

**▲ NBA STAR: RON ARTEST**

(Incorporated in the Cayman Islands with limited liability)

# PEAK

Peak Sport  
Products  
Co., Limited

Interim Report 2010

**▲ HIGHLIGHTS**

Number of  
**PEAK** retail  
outlets reached  
**6,796**  
representing  
a net increase  
of **590** outlets  
from the end of  
2009

**▲ HIGHLIGHTS**

Number  
of **PEAK**  
endorsed  
**NBA**  
stars  
increased  
to **12**



Stock Code : 1968





**Peak endorsed NBA stars**  
(by alphabetical order)

- Carl Landry
- Darnell Jackson
- Dikembe Mutombo
- Jason Kidd
- Jason Richardson
- Kevin Love
- Kyle Lowry
- Mickael Pietrus
- Ron Artest
- Sasha Vujacic
- Shane Battier
- Sonny Weems



Peak endorsed NBA star: Ron Artest

**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**

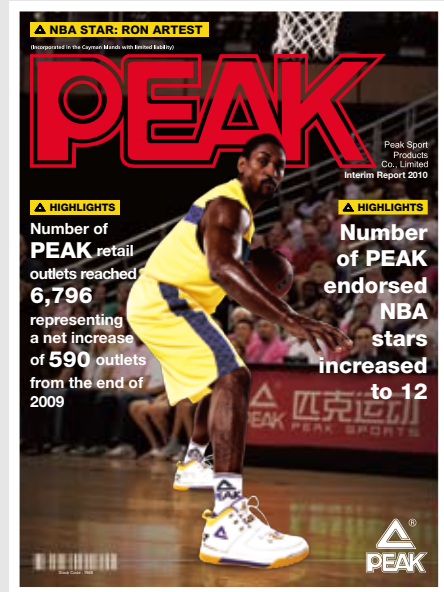
United, practical and effective  
Pragmatic, conscientious and diligent  
People-oriented, creating value for customers and society  
Making dreams come true through team work

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Since 2007, the Group has been an official marketing partner of NBA in China. The association with NBA includes, among other things, the right to use the NBA logo and other licensed marks in connection with the advertising and promotion of the Peak brand and/or our footwear products in China. The Group has also entered into sponsorship agreements with NBA's Houston Rockets and New Jersey Nets under which the Group can, among other things, display the Peak signage at the home stadiums of the two teams.



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Want a glance of the Group's key financial indicators for the first half of 2010? Turn to page 2.



**3 Financial Highlights for the First Half of 2010**

Thanks to increased demand for our products and continuous expansion of our distribution network in China, our turnover and profits continued to grow in the first half of 2010. See page 3 for highlights.



**4 Corporate Information**

The Company was listed on the Main Board of Hong Kong Stock Exchange in September 2009. See page 4 for the key corporate information.

**6 Management Discussion and Analysis**

We are very optimistic about the development of the sports products industry. See page 6 for more.

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## ▲ FINANCIAL SUMMARY

	Six months ended 30 June	
	2010 (RMB million)	2009 (RMB million)
<i>Profitability data</i>		
Turnover	1,808.6	1,357.3
Gross profit	681.2	516.7
Profit for the period	346.6	267.4
Basic earnings per share (RMB cents)	16.52	16.82
Diluted earnings per share (RMB cents)	16.51	16.82
<i>Profitability ratios</i>		
Gross profit margin	37.7%	38.1%
Net profit margin	19.2%	19.7%
Effective tax rate	17.7%	10.2%
Return on equity (annualised) (note 1)	22.6%	51.2%
<i>Operating ratios (as a percentage of turnover)</i>		
Advertising and promotion expenses	11.3%	13.2%
Staff costs	6.0%	5.0%
Research and development costs	0.5%	0.3%
<i>Assets and liabilities data</i>		
	As at 30 June 2010 (RMB million)	As at 31 December 2009 (RMB million)
Non-current assets	376.5	337.8
Current assets	3,271.5	3,062.3
Current liabilities	488.1	366.7
Non-current liabilities	36.7	31.2
Shareholders' equity	3,123.2	3,002.2
Current ratio	6.7	8.4
Gearing ratio (%) (note 2)	0.0%	0.0%
Net asset value per share (RMB)	1.49	1.43
<i>Working capital data</i>		
	Six months ended 30 June 2010	Year ended 31 December 2009
Average inventory turnover days (note 3)	40	36
Average trade receivables and bills receivable turnover days (note 4)	74	70
Average trade payables and bills payable turnover days (note 5)	46	42



NBA star series of basketball shoes: Artest II

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

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

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

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

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

## ▲ FINANCIAL HIGHLIGHTS FOR THE FIRST HALF OF 2010

Peak's new series of running shoes: Yi Pao



超轻EVA材质  
带给双脚轻薄无负担的重量

多层透气网眼  
透气凉爽，让脚掌自由呼吸

流线贴合科技  
完整贴合足底每寸皮肤

**TURNOVER** grew by 33.3% to **RMB1,808.6** million

Gross profit grew by 31.8% to RMB681.2 million. **GROSS PROFIT MARGIN** was **37.7%**

**PROFIT FOR THE PERIOD** attributable to equity shareholders grew by 29.6% to **RMB346.6** million. Net profit margin was 19.2%

**BASIC AND DILUTED EARNINGS PER SHARE** amounted to RMB16.52 cents per share and RMB16.51 cents per share respectively

**INTERIM DIVIDEND OF HK7 CENTS** (equivalent to RMB6.11 cents) per ordinary share was declared

Number of authorised **PEAK RETAIL OUTLETS REACHED 6,796**, representing a net increase of 590 outlets from the end of 2009





## ▲ CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### Executive Directors

Mr. Xu Jingnan (許景南) (*Chairman*)  
Mr. Xu Zihua (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 Zihua (許志華)  
Mr. Tsoi Ka Ho (蔡家豪)

### REGISTERED OFFICE

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

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

### LEGAL ADVISERS

As to Hong Kong Law and United States Law  
DLA Piper Hong Kong

#### As to PRC Law

King & Wood PRC Lawyers

### AUDITOR

KPMG

### COMPLIANCE ADVISER

CCB International Capital Limited

### 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](http://www.peaksport.com)



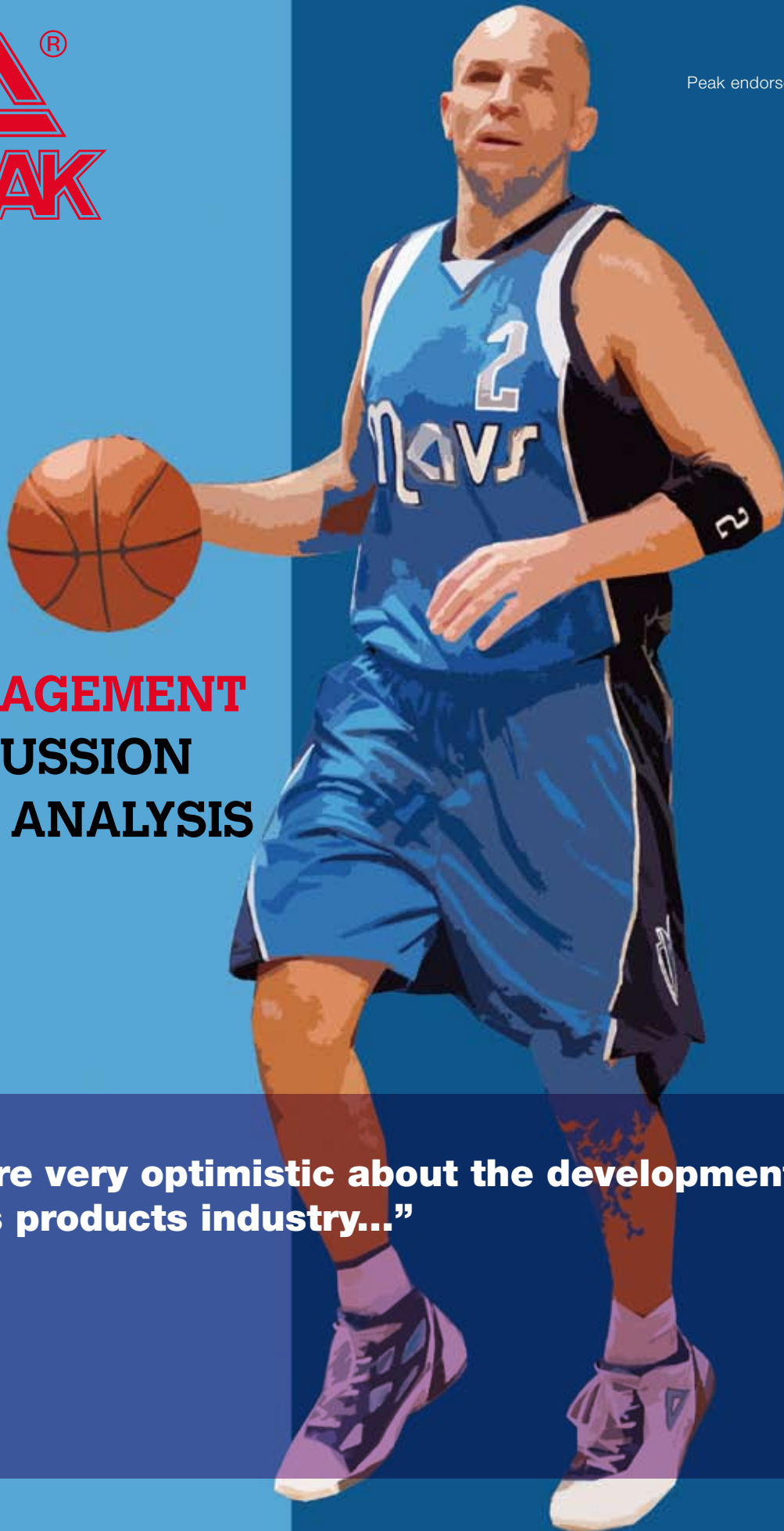
Peak's headquarter at Quanzhou, Fujian Province



Peak's management attended the listing ceremony at the Hong Kong Stock Exchange on 29 September 2009



Peak endorsed NBA star: Jason Kidd



**MANAGEMENT  
DISCUSSION  
AND ANALYSIS**

**“We are very optimistic about the development of the sports products industry...”**

## ▲ MANAGEMENT DISCUSSION AND ANALYSIS

**“Substantial increase in the wages of workers was a positive news to the industry as it is expected that these workers would purchase more sports products after their wage increases...”**

### MARKET OVERVIEW

Despite a strong recovery in the financial sector starting from the second half of 2009, there has still been much uncertainty over a sustained recovery of the global economy especially when many developed nations still experienced high unemployment, weak property market and debt crisis during the first half of 2010. It is expected that the demand from the developed nations would remain at low level for

a considerable period of time. On the other hand, economic conditions in China were more promising during the first half of 2010, thanks to the adoption of the pro-active fiscal policy and moderately easy monetary policy by the Chinese government. Instead of relying heavily on capital expenditure on fixed assets to stimulate the economy, the Chinese government strove to encourage domestic consumption in response to the reduced demand from developed nations. As a result, the GDP and the total retail sales of consumer goods in China recorded a year-on-year increase of 11.1% and 18.2% respectively in the first half of 2010.

With the rapid urbanization of rural areas in China and adoption of the above-mentioned fiscal and monetary policies by the Chinese government, the sports products industry as a whole has enjoyed steady growth during the first half of 2010. The recent incidents regarding dissatisfied factory workers in China, which resulted in a substantial increase in the wages of certain workers, were positive news to the industry as it is expected that these workers, most of whom are our customers, would purchase more sports products after their wage increases.

In view of the above, we are very optimistic about the development of the sports products industry although at the same time we are cautious in dealing with risk areas and uncertainty such as weak demands from developed nations and keen competition. As our medium-term strategy, we would focus on and allocate most of our resources to the domestic market and emerging markets to ensure a sustainable business growth in the coming years.



The number of authorised Peak retail outlets has increased by 9.5% to 6,796 as at 30 June 2010 from 6,206 at the end of 2009







## FINANCIAL REVIEW

### Turnover

The Group's turnover for the first half of 2010 amounted to RMB1,808.6 million (1H2009: RMB1,357.3 million), representing an increase of 33.3% when compared to that for the same period in 2009. The increase was mainly due to increased demand for our products and continuous expansion of our distribution network in China during the period. 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 authorised Peak retail outlets has increased by 9.5% to 6,796 as at 30 June 2010 from 6,206 at the end of 2009.

Analysis of turnover by product category:

	2010		2009		Change (%)
	RMB (million)	% of turnover	RMB (million)	% of turnover	
Footwear	828.7	45.8	624.6	46.0	32.7
Apparel	941.5	52.1	701.4	51.7	34.2
Accessories	38.4	2.1	31.3	2.3	22.7
<b>Total</b>	<b>1,808.6</b>	<b>100.0</b>	1,357.3	100.0	33.3

There has not been any material change in the relative ratios of revenue contributed by each category of our products in the first half of 2010 when compared to those for the same period last year.



Analysis of turnover by geographical location:

	2010		2009		Change (%)
	RMB (million)	% of turnover	RMB (million)	% of turnover	
China market	<b>1,614.5</b>	<b>89.3</b>	1,230.2	90.6	31.2
Overseas markets					
Asia	<b>70.9</b>	<b>3.9</b>	35.3	2.6	100.8
Europe	<b>61.6</b>	<b>3.4</b>	61.2	4.5	0.7
South America	<b>31.9</b>	<b>1.8</b>	18.9	1.4	68.8
Africa	<b>13.8</b>	<b>0.7</b>	6.2	0.5	122.6
North America	<b>8.5</b>	<b>0.5</b>	5.5	0.4	54.5
Australia	<b>7.4</b>	<b>0.4</b>	–	–	N/A
	<b>194.1</b>	<b>10.7</b>	127.1	9.4	52.7
<b>Total</b>	<b>1,808.6</b>	<b>100.0</b>	1,357.3	100.0	33.3

The China market was still the most significant revenue contributor in the first half of 2010 and accounted for 89.3% of the total revenue. The revenue derived from the China market and the overseas markets grew by 31.2% and 52.7% respectively in the first half of 2010 when compared to those for the same period in 2009. The increase in the revenue derived from the China market was primarily attributable to an increased demand for our products and further expansion of the Group's retailed outlets during the first half of 2010. The substantial increase in the revenue derived from the overseas markets was mainly due to a recovery of demand in the first half of 2010 from the global financial crisis that had severely suppressed the overseas demand for most consumer goods in the first half of 2009.

### Gross profit by product

Analysis of contribution to gross profit by product category:

	2010		2009		Change in gross profit margin (% points)
	Gross profit RMB (million)	Gross profit margin (%)	Gross profit RMB (million)	Gross profit margin (%)	
Footwear	<b>313.2</b>	<b>37.8</b>	235.5	37.7	0.1
Apparel	<b>354.0</b>	<b>37.6</b>	269.6	38.4	(0.8)
Accessories	<b>14.0</b>	<b>36.5</b>	11.6	37.1	(0.6)
<b>Total</b>	<b>681.2</b>	<b>37.7</b>	516.7	38.1	(0.4)



The showroom in our headquarter at Quanzhou, Fujian Province

During the first half of 2010, there has been a decrease in the gross profit margin for apparel products mainly because the rate of the increase in the cost of production is slightly higher than the rate of the increase in the selling prices of the products. Such decrease in the gross profit margin for apparel products, which was partially offset by a modest increase

in the gross profit margin for footwear products, resulted in a slight decrease in the overall gross profit margin in the first half of 2010 when compared to that for the same period last year. The disproportionate increase in the cost of production for apparel products was mainly attributable to an increase in the direct labour cost during the period.

## Selling price and volume

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

	2010		2009		Change	
	Quantity sold (million)	Average unit selling price (RMB)	Quantity sold (million)	Average unit selling price (RMB)	Quantity sold (%)	Average unit selling price (%)
Footwear (pairs)	10.3	80.5	7.6	82.2	35.5	(2.1)
Apparel (pieces)	21.7	43.4	16.5	42.5	31.5	2.1

### Notes:

- (1) We have not included the respective information of our accessory products because we have a broad range of accessory products that vary significantly in terms of unit price. We believe that a unit-based analysis of this product category would not be meaningful.
- (2) Average unit selling price of each product category represents the turnover of that product category for the period divided by its quantity sold for the period.

The Group adopts the cost-plus method to set the wholesale prices of our products. The average unit selling price of our footwear products decreased by 2.1% to RMB80.5 in the first half of 2010 from RMB82.2 in the first half of 2009, primarily due to a decrease in the cost of production. Accordingly, the Group priced our footwear products at lower prices when compared to those for the same period last year. The decrease in the cost of production for footwear products was primarily attributable to a further improvement in production efficiency derived from accumulated experience and

lower per unit labour cost of our newly employed workers at our new production plant in Shang'gao, Jiangxi Province during the period.

As for the apparel products, the average unit selling price increased by 2.1% to RMB43.4 in the first half of 2010 from RMB42.5 in the same period last year. Such increase was mainly caused by upward adjustments to the average selling prices of our apparel products in response to the increases in the direct labour cost during the period.

**“The decrease in the cost of production of footwear products was primarily attributable to a further improvement in production efficiency derived from accumulated experience and lower per unit labour cost of our newly employed workers...”**



Mr. Xu Zhihua, our chief executive officer, introduced our new basketball specialty outlet to the representatives of NBA in China





### Turnover per retail outlet and per unit retail floor area

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

	As at 30 June			Six months ended 30 June			
	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)
<b>2010</b>	<b>6,796</b>	<b>503,098</b>	<b>74.0</b>	<b>6,501</b>	<b>478,068</b>	<b>248</b>	<b>3.4</b>
2009	5,667	399,222	70.4	5,423	380,877	227	3.2
Changes (%)	19.9	26.0	5.1	19.9	25.5	9.3	6.3

*Notes:*

- (1) Average turnover per retail outlet is equal to the total turnover (China market) divided by the average number of retail outlets, which is equal to the average of the opening and closing numbers of the retail outlets for the period.
- (2) Average turnover per unit retail floor area is equal to the total turnover (China market) divided by the average total retail floor area, which is equal to the average of the opening and closing total retail floor areas for the period.

Peak endorsed  
NBA star:  
Jason Kidd



The average floor area per authorised Peak retail outlet increased to 74.0 square metres as at 30 June 2010 from 70.4 square metres as at 30 June 2009, which was in line with the Group's strategy to increase gradually the size of our new outlets to accommodate our increasing product offerings and to match the enhanced Peak brand image. The average turnover per authorised Peak retail outlet and the average turnover per unit retail floor area during the first half of 2010 increased by 9.3% and 6.3% respectively when compared to those for the same period in 2009. The increases in these two ratios were attributable to the increases in the average size of our retail outlets and popularity of the Peak products during the period.



Our new production plant for apparel at Hui'an, Fujian Province

### Cost of sales

Analysis of cost of sales by production method:

	Six months ended 30 June				
	2010		2009		Change (%)
	RMB (million)	% of total	RMB (million)	% of total	
<b>Self-production</b>					
Raw materials	198.7	65.4	137.4	66.8	44.6
Direct labour	58.5	19.3	39.8	19.3	47.0
Overhead	46.6	15.3	28.6	13.9	62.9
<b>Total</b>	<b>303.8</b>	<b>100.0</b>	205.8	100.0	47.6
<b>Cost of sales</b>					
Self-production	303.8	26.9	205.8	24.5	47.6
OEM/ODM	428.0	38.0	347.6	41.4	23.1
Subcontracting arrangements	395.6	35.1	287.2	34.1	37.7
<b>Total</b>	<b>1,127.4</b>	<b>100.0</b>	840.6	100.0	34.1



Workers at our footwear production lines

There has not been any material change in the cost structure of our self-produced products during the first half of 2010 when compared to that for the same period in 2009.

The ratio of self-production to total cost of sales increased slightly to 26.9% for the first half of 2010 from 24.5% for the same period in 2009. Such increase is primarily due to an increase in the self-production ratio for apparel products

which was partially offset by a decrease in the self-production ratio for footwear products during the period. Although the Group has been expanding our production capacities of both footwear and apparel products by adding more production lines in our new plants during the period, the increase in the demand of footwear products was higher than our capacity increase, resulting in a decrease in the self-production ratio for footwear products.

## “The group has increased its advertising and promotion expenses to further promote the Peak brand and our products...”



During 2010 Peak Team China Tour, Ron Artest received warm welcome from the Chinese NBA fans



The Group has had an association with Basketball Australia since 2006

### Other revenue and net income

Other revenue for the first half of 2010 increased to RMB9.6 million (1H2009: RMB4.3 million) mainly due to increased interest income derived from the proceeds from the Company's initial public offerings and increased refunds of value added tax from local governments during the period. Other net income decreased to RMB2.6 million (1H2009: RMB4.6 million) mainly because there had been a gain on disposal of a land use right in 2009.

### Selling and distribution expenses

Total selling and distribution expenses for the first half of 2010 amounted to RMB221.9 million (1H2009: RMB192.8 million), representing an increase of 15.1% when compared to those for the same period in 2009. The increase was mainly attributable to increased advertising and promotion expenses to further promote the Peak brand and our products during the period.

### Administrative expenses

Total administrative expenses for the first half of 2010 amounted to RMB50.6 million (1H2009: RMB27.6 million), representing an increase of 83.2% when compared to those for the same period in 2009. The increase was in line with the Group's expansion of business activities during the period and primarily due to: (i) increased



Peak endorsed NBA star: Sasha Vujacic

staff costs for our management and administrative personnel; (ii) increased research and development expenses; and (iii) increased travelling and roadshow expenses.

### Income tax

Income tax expenses increased by 145.9% to RMB74.4 million for the first half of 2010 from RMB30.2 million for the same period in 2009. This increase was mainly due to increases in the Group's revenue and the effective tax rate in 2010. The Group's effective tax rate increased to 17.7% for the first half of 2010 from 10.2% for the same period in 2009 mainly because two of our subsidiaries were subject to a corporate income tax rate of 12.5% starting from 2010 while they were exempted from the corporate income tax in 2009.





The newly launched basketball specialty outlets offer mainly premium basketball sports products to basketball enthusiasts



#### Net profit and net profit margin

Net profit increased by 29.6% to RMB346.6 million for the first half of 2010 from RMB267.4 million for the same period in 2009 while net profit margin decreased to 19.2% for the first half of 2010 from 19.7% for the same period in 2009. The increase in net profit was mainly attributable to the increase in sales revenue during the period while the decrease in net profit margin was primarily a result of: (i) a decrease in the gross profit margin to 37.7% for the first half of 2010 from 38.1% for the same period last year; (ii) an increase in the effective tax rate of the income tax; and (iii) a decrease in the ratio of advertising and promotion expenses to total revenue to 11.3% for the first half of 2010 from 13.2% for the same period last year which partially offsets the impact of (i) and (ii).

#### Working capital ratios

The average inventory turnover days for the six months ended 30 June 2010 increased to 40 days from 36 days for the year ended 31 December 2009. Such increase was within the normal fluctuations of our business operations.

The average trade receivables and bills receivable ("T&BR") turnover days increased to 74 days for the six months ended 30 June 2010 from 70 days for the year ended 31 December 2009. The increase in the turnover days was attributable to the relatively large opening balance of T&BR of RMB774.3 million brought forward from 2009. It is worth noting that the T&BR balance as at 30 June 2010 of RMB704.2 million has been reduced by RMB70.1 million when compared to the balance at the end of 2009.



The Group operates 3 product design and development workshops located in Beijing, Quanzhou and Guangzhou

The average trade receivables and bills payable turnover days increased to 46 days for the six months ended 30 June 2010 from 42 days for the year ended 31 December 2009 mainly because the Group has been stopping early settlements of accounts of certain suppliers which were severely affected by the global financial crisis in 2009.

#### Liquidity and capital resources

For the six months ended 30 June 2010, the net cash inflow from operating activities of the Group amounted to RMB470.6 million (1H2009: RMB27.5 million). As at 30 June 2010, our Group's cash and bank deposits (including cash at bank and on hand, fixed deposits held at bank and pledged deposits at bank) amounted to RMB2,174.1 million, representing a net increase of RMB186.0 million when compared to the position as at 31 December 2009.



The Group has been adopting a prudent treasury management policy and has strong liquidity position with sufficient standby banking facilities

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

	<b>Six months ended 30 June 2010 RMB'000</b>
Net cash inflow from operating activities	<b>470,598</b>
Net capital expenditure	<b>(57,511)</b>
Dividends paid	<b>(220,647)</b>
Other net cash outflow	<b>(6,452)</b>
<b>Net increase in cash and bank deposits</b>	<b>185,988</b>

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

During the first half of 2010, the Group has not used any financial instruments to hedge our exposure to interest rate risks.





Peak's new series of running shoes: Yi Pao

#### Foreign exchange risk

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

#### Pledge of assets

The following assets were pledged to banks as security for bills payable and certain banking facilities as at 30 June 2010:

	Carrying amount as at	
	30 Jun 2010 RMB'000	31 Dec 2009 RMB'000
Buildings	160,043	159,837
Construction in progress	-	4,177
Bank deposits	63,860	55,344
Lease prepayments	16,085	16,257
<b>Total</b>	<b>239,988</b>	<b>235,615</b>



Peak's new "2010 FIBA" series of footwear and apparel



## OPERATIONS REVIEW

### Expansion in distribution network

The network of authorised Peak retail outlets across China, owned and operated either by our distributors or by third party retail outlet operators, has been providing a cost-effective retail channel for the Peak 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 our retail network steadily throughout China in 2010. As at 30 June 2010, the total number of authorised Peak retail outlets was 6,796 (31 December 2009: 6,206), representing a net increase of 590 outlets.

Analysis of authorised retail outlets by geographical location:

#### Northern China

	Number of retail outlets as at		
	30 Jun 2010	31 Dec 2009	Change
Anhui	242	227	7%
Beijing/Inner Mongolia	207	174	19%
Gansu	100	96	4%
Hebei	274	251	9%
Heilongjiang	167	151	11%
Jiangsu	408	371	10%
Jilin	175	160	9%
Liaoning	221	197	12%
Ningxia	40	37	8%
Qinghai	16	14	14%
Shaanxi	180	170	6%
Shandong	483	432	12%
Shanxi	199	176	13%
Tianjin	44	33	33%
Tibet	3	2	50%
Xinjiang	119	105	13%

#### Southern China

	Number of retail outlets as at		
	30 Jun 2010	31 Dec 2009	Change
Chongqing	187	176	6%
Fujian	485	459	6%
Guangdong	543	494	10%
Guangxi	276	261	6%
Guizhou	105	84	25%
Hainan	83	78	6%
Henan	356	335	6%
Hubei	326	300	9%
Hunan	328	314	4%
Jiangxi	182	164	11%
Shanghai	86	73	18%
Sichuan	233	209	11%
Yunnan	267	248	8%
Zhejiang	461	415	11%

The second-tier and third-tier cities in China have been the Group's focused markets in recent years because of their faster economic growth and less intense competition when compared to the first-tier cities. Accordingly, the new authorised outlets opened in the first half of 2010 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 authorised retail outlets by type of city:

	Number of retail outlets as at		
	30 Jun 2010	31 Dec 2009	Change
First-tier cities	356	315	13%
Second-tier cities	1,423	1,319	8%
Third-tier cities	5,017	4,572	10%
<b>Total</b>	<b>6,796</b>	6,206	10%

Analysis of authorised retail outlets by store category:

	Number of retail outlets as at		
	30 Jun 2010	31 Dec 2009*	Change
Flagship stores	15	12	25%
Basic stores	4,173	3,766	11%
Department store and shopping mall outlets	2,580	2,428	6%
Basketball specialty outlets	28	–	n/a
<b>Total</b>	<b>6,796</b>	6,206	10%

\* Reclassified under new system

The Group has adopted a new system to classify our retail outlets starting from 2010. Under this new classification system, all authorised Peak retail outlets are classified into 4 categories.

Flagship stores are street-level outlets situated in prime locations in major cities and each flagship store has a floor area of at least 200 square metres and a monthly turnover of not less than RMB500,000. Basic stores are also street-level outlets, which do not satisfy the above criteria of flagship stores. Basketball specialty outlets are either street-level outlets or shopping mall outlets and offer mainly premium basketball sports products to basketball enthusiasts. They were launched during the first half of 2010 to consolidate our leading position in the basketball sector.

#### Management of distributors and retail outlets

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

#### China market

We organize and host three sales fairs for our domestic distributors every year to introduce our new product collections for each season. Our domestic distributors and retail outlet operators attend the sales fairs and place orders which are generally six months in advance of the delivery of the ordered products. During the first half of 2010, the Group held two such sales fairs for our Summer 2010/Autumn 2010 and Winter 2010/Spring 2011 collections at Xiamen International Conference and Exhibition Center on 8 January and 18 May respectively. We received overwhelming responses from our distributors in these sales fairs with a satisfactory order growth when compared to the same period last year.

We select distributors according to a range of factors, such as experience in retailing 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 in specified areas 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 authorised Peak retail outlets according to our policies and guidelines regarding the layout of outlets, sales and expansion targets, pricing, customer and after-sale services, etc.

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

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

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

During the first half of 2010, the Group continued to expand the coverage of our Lijing system, a computerized management information system which collects real-time operational data and feedback from the connected authorised Peak retail outlets. As at 30 June 2010, 1,120 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 authorised Peak retail outlets. Rental subsidies are also offered to distributors for opening authorised Peak retail outlets with high rentals in prime locations. We also offer performance bonuses to our distributors who meet or exceed annual sales targets.

#### ***Overseas markets***

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

During the first half of 2010, we participated in the following international exhibitions and trade fairs:

- China Import and Export Fair in Guangzhou, China
- International Trade Fair for Sports Equipment and Fashion (ISPO) in Munich, Germany
- China Sourcing Fair in Dubai, the United Arab Emirates



## Brand promotion and marketing

### *Strategy*

We believe that marketing and promotion of our brand are crucial to success in the sports products industry. To create a simple and powerful brand message to our consumers, the Group has been employing a focused marketing strategy by focusing on basketball in marketing and promoting the Peak brand since our inception in 1991 although we offer products in almost every sports category. The Group promotes Peak as an international and professional brand through building up an international brand image in the hearts of consumers in China and offering products with premium functionality and performance. Our promotion partners are therefore not restricted to domestic partners and include sports associations, leagues, federations, events, and individual athletes throughout the world. These two attributes (i.e. international and professional) which differentiate us from our peers have contributed to the strong growth of the Group in recent years. The Group also employs various means of promotion such as national and local television commercials, outdoor media, online advertising, newspapers and magazines.

Leveraging our success in focusing on basketball, the Group rolled out our new marketing strategy focusing on three other sports categories (i.e. Running, Tennis and Football) in addition to basketball at the beginning of 2010. The Group believes that the new strategy will further enhance our brand image and positioning and ensure a sustained growth in popularity of the Peak brand.

### *Associations with top renowned basketball promotion partners*

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

### NBA

Since 2007, the Group has been an official marketing partner of NBA. The association with NBA includes, among other things, the right to use the NBA logo and other licensed marks in connection with the advertising and promotion of the Peak brand and/or our footwear products in China. The Group has also entered into sponsorship agreements with the NBA's Houston Rockets and New Jersey Nets under which the Group can, among other things, display the Peak signage at the home stadiums of the two teams.

During the first half of 2010, the Group entered into a new endorsement agreement with Jason Richardson of Phoenix Suns, increasing the total number of endorsed players to twelve.

### FIBA

The Group has had an association with FIBA since 2008. The Group was the "Main Sponsor" within Asia for the FIBA sports competition "The 2008 Diamond Ball for Men and Women". Since 2009, the Group has been the "Official Apparel and Footwear Partner of FIBA (Asia)" and "Official Sponsor/Partner" of the following competitions: (i) "The 2009 and 2011 FIBA Asia Championships for Men and Women"; and (ii) "The 2009 FIBA under 19 World Championship for Women". In 2009, the Group also entered into a licensed product agreement under which we, among other things, have an exclusive licence within Asia to use specified logos and/or mascots associated with certain FIBA sports competitions on some of our products.

### Stanković Continental Champions' Cup

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

#### Basketball Australia

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

#### Basketball Federation of Serbia

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

#### Lebanese Basketball Federation

In June 2010, the Group entered into a cooperation agreement with Lebanese Basketball Federation and became its official sponsor and supplier. Under the agreement, the Group is required, among other things, to supply sports products such as apparel and footwear for five national teams of Lebanese.

#### 2010 Peak 5 vs. 5 Basketball Challenge

In order to nurture new talented basketball teenagers and advocate basketball sports events in China, the Group sponsored and organized the “2010 Peak 5 vs. 5 Basketball Challenge”. The event was a knockout competition held from May through June in 2010 and involved more than one hundred basketball teams from high schools and colleges across twelve cities in China.

#### *Other promotion partners*

##### New Zealand Olympic Committee

In December 2009, the Group entered into a sponsorship agreement with the New Zealand Olympic Committee. Under the agreement, the Group, among other things, supplies sports apparel and footwear for the New Zealand teams in the 2010 Youth Olympic Games, 2010 Commonwealth Games and 2012 Summer Olympic Games.

##### Women's Tennis Association (“WTA”)

As tennis is one of the sports categories which the Group has planned to expand, the Group entered into a product sponsorship and promotion agreement in May 2010 with WTA, which is the worldwide circuit of women's professional tennis. Pursuant to the agreement, the Group is the official footwear and apparel partner of the WTA tour (currently known as The Sony Ericsson WTA Tour) in Asia Pacific regions. In addition, the Group is the official cooperative partner of the WTA Carnival, in which interactive games and tennis-related activities will be organised for tennis fans in certain cities in China.

##### The National Olympic Committee of Iraq

In June 2010, the Group entered into a sponsorship agreement with the National Olympic Committee of Iraq. Under the agreement, the Group, among other things, supplies sportswear for all the Iraq teams in all training, games and sports events, including the 2010 Asian Games.

##### Chinese Football Teams

Football is another sports category on which the Group has planned to focus. Accordingly, the Group has sponsored five A-League teams and three B-League teams of the Chinese Football Association to prepare for the growth of the sports category in China in coming years.

##### New Endorsed Athlete

In addition to the NBA athletes mentioned above, the Group endorsed Miss Olga Govortsova, a renowned Belarusian tennis player as our spokesperson, in April 2010. The endorsement represents a valuable resource to the Group, in particular when the Group has just started focusing on the tennis sector.

#### *New product promotion*

In line with the new marketing strategy, the Group embarked on the promotion of our running footwear during the first half of 2010. The Group launched a new series of running shoes called Yi Pao (逸跑) and utilized various means to promote the new products. The promotion partners of Yi Pao included CCTV, Guangdong Sport TV, Jiangsu Sport TV and a number of sports magazines, and the promotion has successfully boosted the recognition of the Peak brand in the running sector.

## Production capacity

Our products are manufactured either by the Group's own production facilities or through our outsourcing arrangements with contract manufacturers. As we believe that maintaining our own production capabilities 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 continue to invest in new production facilities.

### Footwear production facilities

The Group currently has 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 the first half of 2010 was approximately 10.5 million pairs, of which approximately 35.4% were produced in-house and approximately 64.6% 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

The Group currently has two apparel production facilities at Fengze and Hui'an in Quanzhou, Fujian Province. We, however, outsourced a major portion of our apparel production to contract manufacturers. The apparel production volume for the first half of 2010 was approximately 22.8 million pieces, of which approximately 22.6% were produced in-house and approximately 77.4% were produced through selective outsourcing to contract manufacturers.

We have a plan to increase our annual production capacity for our apparel products to approximately 18.7 million pieces by the end of 2012 upon completion of the construction work at our plant in Hui'an, Fujian Province.

Analysis of production capacities by location and product category:

Location	Footwear production facilities		Apparel production facilities		
	Fengze, Quanzhou, Fujian Province (full production)	Shang'gao, Yichun, Jiangxi Province	Fengze, Quanzhou, Fujian Province (full production)	Hui'an, Quanzhou, Fujian Province	
Commencement date of production	August 1994	June 2008	February 2004	September 2008	
Number of production lines as at 30 June 2010	5	7	24	57	
Annual production capacity <sup>(Note)</sup> (pairs/pieces)	2009 <b>2010</b>	3.7 million <b>3.7 million</b>	3.5 million <b>5.0 million</b>	1.2 million <b>2.3 million</b>	5.0 million <b>7.3 million</b>
Actual production volume (pairs/pieces)	2009 (Jan-Dec) <b>2010 (Jan-Jun)</b>	3.6 million <b>1.8 million</b>	2.9 million <b>1.9 million</b>	1.3 million <b>1.2 million</b>	4.7 million <b>3.9 million</b>
Expected time of full production	n/a	2013	n/a	2012	
Expected number of production lines upon full production	n/a	16	n/a	140	
Expected annual production capacity upon full production (pairs/pieces)	n/a	12.0 million	n/a	16.4 million	

#### Note:

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 at 30 June 2010, the Group operated 3 product design and development workshops located in Beijing, Quanzhou and Guangzhou and employed more than 200 research and design professionals. In the first half of 2010, we introduced 434 new footwear products, 669 new apparel products and 343 new accessory products to the market.

## Supply chain management

A significant portion of our total production of footwear and apparel was outsourced to contract manufacturers. We have three types of outsource arrangements with our contract manufacturers: (1) subcontract arrangements; (2) arrangements with original equipment manufacturers ("OEM"); and (3) arrangements with original design manufacturers ("ODM"). Under the subcontract arrangements, we provide subcontractors with raw materials and pay them processing fees for manufacturing finished products for us. Under the OEM arrangements, we provide OEMs with the designs and specifications of our products and recommend suppliers for them to procure raw materials for their production. The OEM arrangement allows us to devote less of our management time on monitoring the whole production process and focus our resources on other areas such as 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 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 also helps reduce our procurement costs.
- We do not enter into any long-term agreements with any of our suppliers. This gives us flexibility to switch to other suppliers for lower raw materials cost with better quality and delivery schedules that best suit our production needs.
- We organize 3 sales fairs 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 endeavours to continuously improve our procurement and production processes by frequently communicating 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 the first half of 2010, over 1,700 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. As at 30 June 2010, the Group's total headcount was 9,765.

We provide training to our staff to provide guidance for their career development, to enhance their technical and product knowledge as well as knowledge of industry quality standards and workplace safety standards. We launched pre-job training program for new joiners as well as other training programs related to management skills, professional role, etc. During the first half of 2010, accumulated training hours exceeded 1,200 hours, and over 500 staffs participated in these training programs.

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 the first half of 2010, the school held 7 training camps for store managers and other training courses on topics such as regional training policy set-up, standard display set-up, project marketing and knowledge of current offerings to support our front-line operations.

We determine the remuneration of our employees based on factors such as qualifications, performance, 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. During the first half of 2010, the Company granted share options to over 400 employees.

## PROSPECTS

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

### Enhancement of the Peak brand

The Group strives to enhance our international and professional images as we acknowledge our brand image is crucial to our development and success in future. Accordingly, we will continue to allocate most of our resources to brand building and maintenance. To implement our new marketing and promotion strategy, we have started focusing on running, tennis and football in addition to basketball. In the coming years, the Group will continue to utilize all kinds of promotion partners such as federations, teams, leagues, events and individual athletes to extend our brand reach and recognition in the market.

Set out below are some of the major promotion and marketing events that the Group has organized or will participate in the second half of 2010.

### *Basketball events/sponsorship*

#### 2010 Peak Team China Tour

“2010 Peak Team China Tour” is one of the top priorities among all our marketing events. The tour is held once a year in China with an aim to promote the NBA spirit and increase the popularity of basketball in China. This year, 2010 Peak Team China Tour was officially kicked off in Beijing on 28 July 2010. We were honored to have six of our NBA spokespersons (i.e. Ron Artest, Jason Kidd, Shane Battier, Carl Landry, Mickael Pietrus and Jason Richardson) participating in the tour. These spokespersons came to China and interacted with Chinese basketball fans at eighteen cities, including Beijing, Guangzhou, Hangzhou and Xi’an, from late July through early August 2010. Both the Peak brand and NBA players obtained intense media exposure throughout the tour.

#### 2010 FIBA World Championship

The 2010 FIBA World Championship, which is co-organized by FIBA and Turkish Basketball Federation, will be held in Turkey from 28 August to 12 September 2010. The Group sponsored and designed sports apparel for six national basketball teams, including teams from Australia, New Zealand, Serbia, Lebanon and Cote d’Ivoire. CCTV will broadcast at least ten matches involving the above national basketball teams.

#### NBA Jam Van

NBA Jam Van is a basketball carnival presented in a caravan that travels around over ten cities in China for two to three months every year. The event has been held in China for six consecutive years and it has been held from July to September this year across twelve cities including Beijing, Tianjin and Qingdao. The Group organizes the event and sponsors all sports products. The event provides a great opportunity to further promote both NBA and the Peak brand.

### *Other basketball events*

The Group has sponsored the following basketball events in the second half of 2010:

1. Asian Occupational Basketball Championship (to be held in September 2010)
2. Quanzhou 100 Teams/1000 Matches Basketball Competition (泉州百隊千場籃球賽) (held in July 2010)
3. Peak – Xiamen Basketball Camp (匹克廈門籃球夏令營) (held in July 2010)

### *Non-basketball events*

The Group has sponsored the following events in the second half of 2010:

1. Guangzhou International Women’s Tennis Open (to be held in September 2010)
2. 2010 Tour of Qinghai Lake International Cycling Race (held in July 2010)

### Expansion of sales network

The Group will ensure we have a strong presence in the second-tier and third-tier cities because we believe that there will still be significant economic growth in these cities due to rapid urbanization and encouragement of domestic consumption by the Chinese government. By opening more than 560 authorised Peak retail outlets (excluding basketball specialty outlets) in the first half of 2010, the Group is on track to add 1,000 authorised Peak retail outlets by the end of 2010. In addition, the Group has launched 28 basketball specialty outlets in the first half of 2010.

In terms of the size of authorised Peak retail outlets, the Group has a plan to expand the average size of the outlets from the existing 74 square metres to 80 square metres.

On 28 July 2010, the Group announced our formation of a partnership with Taobao.com, which marked an initial and full-scaled extension of our footprint to the e-commerce field. By operating both the e-commerce and traditional retail platforms simultaneously, the Group is able to provide all-rounded and premium services to different consumer segments and further expand our sales network.

### Development of research & product design

To strengthen our research and product designs, the Group is in the process of hiring a team of professional designers for our new design office to be set up in the United States. Our internal research team will collaborate with the new team to enhance product designs and innovation, such as using raw materials that are environmentally-friendly for our products. By working closely with the new design team, the Group expects our local designers can acquire more international knowledge and experience and develop high quality products that are more stylish, functional and environmentally-friendly.

### Expansion of production capacity

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



## ▲ REVIEW REPORT ON THE INTERIM FINANCIAL REPORT



### **Review report to the Board of Directors of Peak Sport Products Co., Limited**

*(Incorporated in the Cayman Islands with limited liability)*

### **INTRODUCTION**

We have reviewed the interim financial report set out on pages 27 to 47 which comprises the consolidated balance sheet of Peak Sport Products Co., Limited (the "Company") as of 30 June 2010, and the related consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, and the condensed consolidated cash flow statement for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, "*Interim Financial Reporting*", issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **SCOPE OF REVIEW**

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "*Review of interim financial information performed by the independent auditor of the entity*", issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

### **CONCLUSION**

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2010 is not prepared, in all material respects, in accordance with International Accounting Standard 34, "*Interim Financial Reporting*".

### **KPMG**

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

26 August 2010

## ▲ INTERIM FINANCIAL REPORT

### CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2010 – unaudited  
(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2010 RMB'000	2009 RMB'000
<b>Turnover</b>	4	<b>1,808,625</b>	1,357,263
Cost of sales		<b>(1,127,407)</b>	(840,569)
<b>Gross profit</b>		<b>681,218</b>	516,694
Other revenue	5	<b>9,630</b>	4,259
Other net income	5	<b>2,628</b>	4,625
Selling and distribution expenses		<b>(221,918)</b>	(192,810)
Administrative expenses		<b>(50,591)</b>	(27,611)
<b>Profit from operations</b>		<b>420,967</b>	305,157
Finance expenses	6(a)	–	(7,553)
<b>Profit before income tax</b>	6	<b>420,967</b>	297,604
Income tax	7	<b>(74,394)</b>	(30,248)
<b>Profit for the period attributable to equity shareholders of the Company</b>		<b>346,573</b>	267,356
<b>Earnings per share (RMB cents)</b>			
– Basic	9(a)	<b>16.52</b>	16.82
– Diluted	9(b)	<b>16.51</b>	16.82

The notes on pages 32 to 47 form part of this interim financial report. Details of dividends declared after the period end and paid during the period to equity shareholders of the Company are set out in note 8.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010 – unaudited  
(Expressed in Renminbi)

	Six months ended 30 June	
	2010 RMB'000	2009 RMB'000
<b>Profit for the period attributable to equity shareholders of the Company</b>	<b>346,573</b>	267,356
<b>Other comprehensive income for the period</b>		
Exchange differences on translation of financial statements of foreign operations	<b>(8,427)</b>	(98)
<b>Total comprehensive income for the period attributable to equity shareholders of the Company</b>	<b>338,146</b>	267,258

The notes on pages 32 to 47 form part of this interim financial report.

## CONSOLIDATED BALANCE SHEET

At 30 June 2010 – unaudited  
(Expressed in Renminbi)

	Note	30 June 2010 RMB'000	31 December 2009 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	10	261,665	244,287
Construction in progress	11	77,867	61,266
Lease prepayments	12	16,085	16,257
Intangible assets	13	11,837	9,842
Deferred tax assets	20(b)	8,994	6,181
		<b>376,448</b>	337,833
<b>Current assets</b>			
Inventories	14	290,600	210,299
Trade and other receivables	15	806,791	863,849
Pledged deposits	16	63,860	55,344
Deposits with banks with more than three months to maturity when placed		131,040	519,483
Cash and cash equivalents	17	1,979,240	1,413,325
		<b>3,271,531</b>	3,062,300
<b>Current liabilities</b>			
Trade and other payables	18	442,226	339,483
Current taxation	20(a)	45,903	27,244
		<b>488,129</b>	366,727
<b>Net current assets</b>			
		<b>2,783,402</b>	2,695,573
<b>Total assets less current liabilities</b>			
		<b>3,159,850</b>	3,033,406
<b>Non-current liabilities</b>			
Deferred tax liabilities	20(b)	36,673	31,239
<b>Net assets</b>			
		<b>3,123,177</b>	3,002,167
<b>Equity</b>			
Share capital	21	18,459	18,459
Reserves	22	3,104,718	2,983,708
<b>Total equity</b>			
		<b>3,123,177</b>	3,002,167

Approved and authorised for issue by the Board of Directors on 26 August 2010.

**Xu Jingnan**  
Director

**Xu Zhihua**  
Director

The notes on pages 32 to 47 form part of this interim financial report.



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010 – unaudited  
(Expressed in Renminbi)

	Share capital	Share premium	Statutory reserve	Other reserve	Exchange reserve	Share-based payment reserve	Retained profits	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 21)	(Note 22(a))	(Note 22(b))	(Note 22(c))	(Note 22(d))	(Note 22(e))		
At 1 January 2009	13,188	–	23,221	81,354	–	–	656,244	774,007
Capital injection	1,573	270,608	–	–	–	–	–	272,181
Total comprehensive income for the period	–	–	–	–	(98)	–	267,356	267,258
At 30 June 2009	14,761	270,608	23,221	81,354	(98)	–	923,600	1,313,446
At 1 January 2010	<b>18,459</b>	<b>1,596,200</b>	<b>96,029</b>	<b>81,354</b>	<b>(1,619)</b>	<b>–</b>	<b>1,211,744</b>	<b>3,002,167</b>
Equity-settled share-based payment	–	–	–	–	–	3,514	–	3,514
Dividends approved and declared	–	(220,650)	–	–	–	–	–	(220,650)
Total comprehensive income for the period	–	–	–	–	(8,427)	–	346,573	338,146
At 30 June 2010	<b>18,459</b>	<b>1,375,550</b>	<b>96,029</b>	<b>81,354</b>	<b>(10,046)</b>	<b>3,514</b>	<b>1,558,317</b>	<b>3,123,177</b>

The notes on pages 32 to 47 form part of this interim financial report.

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2010 – unaudited  
(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2010 RMB'000	2009 RMB'000
<b>Cash generated from operations</b>		<b>523,713</b>	49,838
Income tax paid		<b>(53,115)</b>	(22,294)
<b>Net cash generated from operating activities</b>		<b>470,598</b>	27,544
<b>Net cash generated from/(used in) investing activities</b>		<b>326,726</b>	(58,284)
<b>Net cash (used in)/generated from financing activities</b>		<b>(220,647)</b>	335,098
<b>Net increase in cash and cash equivalents</b>		<b>576,677</b>	304,358
<b>Cash and cash equivalents at 1 January</b>	17	<b>1,413,325</b>	418,377
<b>Effect of foreign exchange rate changes</b>		<b>(10,762)</b>	(122)
<b>Cash and cash equivalents at 30 June</b>	17	<b>1,979,240</b>	722,613

The notes on pages 32 to 47 form part of this interim financial report.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi unless otherwise indicated)

### 1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (“IAS”) 34, “*Interim Financial Reporting*”, issued by the International Accounting Standard Board (“IASB”). This interim financial report was authorised for issue on 26 August 2010.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2009 annual financial statements, except for the changes in accounting policies and the accounting policy for new transactions that are expected to be reflected in the 2010 annual financial statements. Details of these changes in accounting policies and the accounting policy for new transactions are set out in note 2.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year-to-date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of Peak Sport Products Co., Limited (the “Company”) and its subsidiaries (collectively refer to as the “Group”) since the 2009 annual financial statements. The condensed consolidated interim financial statements and notes do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, “*Review of interim financial information performed by the independent auditor of the entity*”, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). KPMG’s independent review report to the Board of Directors is included on page 26.

The financial information relating to the year ended 31 December 2009 that is included in the interim financial report as being previously reported information does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2009 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 16 March 2010.

### 2 SIGNIFICANT ACCOUNTING POLICIES

#### (a) Changes in accounting policies

The IASB has issued two revised International Financial Reporting Standards (“IFRSs”), a number of amendments to IFRSs and one new interpretation that are first effective for the current accounting period of the Group and the Company. Of these, the amendments titled “Improvements to IFRSs (2009)” are relevant to the Group’s financial statements.

The “Improvements to IFRSs (2009)” have had no material impact on the Group’s financial statements as the amendments were consistent with policies already adopted by the Group.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

(Expressed in Renminbi unless otherwise indicated)

### 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Accounting policy for new transactions

From 1 January 2010, the Group has applied IFRS 2, “Share-based payment” for share options granted to directors and employees.

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

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

### 3 SEGMENT REPORTING

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group’s most senior management for the purposes of allocating resources to, and assessing the performance of, the Group’s various lines of business and geographical locations. No segment information is presented for the Group’s business segment as the Group is principally engaged in manufacture and sale of sports products in the People’s Republic of China (the “PRC”).

### 4 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, and is analysed as follows:

	Six months ended 30 June	
	2010 RMB'000	2009 RMB'000
Footwear	828,742	624,589
Apparel	941,478	701,409
Accessories	38,405	31,265
	<b>1,808,625</b>	1,357,263



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

(Expressed in Renminbi unless otherwise indicated)

### 4 **TURNOVER** *(continued)*

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

	Six months ended 30 June	
	2010 RMB'000	2009 RMB'000
PRC	1,614,542	1,230,150
Overseas	194,083	127,113
	<b>1,808,625</b>	1,357,263

### 5 **OTHER REVENUE AND NET INCOME**

	Six months ended 30 June	
	2010 RMB'000	2009 RMB'000
<b>Other revenue</b>		
Interest income	4,310	2,085
Government grants	5,252	2,123
Others	68	51
	<b>9,630</b>	4,259
<b>Other net income</b>		
Exchange gain	2,628	617
Gain on disposal of lease prepayments	-	3,813
Gain on sales of materials	-	195
	<b>2,628</b>	4,625

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

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

(Expressed in Renminbi unless otherwise indicated)

### 6 PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

		Six months ended 30 June	
		2010	2009
		RMB'000	RMB'000
(a)	Finance expenses:		
	Interest on bank borrowings	–	4,879
	Interest on related party borrowings (note 24(c))	–	2,674
		–	7,553
(b)	Staff costs:		
	Contributions to defined contribution retirement plans	2,271	655
	Equity-settled share-based payment expenses (note 19)	3,514	–
	Salaries, wages and other benefits	101,740	67,558
		107,525	68,213

		Six months ended 30 June	
		2010	2009
		RMB'000	RMB'000
(c)	Other items:		
	Amortisation of lease prepayments	171	171
	Auditors' remuneration	882	30
	Depreciation	9,982	6,508
	Operating lease charges in respect of properties	1,452	1,317
	Cost of inventories <sup>#</sup>	1,127,407	840,569
	Incentive rewards and renovation subsidies <sup>*</sup>	48,599	20,810
	Advertising and promotion expenses	204,116	179,403
	Loss on disposal of property, plant and equipment	408	106

<sup>#</sup> Cost of inventories for the six months ended 30 June 2010 includes RMB80,216,000 (six months ended 30 June 2009: RMB52,723,000) relating to staff costs, depreciation and amortisation expenses and operating lease charges, which amount is included in the respective total amounts disclosed separately above in notes 6(b) and (c) for each of these types of expenses.

<sup>\*</sup> Incentive rewards and renovation subsidies are provided to the Group's qualified distributors as an incentive to open more authorised Peak retail outlets and to achieve sales target.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

(Expressed in Renminbi unless otherwise indicated)

### 7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

	Six months ended 30 June	
	2010 RMB'000	2009 RMB'000
<b>Current tax – PRC income tax</b>		
Provision for the period	71,684	25,071
Under-provision in respect of prior years	90	164
<b>Deferred tax</b>		
Origination and reversal of temporary differences	2,620	5,013
	<b>74,394</b>	<b>30,248</b>

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 six months ended 30 June 2010.

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 for Quanzhou Peak Shoes Co., Ltd. is 25% with effect from 1 January 2008.
- The applicable tax rate for Xiamen Peak Sports Goods Co., Ltd. is 25% with effect from 1 January 2010.
- In accordance with the transitional arrangement of the Corporate Income Tax Law of the PRC, which was effective from 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. 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. 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%.

- 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.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

(Expressed in Renminbi unless otherwise indicated)

### 8 DIVIDENDS

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

	Six months ended 30 June	
	2010 RMB'000	2009 RMB'000
Interim dividend in respect of the current period, declared after the interim period, of HK7 cents per ordinary share (2009: nil)	128,282	–

The interim dividend has not been recognised as a liability as at 30 June 2010.

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

	Six months ended 30 June	
	2010 RMB'000	2009 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the period, of HK12 cents per ordinary share (2009: nil)	220,650	–

### 9 EARNINGS PER SHARE

- (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit for the period attributable to equity shareholders of the Company of RMB346,573,000 (six months ended 30 June 2009: RMB267,356,000) and the weighted average number of issued ordinary shares of 2,097,903,000 (six months ended 30 June 2009: 1,589,162,000 shares) during the interim period.

- (b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit for the period attributable to equity shareholders of the Company of RMB346,573,000 (six months ended 30 June 2009: RMB267,356,000) and the weighted average number of shares in issue adjusted for the potential dilutive effect caused by the share options granted under the share option scheme (see note 19) assuming they were exercised during the interim period.

*Weighted average number of ordinary shares (diluted)*

	Six months ended 30 June	
	2010 '000 shares	2009 '000 shares
Weighted average number of ordinary shares	2,097,903	1,589,162
Effect of deemed issue of shares under the Company's Share Option Scheme	912	–
Weighted average number of ordinary shares (diluted)	2,098,815	1,589,162



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

(Expressed in Renminbi unless otherwise indicated)

### 10 PROPERTY, PLANT AND EQUIPMENT

	Note	30 June 2010 RMB'000	31 December 2009 RMB'000
Net book value as at 1 January		244,287	136,954
Additions		23,387	24,067
Transfer from construction in progress	11	4,563	98,627
Disposals (net carrying amount)		(590)	(684)
Depreciation charge for the period/year		(9,982)	(14,677)
Net book value as at 30 June/31 December		261,665	244,287

### 11 CONSTRUCTION IN PROGRESS

	Note	30 June 2010 RMB'000	31 December 2009 RMB'000
As at 1 January		61,266	95,189
Additions		21,164	64,704
Transfer to property, plant and equipment	10	(4,563)	(98,627)
As at 30 June/31 December		77,867	61,266

### 12 LEASE PREPAYMENTS

Lease prepayments represent prepaid lease payments for land use rights to the PRC authorities. The Group's leasehold lands are located in the PRC and the land use rights are granted for a period of 50 to 70 years.

### 13 INTANGIBLE ASSETS

	30 June 2010 RMB'000	31 December 2009 RMB'000
Net book value as at 1 January	9,842	9,855
Additions	2,058	–
Amortisation for the period/year	(63)	(13)
Net book value as at 30 June/31 December	11,837	9,842

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

(Expressed in Renminbi unless otherwise indicated)

### 14 INVENTORIES

	<b>30 June 2010 RMB'000</b>	31 December 2009 RMB'000
Raw materials	43,095	35,456
Work in progress	90,957	62,018
Finished goods	156,548	112,825
	<b>290,600</b>	210,299

### 15 TRADE AND OTHER RECEIVABLES

	<b>30 June 2010 RMB'000</b>	31 December 2009 RMB'000
Bills receivable	–	12,720
Trade receivables	704,233	761,613
Deposits and prepayments	96,049	81,590
Others	6,509	7,926
	<b>806,791</b>	863,849

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 at the balance sheet date based on the invoice date:

	<b>30 June 2010 RMB'000</b>	31 December 2009 RMB'000
Within 3 months	704,233	765,213
3 to 6 months	–	9,120
	<b>704,233</b>	774,333

The Group offers revolving credit to domestic distributors. This revolving credit provides a maximum limit for the amount that may be outstanding at any time. The limit is determined based on credit history, market conditions, prior year's purchases, estimated purchases for the coming year, etc. 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 the domestic distributors annually upon renewal of the relevant distribution agreements. There were no trade debts that were considered past due.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

(Expressed in Renminbi unless otherwise indicated)

### 16 PLEDGED DEPOSITS

Bank deposits have been pledged to banks as security for bills payable and certain bank facilities.

### 17 CASH AND CASH EQUIVALENTS

	<b>30 June 2010 RMB'000</b>	31 December 2009 RMB'000
Deposits with banks within three months to maturity when placed	174,478	79,244
Cash at bank and in hand	1,804,762	1,334,081
	<b>1,979,240</b>	1,413,325

### 18 TRADE AND OTHER PAYABLES

	<b>30 June 2010 RMB'000</b>	31 December 2009 RMB'000
Bills payable	259,034	207,520
Trade payables	78,807	22,011
Other payables and accruals	104,385	109,952
	<b>442,226</b>	339,483

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

Set out below is the ageing analysis of the total balance of trade receivables and bills payable at the balance sheet date based on the invoice date:

	<b>30 June 2010 RMB'000</b>	31 December 2009 RMB'000
Within 3 months	214,521	87,240
3 to 6 months	123,320	142,291
	<b>337,841</b>	229,531

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

(Expressed in Renminbi unless otherwise indicated)

### 19 SHARE-BASED PAYMENTS

Pursuant to the shareholders' written resolutions passed on 8 September 2009, the Company adopted a share option scheme ("the Scheme") whereby the directors of the Company are authorised, at their discretion, to invite any directors and employees of the Group to take up options to subscribe for the shares of the Company.

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

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

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

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

(Expressed in Renminbi unless otherwise indicated)

### 19 SHARE-BASED PAYMENTS *(continued)*

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

	Weighted average exercise price	Number of options '000
Outstanding at the beginning of the period	-	-
Granted during the period		
on 9 February 2010	HK\$5.1960	13,065
on 1 June 2010	HK\$5.6040	2,730
Lapsed during the period	HK\$5.1960	(855)
Outstanding at the end of the period	HK\$5.2706	14,940
Exercisable at the end of the period	-	-

#### (c) Fair value of share options and assumptions

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

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

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

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



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

(Expressed in Renminbi unless otherwise indicated)

### 20 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

(a) Current taxation in the consolidated balance sheet represents:

	<b>30 June 2010 RMB'000</b>	31 December 2009 RMB'000
Provision for PRC income tax	<b>45,903</b>	27,244

(b) Recognised deferred tax assets and liabilities

	<b>30 June 2010 RMB'000</b>	31 December 2009 RMB'000
Deferred tax assets/(liabilities) arising from:		
Provision of incentive rewards and renovation subsidies	<b>5,912</b>	2,337
Pre-operating expenses, accruals and others	<b>3,082</b>	3,844
<b>Total of deferred tax assets</b>	<b>8,994</b>	6,181
Undistributed profits of subsidiaries in the PRC since 1 January 2008	<b>(36,673)</b>	(31,239)

(c) Deferred tax liabilities not recognised

At 30 June 2010, temporary differences relating to the undistributed profits of subsidiaries amounted to RMB707,896,000 (31 December 2009: RMB454,339,000). Deferred tax liabilities of RMB35,395,000 (31 December 2009: RMB22,717,000) 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 profits will not be distributed in the foreseeable future.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

(Expressed in Renminbi unless otherwise indicated)

### 21 SHARE CAPITAL

The share capital as at 30 June 2010 is as follows:

	30 June 2010		31 December 2009	
	No. of shares '000	Amount HK\$'000	No. of shares '000	Amount HK\$'000
<b>Authorised:</b>				
Ordinary shares of HK\$0.1 each	5,000,000	50,000	5,000,000	50,000

	Six months ended 30 June 2010			Year ended 31 December 2009		
	No. of shares '000	Amount HK\$'000      RMB'000		No. of shares '000	Amount HK\$'000      RMB'000	
<b>Issued and fully paid:</b>						
Ordinary shares of HK\$0.1 each At 1 January	2,097,903	20,979	18,459	1,500,000	15,000	13,188
Capital injection	-	-	-	178,323	1,783	1,573
Issues of shares under public offering	-	-	-	419,580	4,196	3,698
At 30 June 2010/ 31 December 2009	2,097,903	20,979	18,459	2,097,903	20,979	18,459

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

(Expressed in Renminbi unless otherwise indicated)

### 22 RESERVES

(a) Share premium

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

(b) Statutory reserve

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

(c) Other reserve

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

(d) Exchange reserve

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

(e) Share-based payment reserve

Share-based payment reserve represents the fair value of services provided by the Group's directors and employees to whom the Company has granted share options and is recognised in accordance with IFRS 2, "*Share-based payment*".

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

(Expressed in Renminbi unless otherwise indicated)

### 23 COMMITMENTS

(a) Capital commitments

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

	<b>30 June 2010 RMB'000</b>	31 December 2009 RMB'000
Contracted for	<b>14,060</b>	12,791
Authorised but not contracted for	<b>52,478</b>	19,439
	<b>66,538</b>	32,230

(b) Operating leases

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

	<b>30 June 2010 RMB'000</b>	31 December 2009 RMB'000
Within 1 year	<b>3,791</b>	3,114
After 1 year but within 5 years	<b>12,210</b>	11,969
After 5 years	<b>8,099</b>	6,776
	<b>24,100</b>	21,859

The Group leases a number of properties under operating leases. The leases run for an initial period of one to more than ten years with an option to renew upon expiry. None of the leases includes contingent rentals.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

(Expressed in Renminbi unless otherwise indicated)

### 24 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, is as follows:

	Six months ended 30 June	
	2010 RMB'000	2009 RMB'000
Short-term employee benefits	2,903	909
Contributions to retirement benefit scheme	23	14
Equity-settled share-based payment expenses	85	–
	<b>3,011</b>	923

The above remuneration is included in "staff costs" (note 6(b)).

(b) Lease of land and properties

During the six months ended 30 June 2010, the Group leased certain land and properties from Fujian Peak Group Co., Ltd, which is controlled by substantial shareholders of the Company. The rental expenses for the period were RMB1,129,000 (six months ended 30 June 2009: RMB1,129,000).

(c) Amounts advanced from a related party

With effect from 1 September 2008, the amount due to Mr Xu Jingnan (the "advance"), a substantial shareholder was unsecured, repayable on demand and subject to an interest at the rate of 15% per annum. The interest expenses for the advance for the six months ended 30 June 2009 were RMB2,674,000. The advance was settled in April 2009.

### 25 PLEDGE OF ASSETS

At 30 June 2010, bills payable of the Group was secured by bank deposits, lease prepayments and certain fixed assets. The aggregate net book value of assets pledged amounted to approximately RMB239,988,000 (31 December 2009: RMB235,615,000).



## ▲ SUPPLEMENTARY INFORMATION

### INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK7 cents (equivalent to RMB6.11 cents) per ordinary share for the six months ended 30 June 2010. The interim dividend, amounting to RMB128.3 million and representing 37.0% of the profit for the period attributable to equity shareholders, is expected to be paid to the Company's shareholders on or about 24 September 2010.

### CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 13 September 2010 to 15 September 2010 (both days inclusive) for the purpose of determining the entitlement to the interim dividend. In order to qualify for the interim dividend, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the corresponding share certificates must be lodged with the Company's share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 10 September 2010.

### REVIEW OF INTERIM RESULTS

The Audit Committee of the Company, consisting of the Company's three independent non-executive directors, has reviewed the accounting principles and practices adopted by the Group and the Group's results for the six months ended 30 June 2010. The Audit Committee has also met and discussed with the Group's external auditor, KPMG, regarding the Group's internal control system and financial reporting matters.

The interim financial report has been approved for issue by the Board on 26 August 2010.

### CORPORATE GOVERNANCE

The Company recognizes the importance of good corporate governance for enhancing the management of the Company as well as preserving the interests of the shareholders as a whole. The Board is of the view that the Company has complied with the code provisions contained in the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2010.

### COMPLIANCE WITH THE MODEL CODE FOR 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 have confirmed, following specific enquiry by the Company, that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2010.

### COMPLIANCE WITH THE WRITTEN GUIDELINES FOR SECURITIES TRANSACTIONS BY THE RELEVANT EMPLOYEES

The Company has established written guidelines for the relevant employees of the Group (the "Relevant Employees") in respect of their dealings in the securities of the Company (the "Written Guidelines") on terms no less exacting than the required standard set out in the Model Code. For this purpose, "Relevant Employee" includes any employee of the Company or a director or employee of a subsidiary or holding company of the Company who, because of such office or employment, is likely to be in possession of unpublished price sensitive information in relation to the Company or its securities. No incident of non-compliance of the Written Guidelines was noted by the Company during the six months ended 30 June 2010.

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

As at 30 June 2010, the interests of the Directors in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code were as follows:

### (A) Long position in ordinary shares of the Company

Name of Director	Capacity	Note	Number of ordinary shares interested	Percentage <sup>+</sup> 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%

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

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

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

Notes:

- (1) Mr. Xu Zhida was deemed to be interested in these 300,000 share options of the Company owned by his spouse, Ms. Wu Bingrui, pursuant to Part XV of the SFO.
- (2) Details of the above share options granted by the Company as required to be disclosed pursuant to the Listing Rules are set out in the section headed "Share option scheme" below.

+ The percentage represents the number of ordinary shares/underlying shares interested divided by the number of the Company's issued shares as at 30 June 2010.

Save as disclosed above and in the below section headed "Share option scheme", as at 30 June 2010, 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 six months ended 30 June 2010.

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

As at 30 June 2010, the following parties had interests of 5% or more in the issued share capital of the Company according to the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

### (A) Long position in ordinary shares of the Company

Name of substantial shareholder	Capacity	Note	Number of ordinary shares interested	Percentage <sup>+</sup> 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 executive director 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".

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

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

+ The percentage represents the number of ordinary shares/underlying shares interested divided by the number of the Company's issued shares as at 30 June 2010.

Save as disclosed above, as at 30 June 2010, no person, other than the Directors whose interests are set out in the section headed "Directors' interests and short positions in shares, underlying shares and debentures" above, had registered an interest or a short position in the shares or underlying shares of the Company as recorded in the register of the Company required to be kept pursuant to Section 336 of the SFO.

## SHARE OPTION SCHEME

Details of the Company's share option scheme are set out in note 19 to the interim financial report. Details of movements of the options granted under the share option scheme for the six months ended 30 June 2010 are as follows:

Name or category of option holder	Date of grant (Note 1)	Exercise price per share	Number of options					Outstanding as at 30/6/2010	Exercise period (Note 2)
			Outstanding as at 1/1/2010	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period		
<b>Independent Non-executive Directors</b>									
Dr. Xiang Bing	1 June 2010	HK\$5.604	-	60,000	-	-	-	60,000	A
			-	60,000	-	-	-	60,000	B
			-	80,000	-	-	-	80,000	C
			-	200,000	-	-	-	200,000	
Dr. Rock Jin	1 June 2010	HK\$5.604	-	60,000	-	-	-	60,000	A
			-	60,000	-	-	-	60,000	B
			-	80,000	-	-	-	80,000	C
			-	200,000	-	-	-	200,000	
Mr. Wang Mingquan	1 June 2010	HK\$5.604	-	60,000	-	-	-	60,000	A
			-	60,000	-	-	-	60,000	B
			-	80,000	-	-	-	80,000	C
			-	200,000	-	-	-	200,000	
<b>Substantial Shareholder</b> Ms. Wu Bingrui (Sales Officer (International Sales))	1 June 2010	HK\$5.604	-	90,000	-	-	-	90,000	A
			-	90,000	-	-	-	90,000	B
			-	120,000	-	-	-	120,000	C
			-	300,000	-	-	-	300,000	
<b>Employees of the Group</b> In aggregate	9 February 2010	HK\$5.196	-	3,919,500	-	-	(256,500)	3,663,000	D
			-	3,919,500	-	-	(256,500)	3,663,000	E
			-	5,226,000	-	-	(342,000)	4,884,000	F
			-	13,065,000	-	-	(855,000)	12,210,000	
In aggregate	1 June 2010	HK\$5.604	-	549,000	-	-	-	549,000	A
			-	549,000	-	-	-	549,000	B
			-	732,000	-	-	-	732,000	C
			-	1,830,000	-	-	-	1,830,000	
			-	15,795,000	-	-	(855,000)	14,940,000	



## SHARE OPTION SCHEME (continued)

Notes:

- (1) The closing prices of the Company's shares immediately before the dates of grant on 9 February 2010 and 1 June 2010 were HK\$4.67 and HK\$5.87 respectively.
- (2) The exercise period of the share options granted is as follows:
- |   |   |   |
|---|---|---|
| A | : | From 1 June 2011 to 31 May 2015         |
| B | : | From 1 June 2012 to 31 May 2015         |
| C | : | From 1 June 2013 to 31 May 2015         |
| D | : | From 9 February 2011 to 8 February 2015 |
| E | : | From 9 February 2012 to 8 February 2015 |
| F | : | From 9 February 2013 to 8 February 2015 |

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

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

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares during the six months ended 30 June 2010.

## CORPORATE COMMUNICATION

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

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

<sup>#</sup> Corporate communications include but not limited to (a) annual report; (b) interim report; (c) notice of meeting; (d) listing document; (e) circular; and (f) form of proxy.

## GLOSSARY

In this interim report, unless the context states otherwise, the following terms shall have the following meanings.

“Board”	The Board of Directors of the Company
“Company”	Peak Sport Products Co., Limited
“Director(s)”	Director(s) of the Company
“FIBA”	Fédération Internationale de Basketball
“Group” or “Peak”	The Company and its subsidiaries altogether
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Listing Rules”	Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
“NBA”	National Basketball Association
“Peak Hong Kong”	Peak (Hong Kong) International Company Limited
“PRC” or “China”	The People’s Republic of China
“SFO”	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time