17	563,343	564,252
Current assets			
Other receivables	18(b)	1,647,194	–
Cash and cash equivalents	20	458	–
		1,647,652	–
Current liabilities			
Other payables	22(b)	56,015	–
Net current assets		1,591,637	–
Total assets less current liabilities		2,154,980	564,252
Net assets		2,154,980	564,252
Equity			
Share capital	26(b)	18,459	13,188
Reserves	27	2,136,521	551,064
Total equity		2,154,980	564,252

Approved and authorised for issue by the Board of Directors on 16 March 2010.

Xu Jingnan
Director

Xu Zhihua
Director

The notes on pages 61 to 99 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009
(Expressed in Renminbi)

	Note	Share capital RMB'000 (Note 26)	Share premium RMB'000 (Note 27(a))	Statutory reserve RMB'000 (Note 27(b))	Other reserve RMB'000 (Note 27(c))	Exchange reserve RMB'000 (Note 27(d))	Retained profits RMB'000 (Note 27)	Total equity RMB'000
At 1 January 2008		195	94,347	22,255	–	–	281,252	398,049
Arising from the reorganisation	26(b)/27(c)	12,993	(94,347)	–	81,354	–	–	–
Appropriation to statutory reserve		–	–	966	–	–	(966)	–
Total comprehensive income for the year		–	–	–	–	–	375,958	375,958
At 31 December 2008		13,188	–	23,221	81,354	–	656,244	774,007
Capital injection	26(b)	1,573	270,608	–	–	–	–	272,181
Shares issued under public offering	26(b)	3,698	1,438,399	–	–	–	–	1,442,097
Appropriation to statutory reserve		–	–	72,808	–	–	(72,808)	–
Dividends approved and declared	10	–	(112,807)	–	–	–	–	(112,807)
Total comprehensive income for the year		–	–	–	–	(1,619)	628,308	626,689
At 31 December 2009		**18,459**	**1,596,200**	**96,029**	**81,354**	**(1,619)**	**1,211,744**	**3,002,167**

The notes on pages 61 to 99 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2009
(Expressed in Renminbi)

	Note	2009 RMB'000	2008 RMB'000
Operating activities			
Profit before income tax		702,895	410,662
Adjustments for:			
- Depreciation	5(c)	14,677	8,584
- Amortisation of lease prepayments	5(c)	343	406
- Finance expenses	5(a)	14,823	6,935
- Interest income	4	(4,568)	(3,073)
- Loss on disposal of property, plant and equipment	5(c)	512	187
- Gain on disposal of lease prepayments	4	(3,813)	–
- Amortisation of intangible assets	15	13	1
- Foreign exchange losses /(gains)		292	(6,209)
Operating profit before changes in working capital		725,174	417,493
Increase in inventories		(41,033)	(11,420)
Increase in trade and other receivables		(355,373)	(71,764)
Decrease in trade and other payables		(9,361)	(35,683)
Cash generated from operations		319,407	298,626
Income tax paid		(50,500)	(14,371)
Net cash generated from operating activities		268,907	284,255
Investing activities			
Payment for purchase of property, plant and equipment		(35,434)	(37,986)
Proceeds from sale of property, plant and equipment		172	130
Proceeds from disposal of lease prepayments		6,713	–
Payment for construction in progress		(74,226)	(105,119)
Payment for lease prepayments		(1,000)	–
Payment for intangible assets		–	(470)
Proceeds from disposal of associates		–	8,964
Interest received		4,568	3,073
Placement of fixed deposits held at bank		(519,483)	–
Decrease/(increase) in pledged deposits		14,912	(3,256)
Net cash used in investing activities		(603,778)	(134,664)

	Note	2009 RMB'000	2008 RMB'000
Financing activities			
Proceeds from bank loans		**388,954**	299,939
Repayment of bank loans		**(591,187)**	(108,585)
Proceeds from issue of shares, net of issuing expenses		**1,714,278**	–
Net advances to related parties		**(50,987)**	(16,484)
Interest paid		**(16,387)**	(5,371)
Dividends paid to equity shareholders		**(112,807)**	–
Net cash generated from financing activities		**1,331,864**	169,499
Net increase in cash and cash equivalents		**996,993**	319,090
Cash and cash equivalents at 1 January		**418,377**	102,430
Effect of foreign exchange rate changes		**(2,045)**	(3,143)
Cash and cash equivalents at 31 December	20	**1,413,325**	418,377

The notes on pages 61 to 99 form part of these financial statements.

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 disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"). A summary of the significant accounting policies adopted by the Group is set out below.

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

(b) Basis of preparation of the financial statements

The Company was incorporated in the Cayman Islands on 15 February 2008 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation (the "Reorganisation") which was completed on 30 June 2008, Peak Investment Management Co., Limited ("Peak Investment") acquired the entire issued share capital of Peak (Hong Kong) International Company Limited ("Peak Hong Kong") from the Controlling Shareholders and the other shareholders of Peak Hong Kong and in consideration thereof, a total of 1,500,000,000 shares in the capital of the Company were issued and allotted to the Controlling Shareholders and the other shareholders of Peak Hong Kong in the same proportion to their respective shareholding interests in Peak Hong Kong. The Company then became the holding company of the subsidiaries now comprising the Group.

The companies that took part in the Reorganisation now comprising the Group were controlled by the Controlling Shareholders before and after the Reorganisation. The control is not transitory and, consequently, there was a continuation of the risks and benefits to the Controlling Shareholders and, therefore, the Reorganisation is considered to be a business combination of entities under common control.

Merger accounting has been applied in the accounting of the Reorganisation.

The consolidated financial statements for the year ended 31 December 2009 comprise the Company and its subsidiaries.

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. These financial statements are presented in Renminbi 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 these 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.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation of the financial statements (Continued)

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

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 32.

(c) Subsidiaries

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

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

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

(d) Property, plant and equipment

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

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised 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 lease and their estimated useful lives, being no more than 20 years after the date of completion.
- Plant and machinery 5-10 years
- Motor vehicles 5 years
- Furniture and fixtures 5 years

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Construction in progress

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is stated at cost less impairment losses (see note 1(i)). Cost of self-constructed items of property, plant and equipment include the cost of materials, direct labour and an appropriate proportion of production overheads and borrowing costs (see note 1(t)). Capitalisation 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.

(f) Lease prepayments

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

(g) Intangible assets

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

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

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

Both the useful life and method of amortisation are reviewed annually.

(h) Operating lease charges

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of assets

(i) Impairment of trade and other receivables

Trade and other receivables that are stated at cost or amortised cost are reviewed at each balance sheet date 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 reorganisation; 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 recognised 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 financial assets carried at amortised cost 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 recognised, 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 recognised in prior years.

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of assets (Continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- construction in progress;
- lease prepayments;
- intangible assets; and
- investments in subsidiaries.

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

- Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

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

- Reversals of impairment losses

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Inventories

Inventories are carried at the lower of cost and net realisable 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 realisable 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 recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) Trade and other receivables

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

(l) Interest-bearing borrowings

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

(m) Trade and other payables

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

(n) Cash and cash equivalents

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

(o) Employee benefits

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) 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 recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised 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 balance sheet date, and any adjustment to tax payable in respect of previous periods.

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

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

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date 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 utilised. 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 recognised when the liability to pay the related dividends is recognised in profit or loss.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Income tax (Continued)

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

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise 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 realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(q) Provisions and contingent liabilities

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Revenue recognition

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

(i) Sale of goods

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and incentive rewards and renovation subsidies. Revenue allocated to incentive rewards and renovation subsidies (note 1(v)) is deferred and recognised when utilised. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of 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 recognised as it accrues using the effective interest method.

(iii) Government grants

Government grants are recognised in the balance sheet 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 recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are initially recognised as deferred income and subsequently recognised as revenue in profit or loss over the useful life of the asset.

(s) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

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

The results of operations outside the PRC are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into RMB at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Borrowing costs

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

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

(u) Advertising and promotion

Expenditure on advertising and promotion activities is recognised as an expense in the period in which it is incurred.

Advertising expenses resulting from media advertising, primarily TV and internet advertisements and relevant placement costs are expensed in the month the advertisement appears.

The Group has also signed sponsorship agreements and endorsement contracts with various sports associations and professional athletes respectively. Accounting for the sponsorship and endorsement payments is based upon specific agreement / contract provisions. Sponsorship and endorsement payments are expensed on a straight-line basis over the term of sponsorship agreement or endorsement contract.

(v) Incentive rewards and renovation subsidies

The Group rewards its distributors who meet or exceed predetermined annual sales target with a certain percentage of their annual purchase amount. The Group offers incentive rewards to its distributors in the form of a deduction from their subsequent purchases of the Group's products.

The Group provides renovation subsidies to its distributors to expand the number of authorised Peak retail outlets and create a uniform high-quality store image nationwide. The Group estimates the renovation subsidies during a year based on the location, size of and rental for the new authorised Peak retail outlets opened and the compliance with the Group's renovation standards.

The subsidies and rewards are recognised as reduction of revenue when it is probable that these subsidies and rewards will be granted, and the amounts can be reliably measured.

(w) Dividends

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(iv) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(v) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual 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. No segment information is presented in respect of the Group's business segment as the Group is principally engaged in one segment in the manufacture and sale of sport products in the PRC.

2. Adoption of new accounting policies

The IASB has issued one new IFRS, a number of amendments to IFRSs and new interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- IFRS 8, Operating segments
- IAS 1 (revised 2007), Presentation of financial statements
- Improvements to IFRSs (2008)
- Amendments to IFRS7, Financial instruments: Disclosures – Improving disclosures about financial instruments

2. ADOPTION OF NEW ACCOUNTING POLICIES (Continued)

The Improvements to IFRSs (2008) have had no material impact on the Group's financial statements as the amendments were consistent with policies already adopted by the Group. In addition, the amendments to IFRS 7 do not contain any additional disclosures requirements specifically applicable to the Group's financial statements. The impacts of these developments on the Group's financial statements are as follows:

– IFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decision about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on related products and services and on geographical areas. The adoption of IFRS 8 has not resulted in the presentation of additional segment information as it operates in a single segment only. However, additional disclosures, with the corresponding amounts have been presented in accordance with IFRS 8.

– As a result of the adoption of IAS 1 (revised by 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement in equity. All other items of income and expenses are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

3. TURNOVER

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

	2009 **RMB'000**	2008 RMB'000
Footwear	**1,397,228**	1,028,895
Apparel	**1,606,028**	961,470
Accessories	**91,675**	51,676
	3,094,931	2,042,041

The Group has only one customer with whom transactions have exceeded 10% of the Group's aggregate revenues in the year ended 31 December 2009 (2008: nil). The amount of sales from this customer amounted to approximately RMB343,505,000 for the year ended 31 December 2009.

3. TURNOVER (Continued)

The Group's revenue by geographical locations is determined by the destination where the goods are delivered.

	2009 RMB'000	2008 RMB'000
The PRC	**2,820,592**	1,786,810
Overseas	**274,339**	255,231
Total	**3,094,931**	2,042,041

Substantially all of the Group's property, plant and equipment, based on where the assets are located, are located in the PRC. All the Group's capital expenditure was incurred for assets located in the PRC.

4. OTHER REVENUE AND NET INCOME

	2009 RMB'000	2008 RMB'000
Other revenue		
Interest income	**4,568**	3,073
Government grants	**6,441**	394
Others	**157**	67
	11,166	3,534
Other net income		
Exchange gain	**1,122**	7,965
Gain on disposal of lease prepayments	**3,813**	–
(Loss)/gain on sales of materials	**(356)**	3,931
	4,579	11,896

Government grants were received from the local authorities for the Group's contribution to the local community and its achievement on export sales. The grants were unconditional.

5. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

		2009 RMB'000	2008 RMB'000
(a)	Finance expenses:		
	Interest on bank borrowings	12,149	5,371
	Interest on related party borrowings (note 30(c))	2,674	1,564
		14,823	6,935
(b)	Staff costs:		
	Contributions to defined contribution retirement plans	1,740	1,043
	Salaries, wages and other benefits	159,466	111,726
		161,206	112,769
(c)	Other items:		
	Amortisation of lease prepayments	343	406
	Auditor's remuneration	1,830	70
	Depreciation	14,677	8,584
	Operating lease charges in respect of properties	2,695	2,627
	Cost of inventories#	1,935,204	1,374,208
	Incentive rewards and renovation subsidies*	78,650	71,877
	Advertising and promotion expenses	349,380	154,020
	Loss on disposal of property, plant and equipment	512	187

Cost of inventories includes RMB120,162,000 (2008: RMB80,351,000) for the year ended 31 December 2009 relating to staff costs, depreciation and amortisation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately in notes 5(b) and (c) above for each of these types of expenses.

* Incentive rewards and renovation subsidies were provided to the Group's qualified distributors as an incentive to achieve sales target and open more authorized Peak retail outlets.

6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Income tax in the consolidated income statements represents:

	2009 RMB'000	2008 RMB'000
Current tax — PRC income tax		
Provision for the year	**64,528**	19,648
Deferred tax		
Origination and reversal of temporary differences	**10,059**	15,056
	74,587	34,704

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

No provision has been made for Hong Kong Profits Tax as the Group did not earn any income subject to Hong Kong Profits Tax for the year ended 31 December 2009.

Pursuant to the income tax rules and regulations of the PRC, the subsidiaries of the Group, are subject to corporate income tax as follows:

– The applicable tax rate of Quanzhou Peak Shoes Co., Ltd is 25% with effect from 1 January 2008.

– In accordance with the transitional arrangement of the Corporate Income Tax Law of the PRC ("new tax law"), which was effective on 1 January 2008, Fujian Quanzhou Peak Sports Products Co., Ltd., Peak (China) Limited Company and Peak (Jiangxi) Industry Co., Ltd. are entitled to tax concessions whereby the profit for the first two financial years beginning with the first profit-making year is exempt from income tax in the PRC and the profit for each of the subsequent three years is taxed at 50% of the prevailing tax rate.

  Fujian Quanzhou Peak Sports Products Co., Ltd. is exempt from PRC corporate income tax for the year ended 31 December 2008 and the applicable tax rate from 1 January 2009 to 31 December 2011 is 12.5%. With effect from 1 January 2012, the applicable tax rate is 25%.

  Peak (China) Limited Company and Peak (Jiangxi) Industry Co., Ltd. are exempt from PRC corporate income tax from 1 January 2008 to 31 December 2009 and the applicable tax rate from 1 January 2010 to 31 December 2012 is 12.5%. With effect from 1 January 2013, the applicable tax rate is 25%.

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

6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (Continued)

(a) Income tax in the consolidated income statements represents: (Continued)

According to the notice Caishui 2008 No.1 released by the Ministry of Finance and the State Administration of Taxation, distributions of the pre-2008 retained profits of a foreign-invested enterprise to a foreign investor in or after 2008 are exempt from corporate income tax. Accordingly, the retained profits as at 31 December 2007 set out in the Group's foreign-invested enterprise's books and accounts will not be subject to 5% withholding tax on future profit distributions.

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

	2009 **RMB'000**	2008 RMB'000
Profit before income tax	**702,895**	410,662
Notional tax on profit before income tax, calculated at the standard tax rates applicable to the respective tax jurisdiction	**184,337**	106,794
Effect of lower tax rates applicable to subsidiaries as a result of preferential tax policy as described in 6(a)	**(131,496)**	(102,079)
Tax effect of non-deductible expenses	**12,919**	8,825
Tax effect of non-taxable income	**(112)**	(1,136)
Effect of withholding tax	**8,939**	22,300
	74,587	34,704

7. DIRECTORS' REMUNERATION

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

Year ended 31 December 2009

	Fee RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit scheme RMB'000	Bonuses RMB'000	Total RMB'000
Executive Directors					
Mr Xu Jingnan	–	397	12	–	409
Mr Xu Zhihua	–	278	12	500	790
Mr Xu Zhida	–	253	12	500	765
Sub-total	–	928	36	1,000	1,964
Non-executive Directors					
Ms Wu Tigao	–	137	–	–	137
Mr Shen Nanpeng	–	46	–	–	46
Dr Hu Zhanghong	–	46	–	–	46
Mr Zhu Linan	–	46	–	–	46
Sub-total	–	275	–	–	275
Independent Non-executive Directors					
Mr Wang Mingquan	–	26	–	–	26
Dr Xiang Bing	–	46	–	–	46
Dr Rock Jin	–	46	–	–	46
Sub-total	–	118	–	–	118
Total	–	1,321	36	1,000	2,357

7. DIRECTORS' REMUNERATION (Continued)

Year ended 31 December 2008

	Fee RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit scheme RMB'000	Bonuses RMB'000	Total RMB'000
Executive Directors					
Mr Xu Jingnan	–	127	9	60	196
Mr Xu Zhihua	–	31	9	30	70
Mr Xu Zhida	–	31	9	30	70
Sub-total	–	189	27	120	336
Non-executive Directors					
Ms Wu Tigao	–	38	–	30	68
Mr Shen Nanpeng	–	–	–	–	–
Dr Hu Zhanghong	–	–	–	–	–
Mr Zhu Linan	–	–	–	–	–
Sub-total	–	38	–	30	68
Independent Non-executive Directors					
Mr Wang Mingquan	–	–	–	–	–
Dr Xiang Bing	–	–	–	–	–
Dr Rock Jin	–	–	–	–	–
Sub-total	–	–	–	–	–
Total	–	227	27	150	404

8. INDIVIDUAL WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2008: one) are Directors of the Company whose remuneration is disclosed in note 7 above. The aggregate of the emoluments in respect of the two individuals for 2009 (2008: four) are as follows:

	2009 RMB'000	2008 RMB'000
Salaries and other emoluments	1,730	1,695
Contributions to retirement benefit scheme	21	19
	1,751	1,714

The emoluments of the two individuals (2008: four) with the highest emoluments are within the following bands:

	2009 Number of individuals	2008 Number of individuals
HK$1 to HK$1,000,000	1	3
HK$1,000,001 to HK$1,500,000	–	1
Over HK$1,500,000	1	–
	2	4

9. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Group includes a loss of RMB8,216,000 (2008: nil) which has been dealt with in the financial statements of the Company.

10. DIVIDENDS

(a) Dividends payable to equity shareholders of the Company attributable to the year

	2009 RMB'000	2008 RMB'000
Final dividend proposed after the balance sheet date of HK12 cents per ordinary share (2008: HK8.53 cents per ordinary share)	221,539	112,807
	221,539	112,807

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

10. DIVIDENDS (Continued)

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

	2009 **RMB'000**	2008 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK8.53 cents per ordinary share (2008: Nil)	**112,807**	–

The amount were declared and paid before the listing of the shares of the Company on the Hong Kong Stock Exchange.

11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB628,308,000 (2008: 375,958,000) and the weighted average of 1,739,306,000 ordinary shares (2008: 1,500,000,000 shares after adjusting for the reorganisation in 2008) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2009	2008
Issued ordinary shares at 1 January	**1,500,000,000**	1
Effect of reorganisation	**–**	1,499,999,999
Effect of capital injection	**132,399,000**	–
Effect of initial public offering	**106,907,000**	–
	1,739,306,000	1,500,000,000

There were no dilutive potential ordinary shares during the year and, therefore, diluted earnings per share are the same as the basic earnings per share.

12. PROPERTY, PLANT AND EQUIPMENT

		The Group				
	Note	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Total RMB'000
Cost:						
At 1 January 2008		10,598	17,772	1,194	4,543	34,107
Additions		4,601	31,723	633	7,340	44,297
Transfer from construction in progress	13	74,168	503	–	1,642	76,313
Disposals		–	(388)	–	(205)	(593)
At 31 December 2008		89,367	49,610	1,827	13,320	154,124
Additions		2,642	15,336	2,199	3,890	24,067
Transfer from construction in progress	13	96,890	806	–	931	98,627
Disposals		–	(1,403)	–	(10)	(1,413)
At 31 December 2009		**188,899**	**64,349**	**4,026**	**18,131**	**275,405**
Accumulated depreciation:						
At 1 January 2008		–	6,711	323	1,828	8,862
Charge for the year		2,618	4,038	206	1,722	8,584
Written back on disposals		–	(213)	–	(63)	(276)
At 31 December 2008		2,618	10,536	529	3,487	17,170
Charge for the year		6,000	5,786	407	2,484	14,677
Written back on disposals		–	(722)	–	(7)	(729)
At 31 December 2009		**8,618**	**15,600**	**936**	**5,964**	**31,118**
Net book value:						
At 31 December 2008		86,749	39,074	1,298	9,833	136,954
At 31 December 2009		**180,281**	**48,749**	**3,090**	**12,167**	**244,287**

Buildings with carrying amount of RMB159,837,000 (2008: RMB49,427,000) have been pledged to banks as security for bills payable and facilities as at 31 December 2009 (see notes 21 and 22).

13. CONSTRUCTION IN PROGRESS

		The Group	
		2009	2008
	Note	**RMB'000**	RMB'000
At 1 January		**95,189**	46,655
Additions		**64,704**	124,847
Transfer to property, plant and equipment	12	**(98,627)**	(76,313)
At 31 December		**61,266**	95,189

Construction in progress comprises costs incurred on property, plant and equipment not yet completed at the respective balance sheet dates. Construction in progress with carrying amount of RMB4,177,000 (2008: RMB72,714,000) was pledged to banks as security for bills payable and facilities as at 31 December 2009 (see notes 21 and 22).

14. LEASE PREPAYMENTS

	The Group	
	2009	2008
	RMB'000	RMB'000
Cost:		
At 1 January	**20,058**	20,058
Disposal	**(2,974)**	–
At 31 December	**17,084**	20,058
Accumulated amortisation:		
At 1 January	**558**	152
Charge for the year	**343**	406
Write back on disposal	**(74)**	–
At 31 December	**827**	558
Net book value:		
At 31 December	**16,257**	19,500

The Group's interest in leasehold land is represented by the prepayments of land use right premiums to the PRC authorities. The leasehold lands are located in the PRC. The Group is granted land use rights for a period of 50 to 70 years.

All the lease prepayments (2008: RMB15,567,000) were pledged to banks as security for bills payable and bank facilities as at 31 December 2009 (see notes 21 and 22).

15. INTANGIBLE ASSETS

	The Group		
	Trademarks RMB'000	Software RMB'000	Total RMB'000
Cost:			
At 1 January 2008	9,386	–	9,386
Additions	413	57	470
At 31 December 2008 and 2009	9,799	57	9,856
Accumulated amortisation:			
At 1 January 2008	–	–	–
Amortisation for the year	–	1	1
At 31 December 2008	–	1	1
Amortisation for the year	–	13	13
At 31 December 2009	–	14	14
Net book value:			
At 31 December 2008	9,799	56	9,855
At 31 December 2009	9,799	43	9,842

The amortisation charge for the year is included in administrative expenses in the consolidated income statement.

16. INVENTORIES

	The Group	
	2009 RMB'000	2008 RMB'000
Raw materials	**35,456**	24,705
Work in progress	**62,018**	35,769
Finished goods	**112,825**	108,792
	210,299	169,266

17. INVESTMENTS IN SUBSIDIARIES

	The Company 2009 RMB'000	2008 RMB'000
Unlisted shares, at cost	**563,343**	564,252

Particulars of the subsidiaries are set out below:

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

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

18. TRADE AND OTHER RECEIVABLES

(a) The Group

	2009 RMB'000	2008 RMB'000
Bills receivable	12,720	29,100
Trade receivables	761,613	377,895
Deposits and prepayments	81,590	94,336
Other	7,926	6,145
	863,849	507,476

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

Set out below is the aging analysis of the total balance of the trade receivables and bills receivable based on the invoice date as of the balance sheet date:

	2009 RMB'000	2008 RMB'000
Within 3 months	765,213	395,330
3 to 6 months	9,120	11,665
	774,333	406,995

The Group offers revolving credit to domestic distributors. This revolving credit provides for a maximum credit limit that may be outstanding at any one time based on, among others, credit history, market conditions, prior year's purchases and estimated purchases for the coming year. In considering the amount of revolving credit, the Group also takes into account the funding needs of the distributors in expanding the distribution network. The Group generally evaluates the credit limits granted to domestic distributors annually upon renewal of the relevant distribution agreements. Accordingly, there were no trade debts that were considered past due.

At each of the balance sheet dates, the Group considered whether impairment provision for doubtful debts for trade and other receivables need to be set up and no provision was considered necessary at each of the balance sheet dates. Impairment losses in respect of trade and other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and other receivables directly (see note 1(i)(i)).

(b) The Company

The balance as at 31 December 2009 represents an amount due from a subsidiary. This amount is unsecured, non-interest bearing and is expected to be repaid within the next twelve months.

19. PLEDGED DEPOSITS

Bank deposits have been pledged to banks as security for bills payable and certain bank facilities (see notes 21 and 22).

20. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deposits with banks within three months to maturity when placed	**79,244**	–	**–**	–
Cash at bank and in hand	**1,334,081**	418,377	**458**	–
	1,413,325	418,377	**458**	–

As at 31 December 2009, the balances denominated in RMB that were placed with banks in the PRC and included in the cash and cash equivalents above amounted to RMB1,025,763,000 (2008: RMB406,897,000). Remittance of funds out of the PRC is subject to foreign exchange restrictions imposed by the PRC government.

21. BANK LOANS

As at 31 December 2009, all the bank loans were repaid. The maturity of bank loans is analysed as follows:

	The Group	
	2009	2008
	RMB'000	RMB'000
Within 1 year	**–**	132,233
After 1 year but within 2 years	**–**	–
After 2 years but within 5 years	**–**	70,000
	–	202,233

22. TRADE AND OTHER PAYABLES

(a) The Group

	2009 RMB'000	2008 RMB'000
Bills payable	**207,520**	154,758
Trade payables	**22,011**	65,569
Other payables and accruals	**109,952**	149,404
	339,483	369,731

Bills payable as at 31 December 2009 were secured by the Group's property, plant and equipment, construction in progress, lease prepayments and pledged bank deposits (see notes 12, 13, 14 and 19 for details).

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

An ageing analysis of the trade and bills payable based on the invoice date is as follows:

	2009 RMB'000	2008 RMB'000
Within 3 months	**87,240**	132,457
3 to 6 months	**142,291**	87,490
6 months to 1 year	**–**	380
	229,531	220,327

(b) The Company

The balance as at 31 December 2009 represents amounts due to subsidiaries. These amounts are unsecured, non-interest bearing and are expected to be repaid within the next twelve months.

23. AMOUNT DUE TO A RELATED PARTY

With effect from 1 September 2008, the amount due to a related party was unsecured, repayable on demand and subject to an interest rate of 15% per annum. The balance with the related party was settled in April 2009 (see note 30(c)).

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") organised by the PRC municipal government authorities in Fujian and Jiangxi Provinces whereby the Group is required to make contributions to the Schemes at the rate of 18% of the eligible employees' salaries. The local government authorities are responsible for the entire retirement benefit obligations payable to retired employees.

The Group has no other material obligation for the payment of retirement benefits associated with the Schemes beyond the annual contributions described above.

25. INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

(a) Current tax liabilities in the consolidated balance sheet represents:

	2009 RMB'000	2008 RMB'000
Provision for PRC income tax	**27,244**	13,216

(b) Recognised deferred tax assets and liabilities

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

	The Group			
	Provision of incentive rewards and renovation subsidy RMB'000	**Pre-operating expenses, accruals and others** RMB'000	**Undistributed profits of subsidiaries in the PRC since 1 January 2008** RMB'000	**Total** RMB'000
Deferred tax arising from:				
At 1 January 2008	–	57	–	57
Charged to profit or loss	6,381	863	(22,300)	(15,056)
At 31 December 2008	6,381	920	(22,300)	(14,999)
Charged to profit or loss	(4,044)	2,924	(8,939)	(10,059)
At 31 December 2009	**2,337**	**3,844**	**(31,239)**	**(25,058)**

25. INCOME TAX IN THE CONSOLIDATED BALANCE SHEET (Continued)

(b) Recognised deferred tax assets and liabilities (Continued)

	2009 RMB'000	2008 RMB'000
Represented by:		
Deferred tax assets	**6,181**	7,662
Deferred tax liabilities	**(31,239)**	(22,661)
	(25,058)	(14,999)

(c) Deferred tax liabilities not recognised

At 31 December 2009, temporary differences relating to the undistributed profits of subsidiaries amounted to RMB454,339,000 (2008: Nil). Deferred tax liabilities of RMB22,717,000 (2008: Nil) have not been recognised 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 such profits will not be distributed in the foreseeable future.

26. SHARE CAPITAL

(a) Movements in the Company's authorised share capital are as follows:

	Note	Par value HK$	Number of shares '000	Nominal value of ordinary shares HK$'000
Authorised:				
At 15 February 2008	(i)	0.01	38,000	380
Increase in share capital in 2008	(i)	0.01	4,962,000	49,620
At 31 December 2008 and 2009		**0.01**	**5,000,000**	**50,000**

26. SHARE CAPITAL (Continued)

(b) Movements in the Company's issued share capital are as follows:

	Notes	Par value HK$	Number of shares '000	Nominal value of ordinary shares HK$'000	Nominal value of ordinary shares RMB'000
Ordinary shares, issued and fully paid:					
At 15 February 2008	(i)	0.01	–	–	–
Issue of share for reorganisation	(ii)	0.01	1,500,000	15,000	13,188
At 31 December 2008		0.01	1,500,000	15,000	13,188
Capital injection	(iii)	0.01	178,323	1,783	1,573
Issues of shares under public offering	(iv)	0.01	419,580	4,196	3,698
At 31 December 2009		**0.01**	**2,097,903**	**20,979**	**18,459**

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

Notes:

(i) The Company was incorporated on 15 February 2008 with an authorised share capital of HK$380,000 comprising 38,000,000 shares of HK$0.01 each and one share of HK$0.01 was allotted and issued to Mr Xu Jingnan.

On 26 June 2008, the authorised share capital of the Company was increased to HK$50,000,000 by the creation of an additional 4,962,000,000 shares of HK$ 0.01 each.

(ii) Pursuant to a reorganization on 30 June 2008, Peak Investment acquired the entire issued share capital of Peak Hong Kong from Peak Hong Kong's shareholders in consideration of a total of 1,500,000,000 shares in the capital of the Company allotted to the shareholders of Peak Hong Kong in the same proportion to their respective shareholding interests in Peak Hong Kong. The Company became the holding company of Peak Investment and the Group, and out of these 1,500,000,000 shares of the Company's capital 1,499,999,999 shares were newly issued and credited as fully paid upon reorganization.

(iii) In April 2009, the Company entered into a share purchase agreement to issue an aggregate of 178,323,394 shares for a total cash consideration of US$40,000,000 (equivalent to RMB273,395,000) to certain investors. The nominal value of approximately RMB1,573,000 was recorded under share capital. A surplus of RMB270,608,000 (after netting off directly attributable expenses of the share issue) over the nominal value is credited to share premium account.

(iv) On 29 September 2009, the Company issued 419,580,000 ordinary shares with par value of HK$0.01 each, at a price of HK$4.10 per share by way of IPO to investors. Net proceeds from such issue amounted to RMB1,442,097,000 (after offsetting listing expenses of RMB73,984,000), out of which RMB3,698,000 and RMB1,438,399,000 were recorded in share capital and share premium respectively.

27. 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)	Accumulated losses RMB'000	Total RMB'000
At 15 February 2008		–	–	–	–	–
Arising from the reorganisation	26(b)	–	549,336	–	–	549,336
Total comprehensive income for the period		–	–	1,728	–	1,728
At 31 December 2008		–	549,336	1,728	–	551,064
Total comprehensive income for the year		–	–	(2,527)	(8,216)	(10,743)
Capital injection	26(b)(iii)	270,608	–	–	–	270,608
Shares issued under public offering, net of issuing expenses	26(b)(iv)	1,438,399	–	–	–	1,438,399
Dividends approved and paid		(112,807)	–	–	–	(112,807)
At 31 December 2009		**1,596,200**	**549,336**	**(799)**	**(8,216)**	**2,136,521**

(a) Share premium

The application of the share premium account of the Company is governed by the Companies Law (Revised) of the Cayman Islands. The funds in the share premium are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, 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, PRC subsidiaries are required to appropriate 10% of its after-tax profit (after offsetting prior year losses) to the reserve until such 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 utilised, upon approval by the relevant authorities, to offset the accumulated losses or to increase the registered capital of the company, provided that the balance of the reserve after such increase is not less than 25% of its registered capital.

27. RESERVES (Continued)

(c) Other reserve

The other reserve of the Group represents the difference of the historical carrying value of share capital and share premium of Peak Hong Kong acquired over the nominal value of the shares issued by the Company as consideration.

The other reserve of the Company represents the difference of the historical carrying value of the net assets of Peak Hong Kong and its subsidiaries acquired over the nominal value of the shares issued by the Company at the date of the reorganisation.

The other reserve of the Company is distributable to the shareholders of the Company provided that immediately following the date on which the distribution is proposed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(d) Exchange reserve

The exchange reserve of the Group comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The exchange reserve of the Company comprises the foreign exchange differences arising from the translation of the financial statements of the Company from its functional currency, which is HK$, to the presentation currency.

The reserve is dealt with in accordance with the accounting policies set out in note 1(s).

(e) Distributable reserve

The distributable reserve of the Company as at 31 December 2009 was RMB2,136,521,000 (2008: RMB549,336,000).

(f) Capital management

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

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

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose the Group defines net debt as interest-bearing loans less cash and capital is defined as the total equity. As at 31 December 2008 and 2009, the Group has cash in excess of interest-bearing loans. It is the management's intention to restrict the ratio below 50% in the future. 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.

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

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

(a) Credit risk

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

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

At the balance sheet date, 7% (2008: 9%) and 25% (2008: 30%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

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

(b) Liquidity risk

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

(c) Interest rate risk

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

(d) Foreign currency risk

RMB is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through Peoples' Bank of China ("PBOC") or other institutions authorised to buy and sell foreign exchange. The exchange rates adopted for foreign exchange transactions are the rates of exchange quoted by PBOC that are determined largely by supply and demand.

The Group is exposed to foreign currency risk primarily arising from bank deposits, proceeds from export sales, settlement of accounts of overseas service providers, and advances to related parties 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$.

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(d) Foreign currency risk (Continued)

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

	2009 '000	2008 '000
Trade and other receivables		
US$	567	3,432
HK$	2,699	8,379
Amounts due from related parties		
HK$	–	44,016
Cash and cash equivalents		
US$	9,792	1,661
HK$	274,230	142
Fixed deposits held at banks with maturity over 3 months		
HK$	680,000	–
Trade and other payables		
US$	–	493
HK$	5,475	567
Amounts due to related parties		
US$	–	31,430
EUR	–	5
Bank loans		
US$	–	2,653

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(d) Foreign currency risk (Continued)

Sensitivity analysis

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

A 5% strengthening of the RMB against US$/HK$ at 31 December 2009 would have increased/ (decreased) the after-tax profit by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	2009	2008
	RMB'000	RMB'000
Effect in RMB'000		
US$	**(3,190)**	10,021
HK$	**(41,876)**	(2,292)

A 5% weakening of the RMB against US$/HK$ at 31 December 2009 would have had an equal but opposite effect on the after-tax profit by the amounts shown above, on the basis that all other variables remain constant.

(e) Commodity price risk

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

(g) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2009 and 2008 because of the short maturities of these instruments.

29. COMMITMENTS

(a) Capital commitments

Capital commitments for the acquisition of property, plant and equipment outstanding at the year end date are set out as follows:

	The Group 2009 RMB'000	2008 RMB'000
Contracted for	**12,791**	17,414
Authorised but not contracted for	**19,439**	32,665
	32,230	50,079

(b) Operating leases

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

	The Group 2009 RMB'000	2008 RMB'000
Within 1 year	**3,114**	2,389
After 1 year but within 5 years	**11,969**	9,035
After 5 years	**6,776**	11,293
	21,859	22,717

The Group leases a number of properties under operating leases. The leases run for an initial period of one to five years, with an option to renew when all terms are renegotiated. None of the lease includes contingent rentals.

30. MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel compensation

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

	2009 **RMB'000**	2008 RMB'000
Short-term employee benefits	**3,808**	1,520
Contributions to retirement benefit scheme	**57**	28
Total	**3,865**	1,548

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

(b) Lease of land and properties

During the year ended 31 December 2009, the Group leased certain land and properties from Fujian Peak Group Co., Ltd, controlled by a major shareholder of the Company. The rental expenses for 2009 were RMB2,259,000 (2008: RMB2,322,000).

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

(c) Amounts advanced from a related party

The amount due to Mr Xu Jingnan (the "advance"), a major shareholder, as at 1 January 2008 is unsecured and repayable on demand. With effect from 1 September 2008, the advance is unsecured, repayable on demand and subject to an interest at the rate of 15% per annum. The interest expenses for the advance for the year ended 31 December 2009 were RMB2,674,000 (2008: RMB1,564,000). The balance of the advance as at 31 December 2008 was RMB52,687,000.

The advance has been settled in April 2009.

31. IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

The Directors consider the immediate holding companies of the Company as at 31 December 2009 to be three entities incorporated in BVI and controlled by the Controlling Shareholders, while the ultimate controlling parties of the Company as at 31 December 2009 to be the Controlling Shareholders. These entities do not provide financial statements available for public use.

32. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

Net realisable 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 each balance sheet date.

(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 each balance sheet date.

(d) Depreciation and amortisation

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 amortised 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 amortisation expenses to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation and amortisation expenses for future periods are adjusted prospectively if there are significant changes from previous estimates.

33. NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) Dividend declaration

After the balance sheet date, the Directors proposed a final dividend. Further details are disclosed in note 10(a).

(b) Stock option

On 9 February 2010, the Company granted share options to certain of the Group's employees to subscribe for a total of 13,065,000 ordinary shares of the Company.

34. COMPARATIVE FIGURES

As a result of the application of IAS 1 (revised 2007), Presentation of financial statements, and IFRS 8, Operating segments, certain comparative figures have been adjusted to conform to the current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in note 2.

35. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2009

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2009 and which have not been adopted in these financial statements.

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

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

Glossary

In this annual report, unless the context otherwise requires, the following terms shall have the following meanings.

"AGM"	Annual General Meeting of the Company
"Board"	The Board of Directors of the Company
"BVI"	The British Virgin Islands
"Company"	Peak Sport Products Co., Limited
"CG Code"	The Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules
"Controlling Shareholders"	Mr Xu Jingnan, Mr Xu Zhihua, Mr Xu Zhida and Ms Wu Tigao
"Director(s)"	Director(s) of the Company
"ED(s)"	Executive Director(s) of the Company
"FIBA"	Fédération Internationale de Basketball
"Fujian Peak"	Fujian Peak Group Co., Ltd
"Group"	The Company and its subsidiaries altogether
"INED(s)"	Independent Non-executive Director(s) of the Company
"IPO"	The initial public offering of the Company's shares
"Listing Date"	29 September 2009, the date on which the Company's shares are listed on the Main Board of the Hong Kong Stock Exchange
"Listing Rules"	Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
"NED(s)"	Non-executive Director(s) of the Company
"Peak Hong Kong"	Peak (Hong Kong) International Company Limited
"Peak Investment"	Peak Investment Management Co., Limited
"Peak Shoes"	Quanzhou Peak Shoes Co., Ltd
"Prospectus"	The prospectus of the Company dated 16 September 2009 in relation to the IPO
"PRC or China"	The People's Republic of China
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"SFO"	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

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